FUELING THE DEVELOPMENT DRIVE

ANNUAL REPORT 2018

CEYLON PETROLEUM CORPORATION

FUELING THE DEVELOPMENT DRIVE

It is almost a given that the energy needs of a nation consistently grows with each passing year. Energy in fact constitutes a veritable driving force where development and a high quality of life are policy imperatives energy. Despite a global trend towards a portfolio realignment with increased emphasis on renewables petroleum products have remained an important segment of the total energy matrix of the country, with the transport and electricity sector having to obtain the major portion of the fuel requirement from the Ceylon Petroleum Corporation (CPC), the larger of the two players in the industry.

The oil and gas industry worldwide has enjoyed a growing sense of optimism in contrast to the previous year. The price of oil has rebounded and the industry as a whole has recovered from several years marked by weak prices, enforced capital discipline, portfolio realignment and productivity efficiency issues. Despite all this, it is predicted that the industry is moving towards a supply crunch in the coming years considering increasing demand and field depletion.

Sri Lanka, without natural petroleum resources amenable to viable mining as of now and embroiled in financial instability exacerbated due to a political uncertainity towards the end of 2018, is in an unenviable position with regard to the petroleum sector. CPC continues to be challenged to deliver petroleum products to the public under high fiscal pressure and a mandated requirement to ensure affordability since even a small hike in price can severely and negatively impact the lives as well as lifestyles of a majority of the people.

These circumstances naturally inhibit the painting of a rosy picture. However, true to the vision, mission and stated goals, the Corporation continued to take cognizance of the larger picture of national imperatives as per its mandate while implementing measures to improve on efficiencies on all counts in order to mitigate the hits on profits.

As such, CPC will continue to fuel the country’s efforts to achieve development and sustainability goals which would in due course deliver a higher quality of life to her citizenry.

CONTENTS

VISION

To be a sustainable entity in the petroleum and related industries; pioneer new opportunities and deliver value to our stakeholders

MISSION

Competitiveness – Strive to be a market leader by procuring and supplying petroleum and related products at competitive prices

Sustainability– Be a financially, socially, and environmentally sustainable business that places emphasis in long run gains

Continuous Improvement – Drive growth through continuous improvement of process and people. Always monitor the Corporation's growth for potential areas of improvement

Integrity – Act in a reliable manner ensuring the Corporation's best interest at all times

Public Focus – Aim to support the growth of the country

GOALS

- Execute Operational Excellence to Improve Market Position
- Maintain Infrastructure and Technological Advancements
- Ensure Process Safety, Personnel Safety and Environmental Responsibility
- Achieve Product Excellence through Research and Innovation
- Ensure Financial Stability in the Long Run
- Promote and Enhance Organisation Learning and a Positive Work Environment
- Create a Socially Responsible Culture which Meets the Public Interest

THE JOURNEY

1961
Ceylon Petroleum Corporation was established as a State Owned Enterprise under Act. No. 28 of1961

1962
CPC commenced business competing with other Oil Companies which were operating in the country at that time.

1964
CPC became the only business to import, sell and distribute petroleum products in the country.

1968
CPC built a 38,000 BPD refinery

1969
CPC commenced refinery operations. CPC added a lubricant oil blending plant at Kollonnawa Installation. CPC entered to Agro Chemical sector.

1971
Bunkering operations and aviation re-fuelling activities were added to the Corporation's scope through amendments to the CPC Act.

1978
CPC built a plant for the manufacture of Nylon 6 yarn for textile, tires and finishing industries

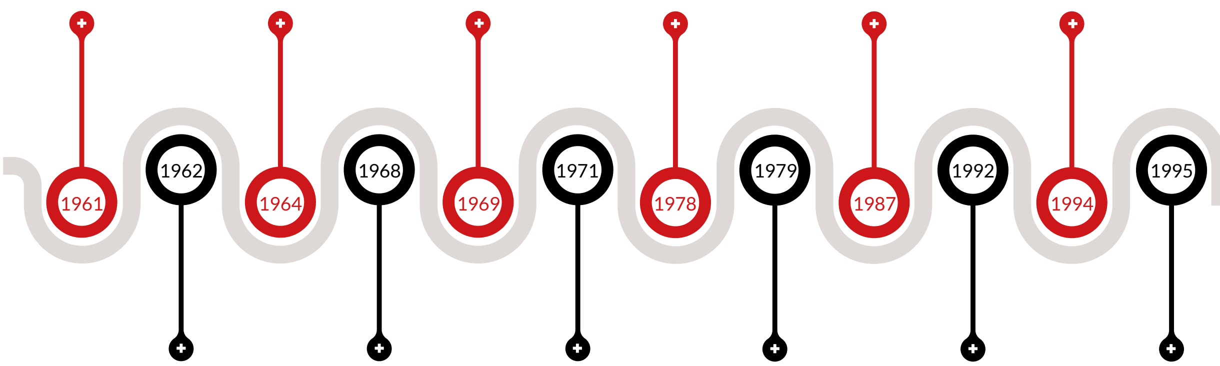
1979
The capacity of the Refinery increased to 50,000 BPD by increasing the crude distiller capacity in 1979.

1987
A Single Point Buoy Mooring (SPBM) facility was installed 9.2 km away from the Colombo Port; commissioned together with an intermediate crude oil storage tank farm at Orugodawatta.

1992
CPC revamped the crude distiller unit to improve refinery process flexibility and efficiency

1994
De-regulation of import and distribution of solvents and lubricants.

1995
Rehabilitation of Kollonnawa and Orugodawatta Tank Farms which are damaged due to a terrorist attack.



1999
The storage facilities that were damaged due to a fire were reconstructed along with a new delivery terminal at Sapugaskanda. CPC improved the capacity of the platformer unit which produced blending stock for Petrol, in order to increase its ability to produce unleaded Petrol.

2002
Modification done for reduction of the Sulphur level in Auto Diesel. Revamping of existing Diesel Hydrotreater (04 unit) and conversion of Kerosene Hydrotreater (07 unit) into a Diesel Hydrotreater.

2003
Storage and Distribution business was handed over to the newly formed Common User facility company (CPSTL) which would be equally owned by CPC, GoSL and LIOC. CPC Commissioned a state of the art aviation refuelling facility and FuelHydrant System at the Bandaranaike International Airport.

2010
Cabinet decided to allocate the 107 filling stations and the 1/3 share of the CPSTL that was being reserved for a third competitor to CPC. CPC introduced super diesel (10ppm) to the market.

2011
CPC relocated to a new head office building in Colombo09. Construction works on the Fuel Hydrant System under stage-1 at the Hambantota International Airport at Mattala began.

2012
Completed the rerouting/replacement of the submarine crude oil pipeline and the pipeline end manifold (PLEM) at the Colombo Port, as part of the Colombo Port expansion project. Construction works on the Aviation Terminal under stage-2 at the Hambanthota International Airport at Mattala commenced.

2013
Upgraded the 90 Octane petrol to 92 Octane petrol.

2014
An aviation refuelling terminal and the Fuel Hydrant System at the Hambantota International Airport at Mattala was commissioned. CPC's Aviation function managed to obtain "Good" (Above average status) status in the annual audit of Joint Inspection Group (JIG). CPC introduced 500 ppm fuel specification for imports.

2016
CPC came to an agreement with Hyrax to operate a blending plant in Sri Lanka on a BOT basis. Recorded highest profit.

2018
Commencement of development and upgradation of the Aviation Refueling Terminal and the Existing Fuel Hydrant System, and Installation of a Fuel Hydrant System at new Apron-E in par with the PhaseII Stage 2 Development Project of the Bandaranaike International Airport, Katunayake. CPC re-entered into liquid bitumen production by blowing fuel oil. CPC introduced Lanka Super DieselEuro4 and Petrol 95 Euro 4. Highest revenue generation

OUR APPROACH

Fueling the development drive

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

Reporting Scope And Boundary

This report provides information relating to Ceylon Petroleum Corporation's business model, operating context, material risks and opportunities, and governance and operational performance for the period 01 January 2018 to 31 December 2018. The report covers the performance of our strategic business units. In addition, we have published annual financial statements together with the audit report. The reporting process for all our reports has been guided by the principles and requirements contained in the Sri Lanka Accounting Standards (SLFRS / LKAS), Public Enterprises Guidelines for Good Governance, Finance Act No. 28 of 1971, Integrated Reporting Framework published by the International Integrated Reporting Council, Sustainable Development Goals (SDG) and Code of Best Practice on Corporate Governance issued by CA Sri Lanka.

Our Approach To Materiality

This report provides information that we believe is of material interest to current and prospective stakeholders who wish to make an informed assessment of Ceylon Petroleum Corporation's ability to generate value over the short, medium and long term. We have sought to ensure that all the information in this report relates to matters affecting value creation at Ceylon Petroleum Corporation (CPC). Understanding our business (pages 38 to 39), financial and operational highlights (page 12 to 15) and our activities and impacts across our value chain (pages 52 to 69) forms the basis for appreciating how CPC creates value and to identify the issues that impacts value. Our ability to create value is determined by our operating context (pages 42 to 46) and by our response to the resulting risks and opportunities (pages 70 to 75). Our performance (pages 40 to 69), our leadership team (pages 24 to 35), and our governance practices (pages 76 to 81) are also presented in this report. Additional information that may be of interest to stakeholders, is provided in our annual financial statements in addition to the information in pages from 148 to 153. Our Audit Committee provides internal assurance to the board on an annual basis on the execution of the combined assurance plan. The Audit Committee report is on pages 82 to 85. The Auditor General assured our Annual Financial Statements 2018 (see pages 94 to 111). These processes inform our Integrated Report 2018, which contains both financial and non-financial indicators.

Our annual report 2018 is designed as follows:


STAKEHOLDER RELATION
RELIABILITY AND COMPLETENESS
CONNECTIVITY
RISK AND OPPORTUNITIES
BUSINESS MODEL
GOVERNANCE
BASIS OF OPERATION AND PRESENTATION
CPC ANNUAL REPORT 2018
ORGANIZATIONAL OVERVIEW AND EXTERNAL ENVIRONMENT
STRATEGY AND RESOURCE ALLOCATION
PERFORMANCE
OUTLOOK
MATERIALITY
CONCISENESS
STRATEGIC FOCUS AND FUTURE ORIENTATION


Ceylon Petroleum Corporation
Aviation Function
Mattala
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CORPORATE INFORMATION

NAME OF THE ENTITY	Ceylon Petroleum Corporation
LEGAL FORM	A Public Corporation incorporated under Ceylon Petroleum Corporation Act No. 28 of 1961
REGISTERED OFFICE	609, Dr. Danister De Silva Mawatha, Colombo 09.
TELEPHONE	+94 11 5455455
TELEGRAM	"LANKA OIL"
CABLE	CEYPETCO
TELEX	21235 CEYPETCO CE
FAX	+94 11 5455400
E-MAIL	cpcsec@ceypetco.gov.lk
WEBSITE	www.ceypetco.gov.lk
TAX PAYER IDENTIFICATION	409000053
VAT REGISTRATION NO.	409000053 - 7000
FINANCIAL YEAR	01 January to 31 December
CHAIRMAN	Mr. G. S. Withanage
MANAGING DIRECTOR	Mr. N. R. R. Jayasekera
DIRECTORS	Mr. K. A. Vimalenthirarajah Mr. R. M. Wijesinghe Mr. M. Y. Hussain Mr. W. R. Perera Mr. P. P. Saman Rohitha
SUBSIDIARY COMPANY	Ceylon Petroleum Storage Terminals Limited, Oil Installation, Kollonnawa
AUDITORS	The Auditor General
BANKERS	People's Bank, Commercial Bank, Bank of Ceylon, Hatton National Bank, Nations Trust Bank

FINANCIAL HIGHLIGHTS

FINANCIAL PERFORMANCE AND POSITION

	CPC		Group	
	2018	2017 Restated*	**2018**	2017 Restated*
	Rs. Mn	Rs. Mn	**Rs. Mn**	Rs. Mn
Revenue - (Gross)	**592,252.880**	516,771.164	**593,524.040**	517,445.791
Gross (Loss)/Profit	**(3,014.887)**	26,988.549	**(9,086.446)**	20,745.196
Operating (Loss)/Profit	**(23,135.452)**	7,200.962	**(22,164.516)**	10,166.249
Profit/(Loss) for the year	**(105,050.635)**	1,055.634	**(105,286.734)**	3,585.552
Total comprehensive Income	**(104,769.598)**	10,378.529	**(104,948.951)**	12,826.261
Total assets	**329,271.250**	218,701.185	**350,884.456**	236,380.025
Net assets	**(281,761.489)**	(176,991.892)	**(261,996.010)**	(156,830.059)
Loans & Borrowings	**296,240.036**	179,907.331	**296,240.036**	179,907.331

RATIOS - CORPORATION

	2018	2017	2016
Gross Profit Ratio	**-0.58%**	6.05%	22.84%
Operating Profit Ratio	**-4.44%**	1.61%	19.24%
Net Profit Ratio	**-20.16%**	0.24%	12.53%
Return on Total Assets (ROTA)	**-7.03%**	3.29%	42.63%
Inventory Turnover Ratio	**9.20**	9.49	9.20
Assets Turnover Ratio	**1.58**	2.04	2.22
Current Ratio	**0.43**	0.38	0.34
Quick Ratio	**0.34**	0.27	0.24
Interest Cover	**(1.92)**	0.68	7.14

SEGMENTAL PROFIT/(LOSS) (RS. MN)

TRANSPORT	POWER GENERATION	AVIATION	INDUSTRIES
(96,042)	(10,669)	3,841	(74)

DOMESTIC	AGRO	BUNKERING	EXPORTS
(14,619)	(19)	(68)	(1,064)

OTHERS (RS. MN)

INVESTMENTS ON FIXED ASSETS	CONTRIBUTION TO THE GOVERNMENT	OTHER INCOME	FINANCE INCOME
595	124,805	813	12,889

OPERATIONAL HIGHLIGHTS

SALES - AUTO FUELS & KEROSENE (LTR. MN)

Year	Petrol 95	Petrol 92	Auto Diesel	Super Diesel	Kerosene
2018	**203.08**	**1,337.38**	**2,120.15**	**97.91**	**259.16**
2017	178.55	1,210.23	2,269.11	88.42	198.09
2016	144.86	1,123.33	2,216.64	74.68	167.41
2015	107.31	993.75	1,866.54	55.42	155.63
2014	71.65	831.36	2,077.16	36.62	138.51
2013	56.07	785.21	1,842.74	29.41	142.32

REFINERY OPERATIONS

	Crude Intake in Metric Tons	Days for year	Tons per calander day
2018	**1,675,245**	**327**	**5141**
2017	1,646,041	351	4510
2016	1,746,180	362	4771
2015	1,692,074	324	4636
2014	1,760,170	334	4822

SEGMENTAL PERFORMANCE (LTR. MN)

TRANSPORT	POWER GENERATION	AVIATION	INDUSTRIES
3,552.06	866.32	630.72	147.73

DOMESTIC	AGRO	BUNKERING	EXPORTS
281.28	0.13	7.60	126.44

OTHERS

TOTAL NO. OF EMPLOYEES	NO. OF FILLING STATIONS	QUANTITY HANDLED BY SP TERMINAL (LTR. MN)	CUMULATIVE SERVICE EXPERIENCE (YRS)
2,770	1,278	489.34	39,200

CHAIRMAN'S MESSAGE

CHAIRMAN'S MESSAGE

There has been much optimism in respect to the future of the global oil and gas industry, after several challenging years marked by weak prices, inefficiencies, regulatory constraints and portfolio restructuring. Oil prices have rebounded, moving out of what seemed to be a rut between mid-$40s and $50 per barrel to fairly stable trading above $70.

Nevertheless, there are concerns expressed about a possible supply crunch in a few years' time. The International Energy Agency (IEA) as well as the CEOs of several top corporate entities have warned that growing demand and the deferment of investment in many major projects mean that there is a danger of less potential supply being available.

Global Environment

These global developments have an obvious impact on CPC and of course the country as a whole given the Corporation's mandate and leadership position. There was an upward movement in prices and much of the burden had to be borne by CPC which had to deal with global price vagaries, increased demand and the effects of currency depletion. The revenue and profit numbers, thus, are reflective of these circumstances.

There has been a consistent increase in demand for energy, especially in the emerging economies of Asia. The global energy mix has seen a steadfast shift towards cleaner renewable products, especially in developed countries. Although Sri Lanka is not as of now a producer of oil, the expressed objective of sustainable development clearly implies policy prerogatives that follow these same objectives. It is likely that this anticipated shift will impact the fossil fuel industry even more strongly in time to come. Nevertheless, fossil fuel will no doubt remain the most important element of the energy mix in Sri Lanka and as such CPC will continue to play a key role in the sector in terms of meeting overall energy needs and delivering high quality products at affordable prices, even as it is constrained by a subsidy regime, the adverse impact of global price volatility and weak and even declining exchange rates.

Local Context

Central Bank statistics indicate that the Year on Year economic growth has been approximately static, moving from 3.4% in 2017 to 3.2% in the year under review.

Political uncertainty saw the growth rate for the last quarter of the year declining to an abysmal 1.8%. The Sri Lankan rupee, during the same period depreciated against the US dollar by 16.4%, reflecting the general strengthening of the dollar globally, outflows from the government securities market and demand for import expenditure in the foreign exchange market. Overall, therefore, the gains of the previous year through conservative fiscal policy largely dissipated.

These developments notwithstanding CPC continues to be a key contributor to the national economy, paying Rs 125 Bn in 2018, an amount that is 23.93% of net revenue and of course fueling development and contributing to a decent quality of life by helping meet the energy demands of the nation by way of subsidized prices.

Mandated to support efforts to ease the burden on the lives of citizens while facilitating growth in all sectors, CPC was compelled to meet these challenges within a constrained operational environment. Naturally and despite tireless efforts the trend of declining profits continued in the year under review.

Performance

The Refinery processed approximately 1,675,000 MT of crude oil during the year. While the demand side increased by 0.4% including oil and gas, the costs were increased by a factor of 28% due to aforementioned externalities. The gap in refined products demand was filled through importation of finished products to ensure supply continuity to the nation.

In the year under review, domestic sales remained the dominant income source. It is worthwhile noting that a cost reflective pricing mechanism was introduced by the government in May 2018 and Petrol and Diesel prices have been revised monthly as per the stipulated regulatory requirements. Accordingly, petrol and diesel prices changed during the year under review in parallel with the price volatilities in the global market.

The pricing mechanism contributed positively to the Corporation, helping curtail losses due to the volatilities in the international fuel market. Auto diesel continued to earn the highest income in the year 2018 while petrol 92 was the second highest income generator. Demand for the Petrol 92 increased by 10% compared to the year 2017. Increase in demand for Petrol 95 and Super Diesel indicates the consumer's preference for more efficient and environmental friendly fuel.

During the year under review the Corporation identified many areas where urgent attention is needed in order to avoid failures or bottlenecks which can cause heavy financial losses and threaten the energy security of the country or damage the image of CPC or the country. With the CPC's plan to provide an improved service to the nation, the value of PPE Including capital projects in progress increased by Rs. 595 Mn. Many of the important projects were carried out satisfactory during the year. At the same time CPC managed to complete the minor projects and capital purchases as well.

Major projects completed during the year include the installation of a stream boiler for the Refinery, the addition of the Jet A-1 distribution facility and the automation of the Sapugaskanda Distribution Terminal and the installation of oil filter vessels at CPSTL, Kolonnawa.

As in previous years, the Corporation continued to exercise constant monitoring of financial indicators and took initiatives to mitigate the adverse effects of the externalities mentioned above, taken on a quarterly basis.

Future Outlook

Given the operational context, stiff challenges are not something new to us. We are, as always, ready to embrace the future regardless of the magnitude of the challenges. We take pride in our unwavering commitment to ensuring Sri Lanka's energy security and providing consumers with a continuous supply of quality petroleum products. We continue to optimize our value chain, improve the efficiency of the island wide network of filling stations by upgrading them to meet international standards. We will continue to improve and expand our Refinery facilities even as we are cognizant of the volatile local and international business environment and the effects of multiple crises, global and local, economic and political. We will make difficult choices of course, but we are confident that CPC will consolidate its position and continue to be the pivot upon which the development of the country rests.

Acknowledgment

I would like to express my utmost appreciation of the efforts expended by the corporate team of CPC guided by the Managing Director, who worked tirelessly to achieve the set goals of CPC despite the pressure exerted by the internal and external environment. The professional and honest approach which has enabled us to charter challenging waters in this sector will continue to mark all engagement and in this regard I am very much thankful to my corporate team for the support extended to ensure the betterment of the Corporation. The Hon. Minister, Hon. Deputy Minister and officials of the Ministry of Petroleum Resources Development backed us with advice, guidance and direction at every turn, and I extend my sincere thanks on behalf of the Corporation for their support and dedication.

My formidable, experienced and highly capable fellow Board members were impeccable in their stewardship. So too, the entire staff, who rose to the occasion to charter the Corporation through an extremely challenging year. They have ensured that CPC operates as a viable state enterprise. I am confident that this priceless human capital will enable us to meet and overcome the challenges of the future, however formidable they may be.

Thank you.

G. S. Withanage
Chairman

MANAGING DIRECTOR'S REVIEW

MANAGING DIRECTOR'S REVIEW

The year 2018 saw an exacerbation of the challenges that CPC typically faces due to its unique position in the industry as well as the overall economy of Sri Lanka in view of mandates and relevant commitments. Nevertheless, the Corporation responded with utmost tenacity in streamlining operations without compromising on the development targets it has set itself.

While the CPC has executed its mandate to supply refined petroleum products, it has done its best to affirm its social responsibility by reducing carbon emissions.

International Crude oil prices recorded a notable increase during 2018 before declining in the last two months of the year. The supply concerns in relation to US trade sanctions on Iran resulted in an upward trend in oil prices from mid of August to early October 2018. Building-up of global inventories to recorded level and High level of US crude oil production coupled with the slow global economic growth added downward pressure on prices toward the end of 2018. Accordingly, the average crude oil (Brent) price that stood at US dollars 71.76 per barrel in 2018, compared to US dollars 54.76 in 2017. A key step in this direction would be the adaptation of pricing formula that was implemented with effect from mid of May to address adequately and equitably reflect all impacted parties including the general public.

Operating environment

As published by Central Bank, economic growth in 2018 stood at 3.2% which is less than the previous year of 3.4% due to the global and domestic disturbances faced by the country. Despite the sharp depreciation of rupee coupled with the introduction of the pricing formula for the domestic petroleum prices, Inflation rate remained well anchored in low single digit level of 4.3% in 2018 compared to 6.6% in the year 2017. The external sector of the country's economy was volatile during the year due to the both global and domestic factors. The trade deficit widened further as the growth in import expenditure rather than increase in earnings from exports, stagnant employees remittances and rising foreign interest payments. The increased import fuel prices further pressured to widen the balance of payment. External factors resulted in a sharp depreciation of the Sri Lankan Rupee and the overall depreciation of the Rupee against the US dollar was 16.4 percent in 2018.

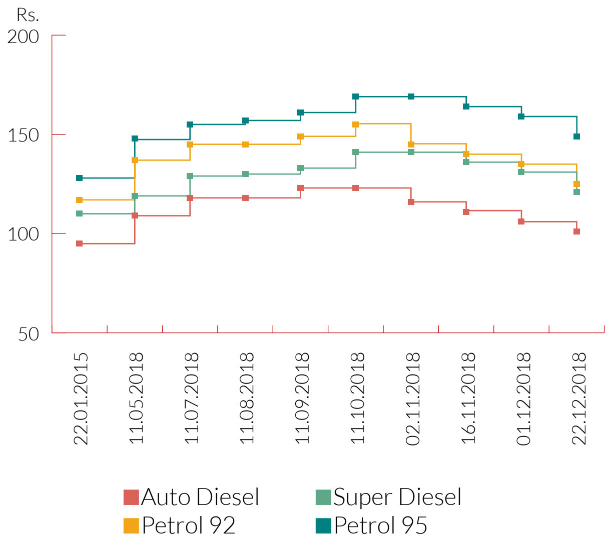
Performance

In the year under review, revenue of the corporation increased by 14.6% against the year 2017. It is worthwhile to note that the cost reflective practicing formula has been introduced by the government in May 2018 for Petrol & Diesel. This enables to revise the petroleum prices with effective from May. As pricing formula was in place, petrol and diesel prices revised in parallel with the price volatilities in the international fuel market.

As the one of most challenging year, CPC had to incur a loss of Rs. 105 billion for the year 2018. The hick of the international oil prices coupled with the sharp depreciation of the exchange rate guided the corporation into loss condition. Non availability of the US Dollars in the market negatively impacted to increase the loan position and thereby to increase the finance cost as well as the exchange rate variation.

The transportation segment, which generates the highest income, contributed Rs 413 billion, a 20.9% improvement over the previous year. However, due to increase in demand and prices, the Corporation incurred an overall loss of Rs 96 billion. Although the price formula helped in terms of fuel price revision, this did not cover all financial costs or adjusted for exchange rate variation.

DOMESTIC PRICES



The demand for power generation declined and effected a 33.6% decrease in fuel sales to the energy sector. The aviation sector performed creditably, recording a 26.3% increase in profits over the previous year while the industries sector showed a 7.4% increase in income during this period. The domestic sector, as expected, continued to make losses on account of consumer friendly national pricing policies.

The Corporation was considerably impacted by global fuel price fluctuations. International petroleum prices increased by 31% during the year and therefore was forced to sell petroleum products at a loss. It must be noted that the Corporation supplies kerosene to the public at a highly subsidized price of Rs 70 per litre, as determined by the Government. This resulted in an operational loss of Rs 14,735 million. Also, as a result of the Ceylon Electricity Board not purchasing the full refinery production, due to high rainy climate CPC had to export furnace oil and naphtha, thereby incurring a loss of Rs 1,064 million.

Exchange rate variation continued to hamper the operations of the Corporation. The exchange rate (year end rate) of the rupee against the US dollar depreciated by Rs 29.45 or 19% during the year. The loss that the Corporation had to incur amounted to Rs 82,717 million. More than 78% of the total loss of the Corporation is attributable to exchange rate variation.

Interest expenses increased by Rs 1,534 million or 15% compared to the year 2017 due to an increase of bank borrowings. Since foreign currency is not available in the market, the loan amount with two state banks has accumulated. However, the daily collections accumulated due to the non-availability of foreign currency were diverted to short-term investments, which in return helped mitigate the situation to a certain extent.

The investment in capital projects increased by Rs 595 million and many important projects were concluded during the year. For example, the JET A-1 filter vessel was installed in the Kolonnawa terminal in order to ensure production of aviation fuel of the highest quality to meet international standards. CPC restarted the production of bulk bitumen through the oil refinery during this year with the objective of recovering and increasing its bitumen share of the market. A major overhaul of the refinery was conducted within a period of just 35 days. We also commenced the development and upgrading of the aviation facility and hydrant system at the Bandaranaike International Airport in January 2018.

Following standards established over the years, the Corporation continued to treat integrity and reputation as well as regulatory compliance as matters of utmost importance. The Corporation continued to maintain its high standards with respect to industrial relations, health and safety and most importantly in supporting the development prerogatives of the nation and her people. The Corporation not only provides services that cover the entire country but also facilitates economic development at all times. The Corporation is one of the largest tax payers in the country and during the year under review its contribution was Rs 124,805 million, which is 23.93% of our total net revenue.

Appreciation

We are optimistic and indeed confident about the future, and this stems from the standards we have set ourselves across the board. We have in place excellent mechanisms to constantly evaluate all facilities and processes, ensuring transparency and accountability. I am proud of the management team of the Corporation which has supported me at all times and which has always been cognizant of the volatile local and international environment in which we have to operate as well as the impact of multiple crises, both local and international, on the petroleum industry. Their commitment to the betterment of the Corporation's fortunes is admirable. Indeed, the same can be said of our entire staff across all categories. I believe that the Corporation will continue to welcome and meet all challenges in the future as well.

Thank You.

N R R Jayasekera
Managing Director


CEYPETCO

OUR LEADERSHIP

OUR LEADERSHIP

MR. G. S. WITHANAGE
Chairman

MR. N R R JAYASEKERA
Managing Director

MR. R M WIJESINGHE
Director

MR. K A VIMALENTHIRARAJAH
Director

MR. W R PERERA
Director

MR. P. P. SAMAN ROHITHA
Director

MR. M Y HUSSAIN
Director

THE BOARD OF DIRECTORS

MR. G. S. WITHANAGE
Chairman

Mr. G.S. Withanage was appointed as the Chairman and Board member of Ceylon Petroleum Corporation and Chairman and Board member of Ceylon Petroleum Storage Terminals Limited which is the subsidiary of Ceylon Petroleum Corporation. He is also the Chairman and Board member of Sri Lankan Airlines Limited and Sri Lankan Catering Limited. He holds a B.Sc. Degree in Management obtained from University of Sri Jayawardenepura and Master of Business Administration Degree from University of Colombo. He joined the Sri Lanka Administrative Service in 1984 as an Assistant Director in the Ministry of Public Administration and in the year 1990 and he was appointed to the post of Deputy General Manager in the Sri Lanka Sugar Corporation and; subsequently took up the position of Assistant Secretary in the Ministry of Defense. In 1995, Mr. Withanage was appointed as Assistant Secretary to the Ministry of Media, Tourism and Aviation and was promoted to the position of Senior Assistant Secretary. In 2002, he was appointed to hold the post of Additional Secretary in the Ministry of Transport, Highways and Civil Aviation in 2004, he was appointed as the Additional Secretary of the Ministry of Civil Aviation. Having served in the said position until 2012, Mr. G.S. Withanage was promoted to take up duty as the Secretary to the Ministry of Rehabilitation and Prison Reforms. Subsequently in 2015, he was appointed as the Secretary to the Ministry of Foreign Employment and carried out duties in the position till he assumed duties as the Secretary to the Ministry of Transport and Civil Aviation in 2017 until his retirement. He has been an eminent officer of the Sri Lanka Administrative Service throughout his career and while holding the above positions, Mr. Withanage was appointed to lead several delegations of the Sri Lankan government to foreign countries. He has been appointed as the Chairman of the SAARC Regional Multimodal Transport Seminar conducted in Colombo in May 2006. In addition, he has organized the 5th Ministerial Consultation of Colombo process (Regional Consultative Process among labour sending countries) in the 2016 and have earned Sri Lanka the Chairmanship for the second time since 2003. Further, Mr. Withanage has been involved in organizing the Fourth Ministerial Consultation of the Abu Dhabi Dialogue, convened in Colombo on 24th January 2017, and has secured the chairmanship for Sri Lanka.

MR. N R R JAYASEKERA
Managing Director

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

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

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

MR. K A VIMALENTHIRARAJAH
Director

Mr. Vimalenthirarajah's first degree is in Economics from the University of Jaffna. He also has an MBA in project management, an MPhil in public economics, a PD diploma in development studies and public policy, a PG diploma in International Affairs, a bachelors in laws from the Open University of Sri Lanka and attorney-at-law. He holds Australian Computer Society Certification and he is an officer of the Sri Lanka Administrative Service. He is also a Member of the Academic Syndicate of the Institute of Human Resources Advancement of the University of Colombo. Currently he employed as the Director General of the Department of Fiscal Policies. During his illustrious career he has held a number of key state positions. He is an Alternative Director of the Bank of Ceylon and a Director of the Sri Lanka Tourism Promotions Bureau. He was a former Director General of the Department of Trade and Investment Policy as well as the Ministry of Finance. He was a former ministerial counselor / director at the Embassy of Sri Lanka in Beijing China as well as a Country Director of the SAARC Development Fund. He was a former treasury representative to the Public Servant Provident Fund Association, former Senior Assistant Secretary (IT&AR) / CIO, Ministry of Public Administration and Home Affairs, form Assistant Program Manager of the capacity development of recovery program of the United Nations Development Program, former Assistant Secretary Planning and Reconstruction at the Ministry of Ports, Rehabilitation and Reconstruction, a former SLAS cadet of the Sri Lanka Institute of Development Administration, a former Samurdhi Manager for the Vavuniya Divisional Secretariat and a former development program assistant at the same district secretariat.

MR. R M WIJESINGHE
Director

Mr. Wijesinghe having been educated at Royal collage, is an Attorney-at-Law, holding Masters Degree in International Legal Cooperation from the university of Vrije in Brussels as well as holding qualifications as a Solicitor of the Supreme Court of England and Wales, a Solicitor and Barrister of the Supreme Court of the Australian Territory (ACT) and Barrister of the High Court of Australia. The past and present legal experiences in the private and public sectors, gained universally, has given Mr. Wijesinghe wealth of experience in domestic as well as international law. Currently employed at Colombo International Container Terminals Limited, as the Senior General Manager – legal since December 2011, also perform duties as the Senior Overseas Adviser to china Merchants Ports Holdings company Ltd. the largest port operator in the world, and is presently involved with Hambantota International Port Group Pvt ltd, as Senior Legal Consultant to CEO. Also hold the positions of Director of Maganeguma Road Construction Equipment Company Pvt Ltd, and Topaz Hotels Limited and is also a member of National Agenda committee – Chamber of Commerce Sri Lanka. Having being employed as an Assistant Director of the Superannuation Commission of Australia, being part of the Australian Public Service and having served as Executive Director National Lotteries Board and Director General Sri Lanka Institute Advanced Technological Education, Mr. Wijesinghe has gained a wealth of experience in serving the public service. Mr. Wijesinghe, soon after qualifying as an Attorney-at-law joined the Maharajah Group of Companies, where he held the position of Group Personnel Manager, until he migrated to Australia in 1989.

MR. W R PERERA
Director

Mr. Perera having being educated at Ananda collage, he is an example of an extraordinary entrepreneur and also he uses its influence to change the world. His personal characteristic exists among the successful entrepreneurs. He has an ability to control their thoughts and actions and be totally present and focused with whatever is in front of them at the time.

He enhanced his social works as an elected member during 2002 to 2006 to uplift human well-being and help meet the basic human needs of the residence of the Kolonnawa Urban Council area with particular attention needs and empowerment of people who are vulnerable, oppressed and lining in poverty. He stand up for the rights and best interests of the people really need support and the most.

MR. M Y HUSSAIN
Director

Mr. Hussain is a proficiency in the field of petroleum industry having over 45 years' of experience. He possessed many professional international level training exposures with hands on experience in highly reputed international organizations engaging in the petroleum industry. He has become a "Master Instructor for Refinery Process Operations", international certificate awarded by Nothern Alberta Institute of Technology,Canada.

Mr. Hussain worked as Senior Pilot Engineer Research & Development Centre at Takreer and he was responsible for installing and commissioning and actively involved in witnessing facility and site acceptance test runs for both pilot plant (Dual reforming), Hydro treating & Hydro cracker) in accordance with HSE. He has worked as Technical Process Instructor of ADNOC technical institute during the year 2001 to 2009. He provided leadership and technical instruction to ADNOC employees using variety of methods to maximize learning and trained UAE nationals for engineering, process Operators, Shift Supervisors, Shift Controllers and senior panel operators. Mr. Hussain has gained wealth of experience in the field of petroleum industry.

During the period from 1969 to 2016, Mr. Hussain has worked in ADNOC, ARAMCO and Bahrain National Gas Company (BNGC) and he has overseen operations of major oil refining plants of Abu Dhabi government.

MR. P. P. SAMAN ROHITHA
Director

Mr. Rohitha possesses over 17 years of experience at managerial capacity in manufacturing of paint and chemical and who has tendered his service as Director and Managing Director. Currently he is working as a Director at Standard Chemicals Limited, a leading group of company in chemicals industry. During the period from 2009 to 2013, Mr. Rohitha has worked as Managing Director of the Rovex Paint Industries (pvt) Ltd. He has overseen all the operations of the company uplifting it to the better operational and financial position. Further, Mr. Rohitha has worked as Managing Director in the Chemisales Holding (Pvt) Ltd during the period from 1996 to 2009. Holding over the top level positions of the reputed companies, he has gained wealth of experience in managerial capacity which contributes towards betterment of the organization.

CORPORATE MANAGEMENT TEAM

MR. E A S EDIRISINGHE
Acting Refinery Manager

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

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

MR. S W GAMAGE
Deputy General Manager (HR & Administration)

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

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

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

MR. M K GARUSINGHE
Deputy General Manager (Commercial & Supply Chain)

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

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

MR. W M K R B WICKREMASINGHE
Deputy General Manager (Marketing)

Mr. Wickremasinghe holds a bachelors in science from the University of Peradeniya as well as an MBA from the University of Colombo. He is also a member of the Institute of Chemistry, Ceylon and a Certified Member of the Sri Lanka Institute of Marketing. In addition, he has obtained professional training in HR Leadership Management Excellence from South Africa, Business Conduct- The Logistics and Marketing Partnership from United Kingdom, Surface Treatments with Additives -Avecia United Kingdom, Rheological Modifiers in Surface Coatings from Aqualon, Singapore. From 1999-2008 worked as Senior Product Manager of Chemical Industries (Colombo) Limited, formally CIC where his key activities were the importing, storing and marketing of industrial Raw Materials to industries in Sri Lanka and manufacturing and marketing of emulsion polymers. He also has deep practical experience in budgeting the financial capital and overhead expenses, experience in Balanced Score Card implementation, monitoring, research and development aspects of of emulsion plants. In his current position as DGM-Marketing at the CPC, he is tasked with controlling and coordinating the Marketing Operations of CPC including domestic fuel markets, Agro Chemical Function, Bitumen, Lubricants and Special Products Functions and subunits of Customer Care & Corporate Communication Unit & Service Station Equipment Workshop. Additional responsibilities include creating the required business environment by making relevant changes to face the challenges in business environment in achieving the Corporation plans and objectives of CPC.

MR. V N WEERASOORIYA
Deputy General Manager (Finance)

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

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

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

MR. M A D MALLIKARACHCHI
Deputy General Manager (Technical Services & Corporate Affairs) (Acting)

Mr. Mallikarachchi has a bachelors in engineering (Production) from the University of Peradeniya and is a member of the Project Management Institute of USA as well as an Associate Member of the Institute of Engineers, Sri Lanka. He also has also participated in a number of post-graduate training programs related to management and leadership at leading local and international academic, professional and industrial facilities. He counts more than 20 years of experience in the oil and gas industry in various disciplines such as Aviation Fuel Operations Management, Aviation Fuel Quality Assurance, Project Quality Assurance related to construction projects such as offshore oil platforms & subsea pipelines, Project Management & Contract Administration related to Aviation fuel farms & fuel hydrant systems, Verification of Engineering & Process Designs, Maintenance Management and HSE awareness. He started his career at the Jinasena Group as an engineer in 1996 and then served at Interbatch Porcelain Pvt. Limited as an assistant mechanical engineer. He joined CPC in 1999 as a mechanical engineer and was assigned to the Kolonnawa terminal. Subsequently he held various positions at the CPC including Mechanical Engineer (Aviation Refuelling Station) as well as Project Engineer (Fuel Hydrant Systems Project) for the Aviation Function of the CPC at the Bandaranaike airport, Deputy Manager of Aviation Operations, Project Manager Aviation Fuel Farm, Manager Aviation Operations and finally, since 2017 as the Acting Deputy General Manager for Technical Services and Corporate Affairs.

MR. D M P DISSANAYAKE
Deputy Refinery Manager (Maintenance & Projects)

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

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

MR. L G M R PERERA
Deputy Refinery Manager (Electrical & Instrument)

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

MR. C R K GAMAGE
Deputy Refinery Manager (Technical Services) (Actg.)

Mr. Gamage holds a bachelor degree in Engineering from University of Moratuwa and he is a Chartered Engineer and a corporate member of the Institution of Engineers of Sri Lanka. He has further obtained certifications of UT, PT, DT, MT, RT, IR Level –II, Certified Vibration Analyst Level-I - Mobius Institute, U.S.A. and the Society for Non Destructive Testing . He started his career at CPC Refinery as Mechanical Engineer in year 1993. He poses more than 26 years of experience in the field of engineering in Projects, Maintenance, inspection & technical services at the Refinery. He held the positions of Deputy Engineering Manager (Inspection) and Engineering Manager (inspection) before he appointed as Actg. Deputy Refinery Manager (Technical services) in October 2018. Presently he is heading the Technical Services Department consisting of Inspection, Laboratory, Technical Service Department.

SENIOR MANAGEMENT TEAM

MS. M C D PERERA
Senior Manager (Finance)

MR. K W S PUSHPALAL
Manager
(Human Resources)

MS. R A K C ARIYARATNE
Chief Legal Officer

MR. W D L C ABEYGUNAWARDANA
Manager (Marketing) (Acting)

MR. W K S GUNAWARDHANE
Manager
(Research & Development)

MR. S D S RAJAPAKSE
Manager
(Procurement & Stores)

MAJ. M R S P SAMARASINGHE
Manager
(Security & Investigation)

MR. G P K WIJEKOON
Manager
(Engineering & Premises)

MRS. M S R FERNANDO
Manager
(Information Technology)

MR. R A T I RANASINGHE
Manager (Audit)

MR. P A U R KARUNARATNE
Manager (Shipping)

MR. K K A JAYAWICKRAMA
Manager (Commercial) (Actg.)

MR. B S S PERERA
Manager (Agro Chemicals)

MR. N B M P JEEWASIRI
Manager
(Operations – Stocks & Terminal operations) (Acting)

MR. R W S M RAJASINGHE
Deputy Manager (Aviation - Operations)

MR. K G H KODAGODA
Manager (Refinery Operations)

MR. G M U W DOLOSWALA
Manager (Lubricant & Special Products)

MR. R A S RAJAPAKSHE
Manager (Materials)

MR. K A K K KURUPPU
Manager (Engineering - Projects)

MR. K V J CHANDRAWANKA
Manager
(Engineering - Electrical)

MR. W A N R WICKRAMASINGHE
Manager (Technical Services)

MR. A I WANSEKARA
Deputy Manager
(ST - Operations)

MS. A S PREMAKANTHI
Manager
(Economic & Scheduling)

MR. H K N RATHNASIRI
Deputy Manager (Technical services – laboratory)

MR. R M M W BANDARA
Deputy Manager (Fire & safety)

MS. C N WITHANARACHCHI
Senior Medical Officer

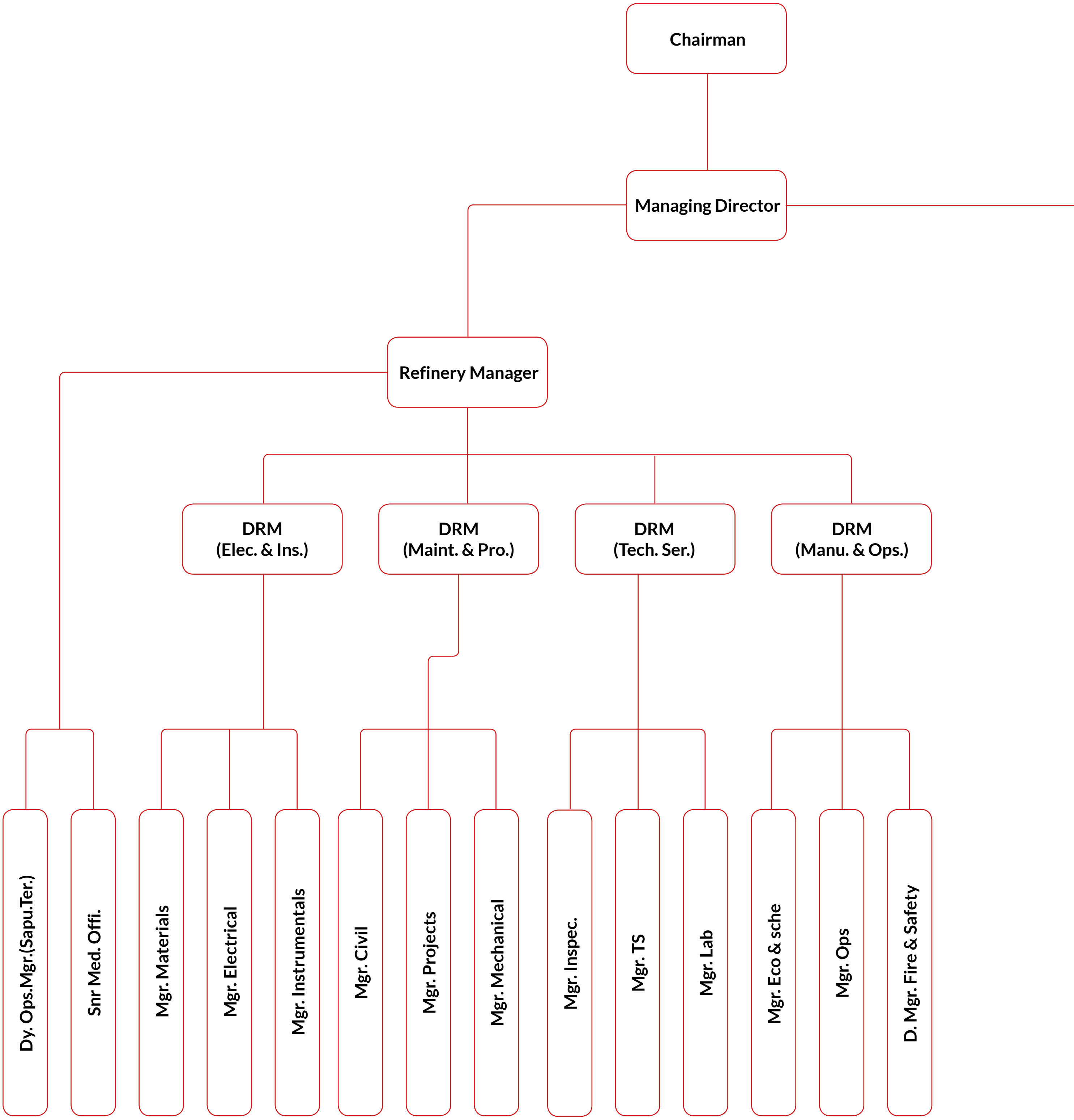
MR. A B KORALEGEDARA
Manager (Secretariat) (Actg.)

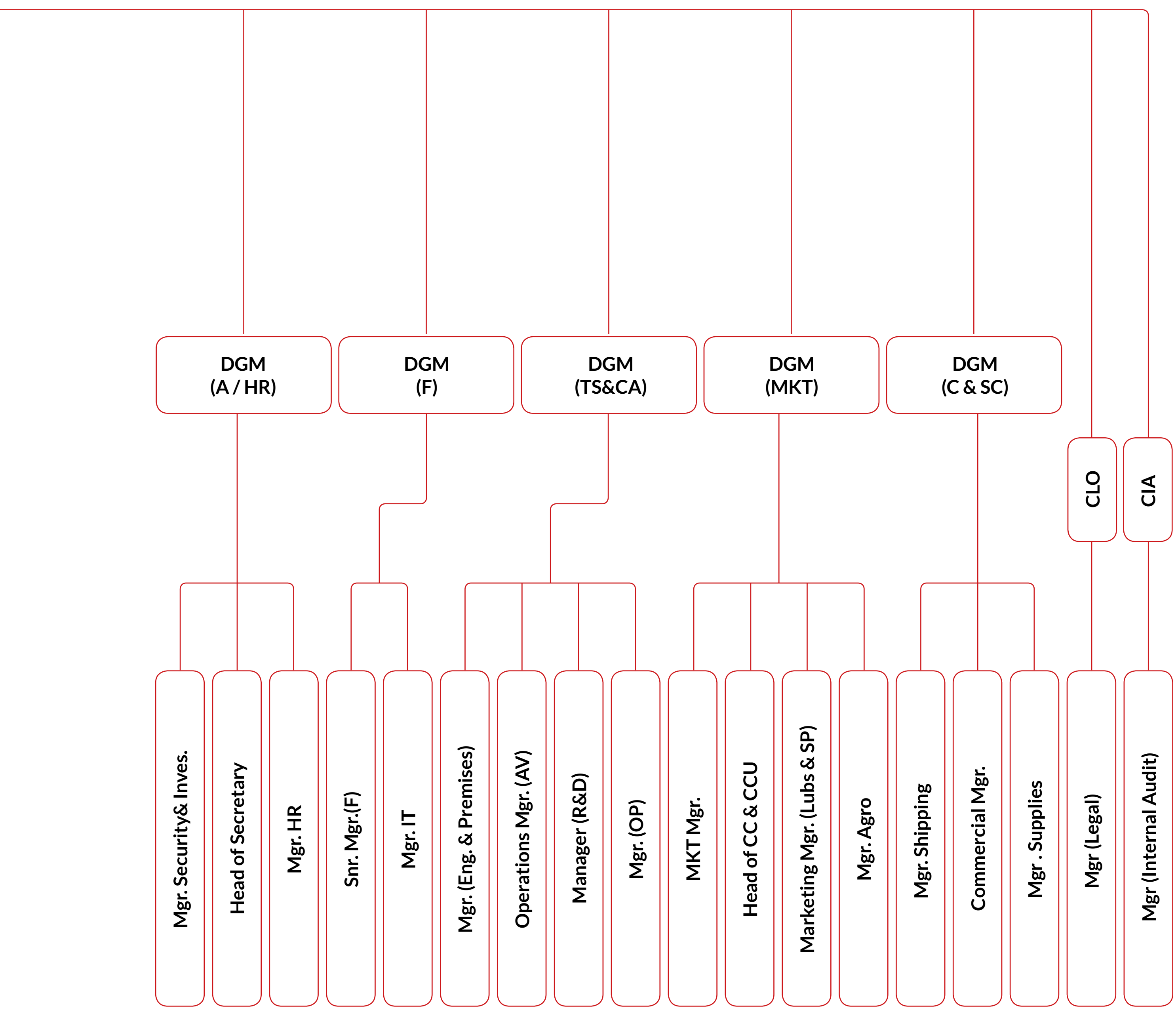
MR. P F W DAYANATH
Manager (Engineering - Civil)

MR. R A B THILANGA
Manager (Engineering - Mechanical)

MR. W S RABEL
Manager (Engineering - Instrument)

ORGANIZATIONAL CHART




DGM (A / HR)
DGM (F)
DGM (TS&CA)
DGM (MKT)
DGM (C & SC)
CLO
CIA
Mgr. Security& Inves.
Head of Secretary
Mgr. HR
Snr. Mgr.(F)
Mgr. IT
Mgr. (Eng. & Premises)
Operations Mgr. (AV)
Manager (R&D)
Mgr. (OP)
MKT Mgr.
Head of CC & CCU
Marketing Mgr. (Lubs & SP)
Mgr. Agro
Mgr. Shipping
Commercial Mgr.
Mgr . Supplies
Mgr (Legal)
Mgr (Internal Audit)

OUR BUSINESS

				
LUBRICANT	**AUTO FUEL**	**FUEL FOR POWER GENERATION**	**AVIATION FUEL**	**FUEL FOR INDUSTRIES**
46 PRODUCT PORTFOLIO	**PETROL-92 PETROL-95 LAD LSD**	**FURNACE LAD NAPHTHA**	**JET A-1 AV GAS**	**FURNACE LAD SOLVENT KEROSENE**
1,583 Rs. Mn	**412,716** Rs. Mn	**74,757** Rs. Mn	**64,190** Rs. Mn	**11,011** Rs. Mn





DOMESTIC FUEL	**BITUMEN**	**AGRO CHEMICAL**	**BUNKERING**	**EXPORT**
KEROSENE LPG	**BULK BITUMEN PACKED BITUMEN**	**11 PRODUCT PORTFOLIO**	**FUEL OIL**	**FUEL OIL NAPHTHA**
17,688 Rs. Mn	**1,066** Rs. Mn	**151** Rs. Mn	**495** Rs. Mn	**8,595** Rs. Mn

MANAGEMENT REVIEW

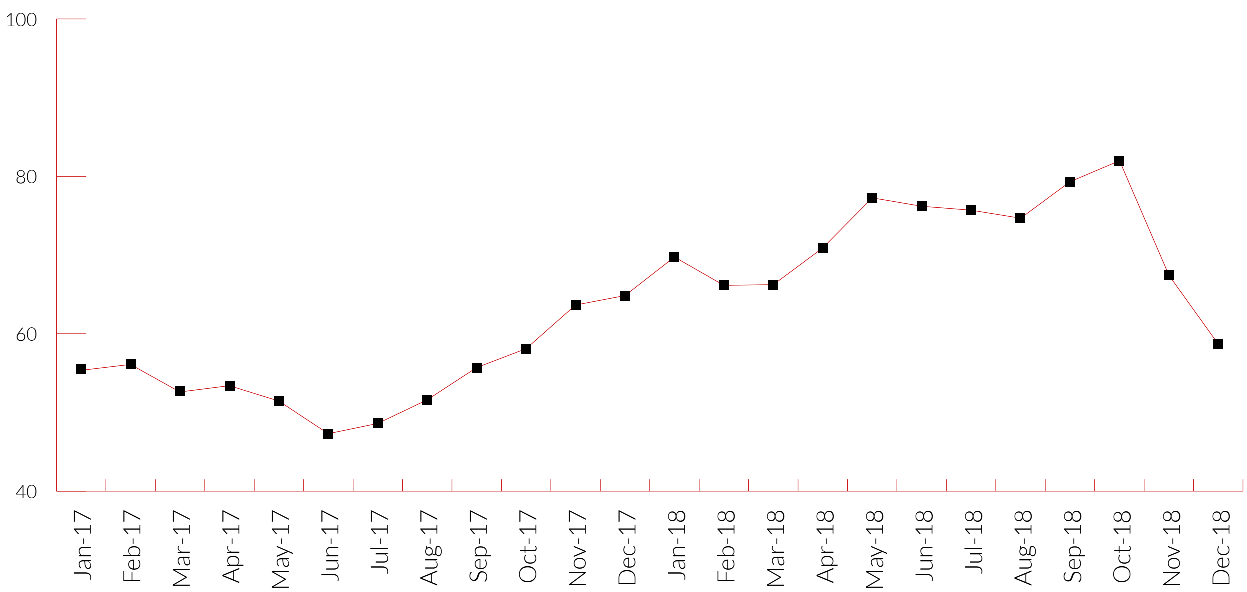
MANAGEMENT REVIEW

OPERATING CONTEXT AND STRATEGY

Global environment

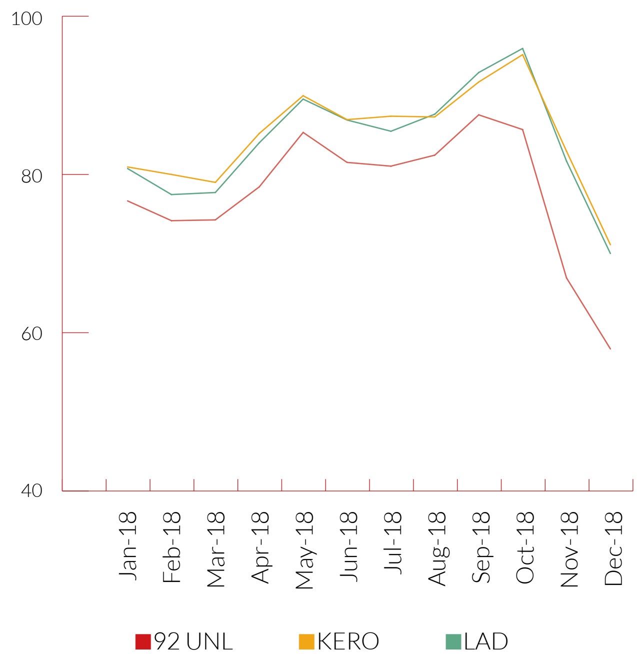
While there is an increase in demand for energy, especially in the emerging economies of Asia, the global energy mix has shifted significantly towards cleaner renewable resources. The impact of that shift to the fossil fuel industry has been strong and there is anticipation that it will become stronger in the near future. Over and above the volatility of petroleum prices, the global thrust to move away from the industrial age into the sustainable age has created cause for concern.

CRUDE PRICE (FOB) - USD/BBL



International Crude oil (Brent) prices recorded a notable increase during 2018 before declining in the last two months of the year. The supply concerns in relation to US trade sanctions on Iran resulted in an upward trend in oil prices from mid of August to early October 2018. Building-up of global inventories to recorded level and High level of US crude oil production coupled with the slow global economic growth added downward pressure on prices toward the end of 2018. Accordingly, the average crude oil (Brent) price that stood at US dollars 71.76 per barrel in 2018, compared to US dollars 54.76 in 2017. While oil prices were increasing and Brent Crude was up to about USD 71.76 per barrel, it is still a long way away from the USD 115 high watermark of 2011. Therefore, even as companies explore new development, the upstream oil sector must be careful and mindful.

INTERNATIONAL OIL PRICES - USD/BBL



Local environment

According to the Central Bank of Sri Lanka, the country's GDP growth stood at 3.2% in 2018, a decline from the 3.4% recorded in the previous year. The Central Bank claims that service activities expanded by 4.7% while agriculture returned a figure of 4.8%, but these gains were offset by a considerable slowdown in industry, which stood at 0.9%. The total size of the Sri Lankan economy was estimated at US dollars 88.9 billion, while the per capita GDP showed a marginal decline to dollars 4,102.

The trade deficit surpassed US dollars 10 billion for the first time in history with higher growth in import expenditure outpacing the growth in export earnings, which were at a record level in nominal terms. Globally, monetary policy normalization, particularly in the United States of America (USA), resulted in global financial conditions tightening, thus causing capital outflows from emerging market economies and increased pressure on exchange rates.

The Central Bank essentially followed a market based exchange rate policy resulting a sharper depreciation of the rupee, but nevertheless took steps to subdue excessive volatility in the market when there were large capital outflows and undue speculation. Headline inflation fluctuated largely in line with the price movements of the food category, where food prices declined mostly during 2018 owing to favourable weather conditions that prevailed during the year.

The government revenue declined to 13.3 per cent of GDP in 2018 while expenditure and net lending declined, particularly due to lower public investment, which was affected by political tensions that prevailed towards the end of the year resulting in delays in the implementation of budgetary operations. Reduced capital expenditure also contributed to a dampening of economic activity.

Central bank increased the Standing Deposit Facility Rate (SDFR) by 75 basis points and SLFR by 50 basis points, further narrowing the policy rate corridor to100 basis points. Accordingly, by end 2018, SDFR and SLFR stood at 8.00 per cent and 9.00 per cent, respectively. Fiscal operations during 2018 demonstrated some improvements with a higher primary surplus and a lower budget deficit, notwithstanding the decline in revenue mobilization.

Petroleum Prices In Sri Lanka

Price reforms for petroleum products were longstanding policy issue in Sri Lanka due to its direct impact on the cost of living and the cost of production as well as on the overall macroeconomic stability. The petroleum sector of Sri Lanka is dominated by the Ceylon Petroleum Corporation (CPC), a strategically important state-owned business enterprise, which accounts for approximately 86 per cent of the retail market share. Sri Lanka depends heavily on imported petroleum products to meet the primary and secondary energy requirement of the country. Moreover, as a small net-oil importing country, Sri Lanka is a price taker in the global market. Due to the high impact of petroleum prices on the cost of production, and thereby the cost of living, setting of petroleum prices has always been a politically sensitive issue in the country.

Fuel prices have shown large fluctuations in global markets in the past decade and a key step in this direction would be the adaptation of pricing formula for Diesel & petrol that was implemented with effect from mid of May to address adequately and equitably reflect all impacted parties including the general public. The cost of petroleum products comprises Cost, Insurance and Freight (CIF) price, terminal charges for storage and bulk distribution, transport costs, taxes, exchange rate variation cost, financing costs and personnel and overhead costs of the CPC. However, the pricing formula does not cover the costs mainly finance cost and exchange rate variations and terminal charges.

Economic of Subsidized Fuel Prices

Consumer subsidies are generally determined as the differential of the full cost reflective price and the determined price. The full cost reflective price, which consists of the sum of supply cost, transportation cost, profit margins and taxation, is the total cost of the product. Kerosene has the largest subsidy cost per litre generating the subsidy amount of Rs. 14,735 Mn for the year 2018. The subsidy on Kerosene is largely misused by the transport sector when the price gap between the diesel and kerosene is more. In the absence of any pricing mechanism, the difference between sales revenue and the total cost provides the basis for estimating fuel subsidies.

Product	Loss per liter (Rs.)	Total Loss (Rs. Mn)
Kerosene	(56.86)	(14,735)

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

KEY FACTORS IMPACTING THE PROFITABILITY

Although demand side stood in same position, revenue has increased by 14.61% (approximately Rs. 75 billion) during the year under review in transport, aviation, export and domestic sectors. Demand in the power sector has dropped by 33.65% (439 Mn. Ltrs.) compared to the year 2017. Average crude oil price increased from USD 54.89 in the year 2017 to 72.02 in the year 2018. Further, the annual average exchange rate increased from Rs. 155.41 in the year 2017 to Rs. 164.10 in the year 2018. The substantial reduction in profits was due to a significant increase of the import cost of petroleum products coupled with a depreciation of the exchange rate resulting ended up with gross loss position and the profits of the corporation decreased in parallel with the gross loss position of the corporation. The key factors affecting to the profitability of the corporation are detailed below.

Subsidization of Fuel

Petroleum products are one of the categories where the government controls the prices. This is due to the fact that these products are essential to people are its price significantly impacts the Cost Of Living. The significant subsidies afforded to the people in this respect has reciprocally impacted the profitability of the CPC and it has foregone its profitability are part of the greater social services of the state for the whole nation. Kerosene is supplied at a highly subsidized price to easy the lives of the low income households and fisheries communities. In is worthwhile to note that this subsidy is misused by the transport sectors as kerosene use illegally. It clearly indicating that the demand for kerosene has increased by 30.8% compared to the year 2017.

Challenge	Implications	Strategies to overcome
Selling petroleum product at subsidized price	Selling at subsidized prices has a significant negative impact on revenue, profitability and cash flows. When CPC face cash flow problems it drags its profitability further down with interest bearing borrowings.	• Government to introduce a cost reflective fuel pricing for kerosene • Negotiate with the Government to obtain the subsidy entitlement as per the section 17 of the Finance Act No.38 of 1971. • Expenditure control strategies

CPC is A Price Taker In Upwardly Mobile Global Price Scenarios

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

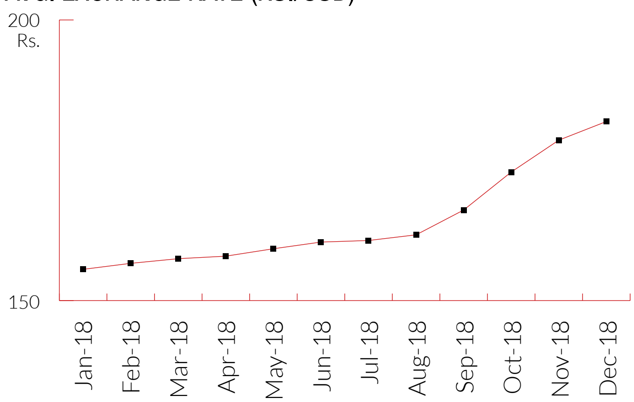
Murban FOB Abu Dhabi price for crude increased by 31% during the year under review with the average price increasing from USD 54.89/barrel in 2017 to USD 72.02/barrel in 2018. This significantly affected the cost of sales. Demand for Petrol, Super Diesel and Kerosene have increased during the year even under the above condition. Building-up of global inventories to recorded level and High level of US crude oil production coupled with the slow global economic growth added downward pressure on prices toward the end of 2018.

Challenge	Implications	Strategies to overcome
Price-taker in the global market	High prices have put margins and cash under pressure. We are a price-taker in the global market.	• Increase the storage capacity to store petroleum products when prices are down in the global market.

Rupee Depreciation

The depreciation of the rupee against the dollar had a significant negative impact of Rs.82,717 million (2017 – Rs. 4,922 million) on the resulted in CPC making loss (PBT) of Rs. 105.02 billion as opposed to 2017 when it made a profit of Rs. 2.82 billion. The fact that US Dollars were not available in the market to purchase and settle the foreign currency loans and CPC only has a mandate to borrow from state banks has further impacted bottom lines since competitive rates offered by other banks could not be leveraged.

AVG. EXCHANGE RATE (RS./USD)



Challenge	Implications	Strategies to overcome
Rupee depreciation	Depreciation of rupee has a significant negative impact on profitability and cash flows. Inability to purchase US Dollars at competitive rates increases the loss from exchange rate	• Enable CPC to purchase US Dollars at competitive rates through negotiations with all commercial banks. • Intervension of Governemnt to convert USD loans into Rupee loans

Shortage Of Oil Refining Storage

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

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

Product	Loss per liter (Rs.)	Total Loss (Rs. Mn)
Fuel oil	(11.26)	(317)
Naphtha	(7.60)	(747)

Challenge	Implications	Strategies to overcome
Shortage of storages	Shortage of oil refining capacity and storage are having an impact on our revenues and cost structure. CPC had to export its bottom products due to insufficient storage at a loss.	• Increase the storage capacity for both crude and refined products in line with the market demand • Upgrade the refinery operation so as to generate high yielding products while enhancing the capacity

Restraints on Settling Dollar Loans

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

Challenge	Implications	Strategies to overcome
Settlement of Dollar Loans	Outstanding loans adversely impact the profitability by way of finance cost as well as exchange loss	• Negotiate with banks to reduce interest rates • Effective treasury management • Negotiate with banks and Treasury to convert the US Dollar loans into Sri Lankan Rupee • Request autonomy to settle the US Dollar loans in the best interest to CPC

Dilapidated Pipe Lines

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

Challenge	Implications	Strategies to overcome
Dilapidated pipelines	Leakages of the petroleum product at the time of transferring the products. Demurrages adversely impact the profitability by increasing the import cost while damaging the image of CPC.	• Upgrade & maintain the pipelines • Construction of new pipelines

SEGMENTAL PERFORMANCE

CPC has segregated operations into several key categories for purposes of management efficiency and their respective performances during the year under review are summarised below.

	Sales	Profit
	Rs. Mn.	Rs. Mn.
Transportation	412,716	(96,042)
Power generation	74,757	(10,669)
Aviation	64,189	3,841
Industrial	13,661	(75)
Domestic	17,688	(14,619)
Agro Chemical	151	(19)
Export & Bunkering	9,090	(1,132)
Total	**592,253**	**(118,715)**

Transport Sector

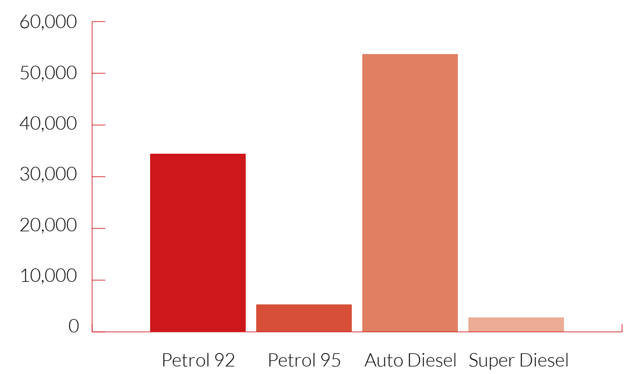
This sector generates the highest income for the CPC, contributing Rs. 413 Bn, a 20.9% improvement compared to the year 2017. The general public's preferences to use private vehicles saw a continuation of the trend to magnify the demand.

Petrol 92, Super Diesel and Petrol 95 have recorded notable increases. The demand for Super Diesel and Petrol 95 was enhanced due to the import of higher quality vehicles as well as strict emission control regulations introduced by the Government. It is a trend that is expected to continue in 2020. Continued misuse of kerosene by commercial vehicle owners saw a corresponding increase in the demand for kerosene, affecting both dealer and retail sales. Petrol and diesel prices changed a few times during the year due to the introduction of the pricing formula by the Government. Upward price revisions up to November contributed to a revenue increase in this sector.

Effective date	LP 95	LP 92	LAD	LSD
22.01.2015	128	117	95	110
11.05.2018	148	137	109	119
11.07.2018	155	145	118	129
11.08.2018	157	145	118	130
11.09.2018	161	149	123	133
11.10.2018	169	155	123	141
02.11.2018	169	145	116	141
16.11.2018	164	140	111	136
01.12.2018	159	135	106	131
22.12.2018	149	125	101	121

A total of 24 new filling stations were opened during the year under review. Construction letters issued during 2017 and 2018 are still to be concluded and it is expected that once done, these filling stations will be equipped with better facilities than those in the operational stations. The CPC renovates a minimum of 10 Corporation owned dealer operated filling stations as per the policy of improving service and creating environmental friendly filling stations.

LOSS ON TRANSPORT SECTOR (RS. MN.)

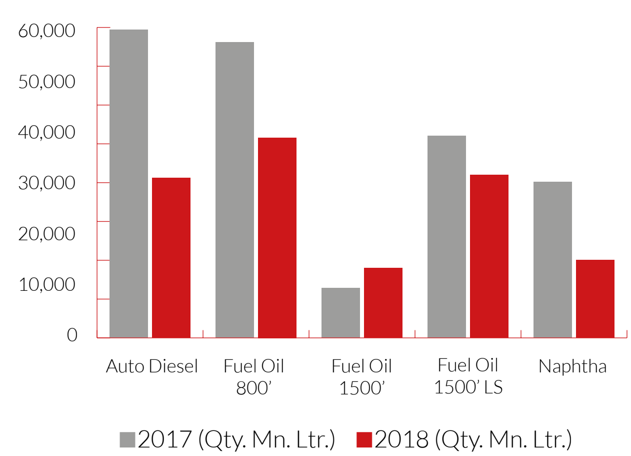


Despite the increase in demand and prices of the transport sector, CPC ended with a loss of Rs. 96 Bn. since the selling prices are not adequate to cover total cost. Although the pricing formula helped in terms of fuel price revision, it does not cover financial costs and exchange rate variations.

Power Sector

Due to the weather condition prevalent in the country during the year 2018, the demand from power generation declined compared to the year 2017 and therefore fuel sales to the energy sector decreased by 31.5%. This sector remained the second highest income generator of CPC accounting for Rs. 74.7 Bn. denoting a decrease of 31.54% compared to Rs. 109.20 Bn. recorded in year 2017.

POWER SECTOR SALES

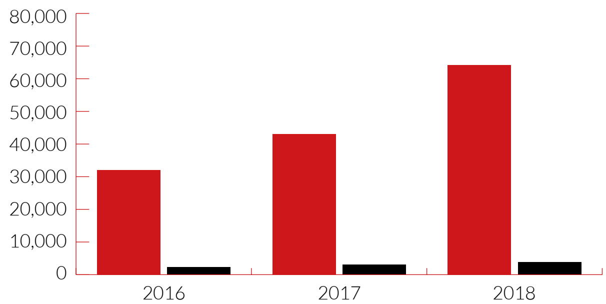


Diesel generated an income of Rs. 20.53Bn. (2017 - Rs. 37.7 Bn.), but incurred a net loss of Rs. 6.6 Bn. Fuel oil 800 generated Rs. 21.65 Bn., but the net loss was Rs. 0.87 Bn. Income from Naphtha and Low Sulphur were Rs. 7.44 Bn. and 17.5 Bn. respectively. It is commendable that CPC was able to meet the demand from the power sector without any interruptions.

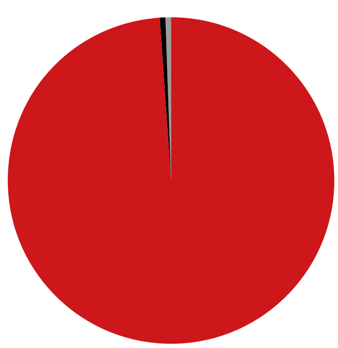
Aviation Sector

During the year this sector earned an income of Rs. 64.19 Bn., recording a 48.9% increase over the previous year and achieved a profit of Rs. 3.8 Bn. With the introduction of the cost reflective pricing method, prices of Jet A-1 and Avgas has adjusted in line with international oil prices. The quantity demand for aviation fuel has increased by 9.33% compared to the last year. The demand for Jet-A1 from local customers and international customers was positively impacted due to the boom of tourism industry.

AVIATION SALES AND PROFITABILITY



AVIATION SALES

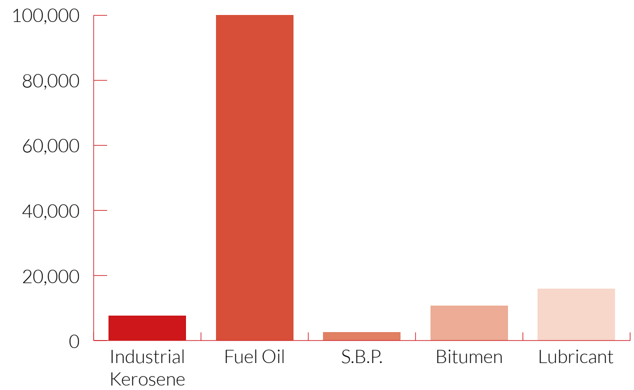


CPC started the expansion project at the Bandaranaike International Airport in January 2018 and it is expected that once completed the operation capacity will be empowered with state of art technology. Further, the corporation launched the feasibility and procurement process to build up the storage facilities for Jet A-1 and pipeline from the Muthurajawela to Bandaranaike international Airport to transfer the product with minimum cost. These projects will further minimize the cost, and consequently a reduction of fuel prices.

Industries Sector

Income from this sector stood at Rs. 13.66 Bn., 7.4% higher than the previous year. Fuel Oil 800 was the main contributor generating a revenue of Rs. 8.8 Bn. It is commendable that bitumen sale generated a profit of Rs. 110 Mn., considering that it was a loss making unit in 2017. It must be mentioned that CPC started producing bulk bitumen with the view of recovering the market. To this end the bulk bitumen was top blown through the refinery using the furnace oil. This helped recover market share to a certain extent. It is believed that this would help build the market share by supplying high quality bitumen at a lower cost for infrastructure development projects.

INDUSTRIAL SALES (RS. MN.)



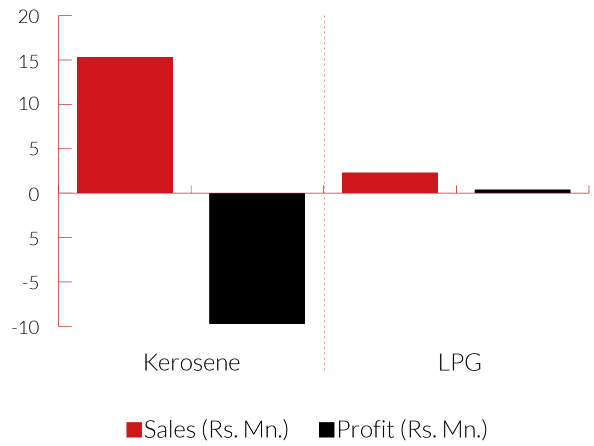
Lubricant sales revenue has dropped by 19.8% compared to the year 2017 due to the supply chain issues of the lubricant products. Despite the sales drop, this segment was able to generate a profit of Rs. 130 Mn. A lubricant blending plant has already been established in Sri Lanka by the supplier and this will facilitate the supply of lubricant products at a low price in order to regain the lost market share.

Domestic Sector

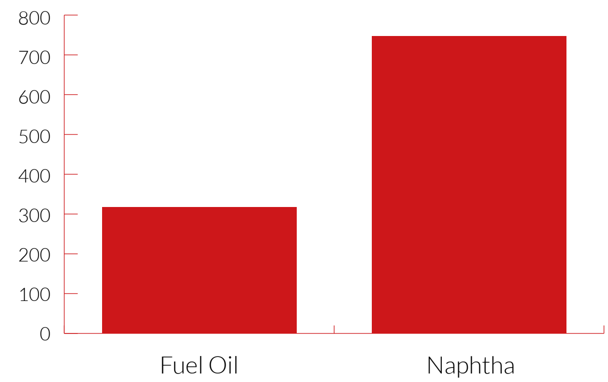
This sector continued to make losses on account of kerosene being sold at a highly subsidized price. The sector incurred a loss of Rs. 14.6 Bn. Though Kerosene generated sales of Rs. 15.3 Bn., Kerosene contributed Rs. 14.7Bn. to the total loss of CPC. Even though the selling price was increased, the quantity sold increased by 30.8% compared to the year 2017. Adulteration of the Kerosene by transporters has contributed to this increase. An international price hike, the price subsidy and greater demand combined to inflate the loss in this segment.

LPG sales increased by 28% compared to the year 2017, from Rs. 1822 Mn. to 2337 Mn. however, the profit from LPG declined from Rs. 273 Mn. to Rs. 116 Mn. due to rise in costs and the adverse effect of exchange rate movements.

DOMESTIC SALES AND PROFITABILITY



BUNKERING - LOSS (RS. MN)



Agro Sector

Sales revenue from this sector increased from Rs. 75 Mn. to Rs. 151 Mn. and consequently the overall loss declined from Rs. 121 Mn. to Rs. 19 Mn. during the year under review. CPC received approvals to import the Glyphosate to the country and supply to customers in the tea and rubber plantations subject to strict adherence to guidelines issued by the regulatory authorities. Glyphosate was accordingly imported in the year 2018 and sold during November and December. Sales of Glyphosate helped reduce the loss to Agro Sector.

During the year under review, ISO performance reviews were conducted for ISO 18001 as well as for OHSHAS 2007. Improvements were made to the distribution network with 117 Ceypetco agrochemicals dealers appointed in high potential areas and 56 tea and plantation customers were appointed.

Bunkering & Exports

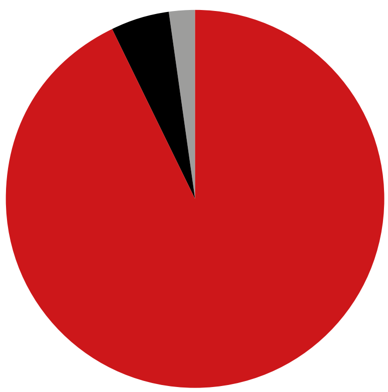
Revenue from bunkering stands at Rs. 495 Mn and CPC incurred a loss of Rs. 68 Mn due to Furnace oil and Naphtha having to be sold at reduced prices. This was because of insufficient facilities to store excess fuel.

During the year CPC exported Naphtha and Furnace oil and earned an income of Rs. 8.59 Bn., but incurred a loss of Rs. 1.06 Bn. A drop in the local demand from the power sector for these two products coupled with heavy rainfall exerted pressure in storing furnace oil and Naphtha. Consequently they had to be exported even below cost.

REFINERY

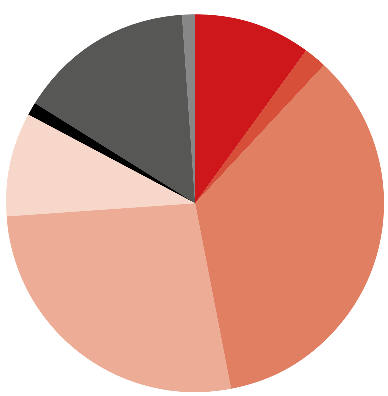
With 49 years of experience in refining oil, CPC processed 1,675,337 Metric Tons of crude oil in the year 2018. The refinery used three types of crudes during the year.

CRUDE PROCESSED



Auto diesel represents 35% of the refined products and the second largest amount represents fuel oil with 27% of the total refined products.

REFINED PRODUCTS



Operating time efficiencies of key process units

	2018	2017
Crude distillation unit	89.70%	96.20%
Naphtha unifiner unit	87.85%	87.80%
Platformer unit	89.09%	90.30%
Gas oil unifiner unit	66.43%	81.60%
Visbreaker unit	85.30%	85.00%
LPG merox treater unit	85.35%	93.50%
Bitumen blower	25.84%	-
LPG unit	85.67%	93.50%
Kerosene merox unit	75.31%	69.90%
Water intake station	43.84%	38.10%

The Crude Oil processed amounted to 1,675,337 metric tons (MT) and the average intake was 5123 Tons Per Stream Day (TPSD) and 5141 Tons Per Calendar Day. The refinery was in operation for 327.42 days, with the Crude Distiller Unit recording an operating time efficiency of 89.70%.

The consumption of fuel oil and gas have increased by 2.68% in terms of quantity but increased by 60.63% in terms of value due to a significant cost increase in the market coupled with the depreciation of rupee value.

The actual total operating cost per metric ton increased by 36.76% compared to the previous year. This was mainly due to the increased own used fuel and gas oil costs during the year. The actual operating cost when compared to the budgeted cost had decreased by 8.03%.

In order to enhance operational efficiencies in the plant, refinery operations are paused once every three years for repairs. During 2018 operations were paused from the 18th of February to the 27th of March to service and repair the plant and ensure thereby the safeguards against system failure while enhancing productivity.

Own use fuel processing, storage and handling losses were together 0.330% compared to 0.717 % in 2017.

Processing cost excluding own use fuel, depreciation and bank charges per ton of crude oil, increased by 10.57% while the cost including own use fuel, depreciation and bank charges per ton of crude oil increased by 37.38% due to increased cost of own use fuel oil and gas.

The average import cost (CIF) per barrel has increased significantly during the year 2018 compared to the year 2017 due to the high volatility of the international fuel prices.

	2018 US$	2017 US$
Murban crude	80.01	56.41
Das	83.63	65.39

(Cost in CIF basis)

B2B SUPPLY OF PETROLEUM PRODUCTS

LPG supplies to Laugfs Gas Ltd. and Litro Gas amounted to 6,169 MT and 16,764 MT respectively while fuel oil supplied to CEB and Asia Power amounted to 126,309 MT and 10,745 MT respectively.

SAPUGASKANDA DISTRIBUTION TERMINAL

The Sapugaskanda distribution terminal is a CPC owned distribution terminal and which distributes the part of the products (auto diesel, petrol 92 and kerosene, furnace oil and Jet A-1) refined by the refinery.

The terminal has been renovated and the gantry process has been automated in order to cater to Jet A-1 delivery to the Airport through the road Bridgers. the operational efficiency of the terminal is given below.

	2018	
Product	Qty. handled (Mn. Ltr)	Total sales of CPC (Mn. Ltr)
Petrol 92	51.37	1,337.39
Auto Diesel	212.04	2,120.16
Fuel Oil	158.90	362.07
Kerosene	24.15	259.16
Jet A-1	42.88	630.43
Total	489.34	4,709.21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CEYPETCO

HOW WE CREATE VALUE

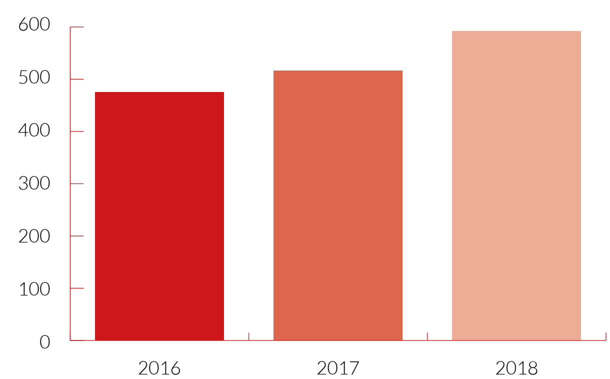
HOW WE CREATE VALUE

FINANCIAL CAPITAL

REVENUE

Revenue is derived by mainly selling petroleum products locally. In the year under review, domestic sales remained the dominant income source. It is worthwhile noting that a cost reflective pricing mechanism was introduced by the government in May 2018 and Petrol and Diesel prices have been revised monthly as per the stipulated regulatory requirements. Accordingly, petrol and diesel prices changed during the year under review in parallel with the price volatilities in the global market. The pricing mechanism contributed positively to the Corporation, helping curtail losses due to the volatilities in the international fuel market.

SALES (RS. BN.)



RS. 592 BN

REVENUE

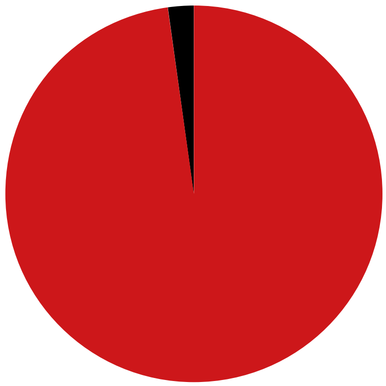
RS. 13.7 BN

FINANCE AND OTHER INCOME

RS. 329 BN

TOTAL ASSETS

REVENUE COMPOSITION



Auto diesel continued to earn the highest income in the year 2018 while petrol 92 was the second highest income generator. Demand for the Petrol 92 increased by 10% compared to the year 2017. Increase in demand for Petrol 95 and Super Diesel indicates the consumer's preference for more efficient and environmental friendly fuel. Increase in demand for Kerosene reflects the adulteration of Kerosene due to the high subsidized price by the heavy transporters such as busses and heavy lorries. However, various controlling mechanisms have been implemented to minimize this practice. CPC has also increased its environmental friendly operations by introducing sulphur free environmental friendly Euro 4 products to the market.

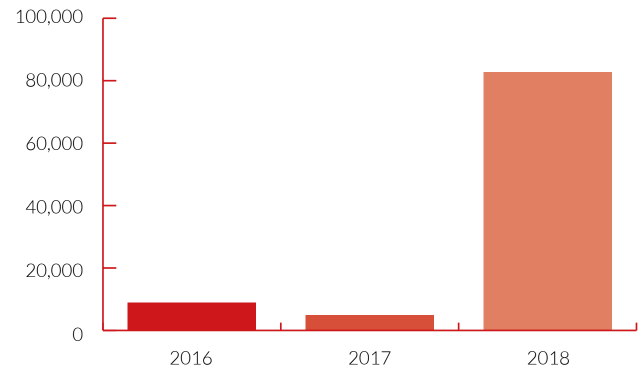
OTHER INCOME

During the year CPC earned a dividend income of Rs. 434 Mn which was received mainly from its subsidiary CPSTL. Staff interest income of Rs. 215 Mn has been recorded under other income. All investment property income, rental income and the sales of the filling station equipment are recognised in this column.

EXCHANGE RATE VARIATION

During the year the impact of negative exchange rate variation on CPC was Rs. 82,717 Mn and this is an increase of Rs. 77,795 Mn., against the year 2017. Deep depreciation of the Sri Lankan Rupee against foreign currency caused the massive loss since CPC imports petroleum products. In 2018 the Sri Lankan Rupee depreciated approximately by 16.4 % against the US Dollar (2017: 2.50%). CPC settles all foreign currency loans by taking US Dollars from two state banks. However, non- availability of US Dollars in the market to settle the foreign currency loans caused aggravated the exchange rate impact.

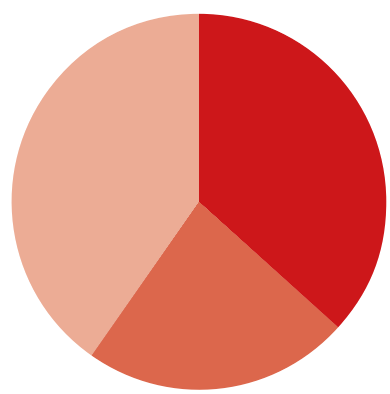
EXCHANGE LOSS (RS. MN.)



FINANCE INCOME

Daily excess cash was invested in interest yielding sources while ensuring that CPC will not go for a bank overdraft. As a result finance income from investments increased by Rs. 258 Mn. and no bank overdraft interest was incurred. Total finance income has improved by 16% compared to the year 2017. Interest charges on delayed customer settlements have increased by 1.5 Bn. as most of the invoices of CEB, IPPs and Sri Lankan Airlines remained outstanding during the year. Further, investment income from Treasury Bonds, Fixed Deposits and Call Deposits accumulated to this improvement with the build-up of investments in those instruments.

FINANCE INCOME



FINANCE EXPENSE

During the year CPC incurred a finance expense of Rs. 12.06 Bn., a 14.5% increase over the previous year. CPC is striving hard to reduce this cost and it is commendable that CPC manages its funds effectively without incurring any overdraft interest this year also. Non-availability of US Dollars in the market led to an increase in the loan outstanding balance resulting in an increase in finance expenses.

INCOME TAX EXPENSE

As per the new Inland Revenue Act No. 24 of 2017, the corporation is entitled to claim the taxable business loss from the taxable income. Accordingly no material tax liability has arisen during the year.

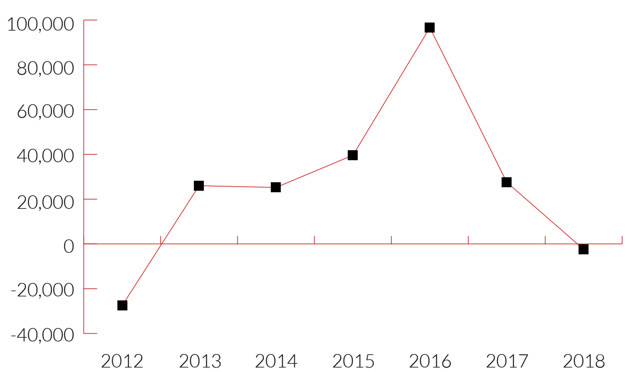
PROFITABILITY

High volatility in the international fuel market, selling Kerosene at a highly subsidized price and deep depreciation of Sri Lanka Rupee against US Dollars resulted in a drastic drop in overall profitability. The ratios are noted below.

	2017	2018
Gross profit margin	6.05%	-0.58%
Operating profit margin	1.61%	-4.44%
Net profit margin	0.24%	-20.16%

CPC has incurred a gross loss in the year 2018. Though international oil prices increased continuously, selling prices in the domestic market remained without change until May 2018. The government introduced the pricing formula for diesel and petrol from May 2018 onward and it contributed to curtail losses. Further, deep depreciation of the Sri Lankan Rupee against US Dollar impacted negatively on the profitability of the corporation.

GROSS PROFIT/LOSS (RS. MN.)



Total Comprehensive Income ended at a loss of Rs. 104.77 Bn in 2018 which is a significant variation against the profit earned in the previous year. The Corporation had to incur a loss mainly due to following reasons:

- Non-existence of a cost reflective pricing mechanism up to May 2018 in line with the international oil price movements and due to sale of Petroleum products at highly subsidized rates as retail price is determined by the government. Domestic retail prices of petroleum products remained fixed from January 2015 even though the international crude oil prices increased.

- CPC had to incur an exchange variation loss of Rs. 82.72 Bn since the Sri Lankan Rupee depreciated by 16.4% against the US dollar.

- Interest expense for foreign currency loans obtained amounted to Rs. 12.60 Bn and the lack of a workable mechanism to settle US Dollar loans through the subsidy elements receivable from the Government is one of the biggest constraint faced by CPC. Moreover CPC was allowed to purchase US Dollars only from two state owned commercial banks and was restricted in purchasing US Dollars at competitive rates from other licensed commercial banks.

- CPC had to export excess furnace oil and naphtha at a loss, since the local demand for those bottom products was down during this year with the shift to hydro power generation in line with the rainfall. As CPC does not have enough storage facilities to hold these products, it was compelled to sell at at low prices.

Despite the various challenges faced, the Corporation strived to reduce its loss through a number of strategies:

- Continuous negotiations conducted with the Bank of Ceylon and Peoples' Bank to minimize letter of credit charges and acceptance commission to decrease the finance cost.

- Treasury function was managed effectively and efficiently without keeping cash idling. Daily excess cash was invested in interest yielding sources while making sure that the CPC would not go into a bank overdraft. CPC earned Rs. 4.7 Bn from fixed deposits, treasury bills and call deposits during the year and no bank overdraft interest was incurred.

- The import procurement process became more transparent and many suppliers got the opportunity to submit bids. This positively contributed to competitiveness in the import of petroleum products with quality resulting in an overall reduction of import prices.

- A pricing formula for petrol and diesel has been implemented by the government with effect from May 2018 and this helped curtail losses.

- A cost reflective pricing mechanism has been continued in the aviation sector and this helped achieve a profit of Rs. 3.8 Bn from this sector.

- Cleared cargo using shipping guarantee / bank indemnity in the absence of original shipping documents.

- Much procedural development was carried out, which however needs further improvement, where many shortcomings in fuel handling and delivery work were detected and corrected.

- Tax payable and customs duty were set-off against the trade receivables from the three forces, police and the Department of Railways.

Property, Plant & Equipment

Rs. 595Mn. worth of property, plant and equipment have added to the CPC's assets base. CPC revalued the selected plot of lands by engaging the Valuation Department to revalue the lands. CPC disposes assets value amounting to Rs. 24 Mn. during the year. The depreciation charge for the year is Rs. 957 mn.

Inventories

During the year value of the inventories has increased by 28.95% against year 2017. Increase of the refined products caused to increase the value of the finished products.

Trade Receivables

Trade receivable balance has increased by 12.5% compared to the year 2017 due to non-settlements of the dues by state owned enterprises. During the year CPC was able to set off its Rs. 11.94 Bn worth trade receivables from the three forces, police and the Department of Railways against taxes and customs duties. Outstanding balances as at the 31st of December 2018 from Sri Lankan Air Lines Ltd, CEB, IPPs and armed forces amounted to Rs. 25.6 Bn., and 47.6 Bn., Rs. 6.7 Bn. and 0.82 Bn. respectively.

Sort-Term Investments

CPC made investments in non-equity short term investments through improved debt collection and the funds available with CPC due to non-availability of US Dollars in the market to settle the foreign currency loans. Accordingly short term investment has increased by 829%

Loans and Borrowings

During the year loans and borrowings have increased by Rs. 116 Bn. as a result of non-settlement of the loans due largely to non-availability of sufficient Dollars in the market and thus non-settlement resulted in a large exchange variation. This is one major loss-making factor. Further, a loan of USD 7.725 Mn. from the Peoples' Bank was obtained during the year to finance the airport expansion project.

Retained Earnings

Negative retained earnings increased further to Rs. 325.57 Bn with the losses incurred since 2008. Profits were made only in 2014, 2016 and 2017. Lack of a cost reflective pricing structure was the main reason for these losses and they have been financed through interest bearing bank loans, which worsens the financial performance of CPC.

VALUE ADDITION TO ECONOMY

Value Added	2018 Rs. Mn	2017 Rs. Mn
Rupees Million		
Sales Revenue	520,967	445,950
Other Income	13,702	11,738
Bought in materials & services	(495,874)	(293,965)
Depreciation	(957)	(923)
Value Added	37,838	162,800
Applied the following way		
To employees		
Wages & fringe benefits	6,019	5,236
To pay providers of capital		
Interest on loans	12,065	10,531
To the Corporation		
Retained Profit	(105,051)	1,056
To the Government		
Taxes and duties	124,805	145,978
Value Added	37,838	162,800

During the financial year 2018 the economic contribution by CPC was redistributed among lenders, the government, employees and service providers as shown in the above table.

MANUFACTURED CAPITAL

With the CPC's plan to provide an improved service to the nation, investments in the capital projects are crucial. CPC added Rs. 595 Mn. worth of additions to the existing assets bin in order to provide the improved products & services to the customers. Many of the important projects were carried out satisfactory during the year. At the same time CPC managed to complete the minor and capital purchases as well.

Major projects completed during the year are listed below.

- Stream boiler for refinery was successfully installed
- Jet A-1 distribution facility was added to the Sapugaskanda distribution terminal.
- Automation of the Sapugaskanda distribution terminal.
- Installations of oil filter vessels at Kolonnawa oil installation to meet with the international standards for Jet A-1 products.
- Completed solar power installation system at China bay circuit bungalow.
- Refurbishment of the Crude oil SPM
- Maintenance of Dolphin Tanker Berth at Colombo Port

STATUS OF ON-GOING MAJOR PROJECTS

1. Waste Water Treatment Plant for the Refinery - Approval has been obtained to recall a new tender after making necessary amendments to the bidding document.

2. Replacement of Crude Distillation Column, Gas Oil Hydrotreater Unit Reactor &Platformer Unit - Invitations were called for Expression of Interest (EOI) to select competent parties to carry out Front End Engineering Design (FEED) and a bidder was selected.

3. Development & upgrading of aviation refueling terminal & the existing fuel hydrant system and installation of a fuel hydrant system at new apron – E in par with phase II stage 2 development project of Bandaranaike international airport, Katunayake was started in January 2018 and works are in progress.

4. The feasibility study for the construction of Jet A-1 Transfer Pipeline from Muthurajawela to Bandaranaike International Airport (BIA) along the Colombo Katunayake Expressway (CKE) has been almost completed and the procurement process to be started.

Renovated Filling Station

RS. 34,034 MN

TOTAL FIXED ASSETS

1,278

TOTAL FILLING STATIONS

RS. 595 MN

INVESTMENTS ON FIXED ASSETS

5. Tender document was prepared to replace water line from refinery to water intake and to repair the river bank by installing a gabion wall.

NO. OF FILLING STATIONS AS AT 31 DECEMBER 2018

Corporation owned dealer operated	248
Dealer owned dealer operated	1030
Total	1,278
New filling stations opened in 2018	24

As a policy, CPC continued the renovation of the corporation owned filling stations. Accordingly, annually ten filling stations are renovated in order to provide the better services to the customers.

District-wice number of filling stations are given below.

	Lanka Service Stations	Lanka Filling Stations	Depots
Colombo	17	100	8
Gampaha	2	114	18
Kalutara	1	37	10
Kandy	2	51	10
Matale	1	17	6
Nuwaraeliya	2	13	3
Galle	1	49	17
Matara	1	30	10
Hambantota	2	24	8
Jaffna	2	44	39
Mannar	0	10	24
Mulativu	0	9	14
Vavuniya	0	12	11
Batticoloa	1	31	16
Ampara	3	43	14
Trincomalee	1	14	23
Kurunegala	4	84	11
Puttalam	1	59	22
Anuradhapura	3	40	13
Polonnaruwa	2	21	5
Badulla	2	23	1
Monaragala	3	19	3
Ratnapura	2	33	12
Kegalle	1	26	4
Killinochchi	0	9	10
	54	912	312

Future projects

CPC management has identified some major projects to be implemented in short term and long term basis in the near future to make the petroleum industry in Sri Lanka a sustainable industry.

1. Modify the Pipeline / valve at Kollonnawa to operate the fuel receiving from refinery and harbor simultaneously.

2. Linking refinery and BIA and Refinery and Muthurajawela through a pipeline to transfer Jet A1

3. Rehabilitate railway track to plant at Sapugaskanda and introduce Railway Tank Wagons loading at Sapugaskanda

4. Connect Muthurajawela terminal and Kollonnawa terminal

5. Automate with self-serving pumps and link Lanka filling stations

It is expected to use internally generated funds for short term projects and to obtain external funds for long term projects.

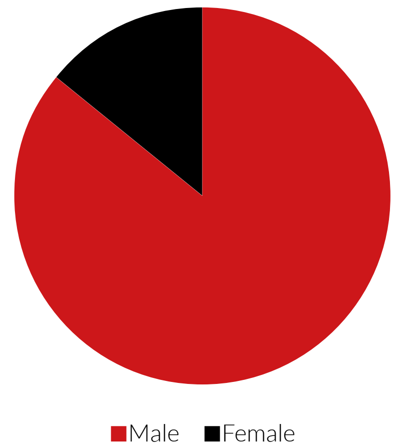
HUMAN CAPITAL

Loyal and committed employees are crucial factors for the success of the organization. As the market leader in petroleum business having and average market share of 85% employee engagement plays vital role. Employees of CPC give their maximum contribution to the success and CPC in return treat them very well.

STAFF STRENGTH

Permanent staff	2455
Contract	2
Trainee technicians	92
Trainees (From external academic institutions)	221
Total	2770

EMPLOYEES BY GENDER

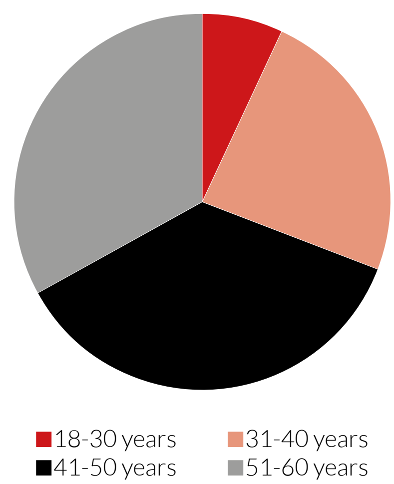


PERMANENT STAFF BY PROVINCE

	Male	Female
Western	1803	286
Eastern	24	1
North	19	4
Uva	15	3
North Western	36	13
Central	60	19
Sabaragamuwa	25	11
South	90	11
North Central	30	5
Total	2102	353

(Note- permanent staff as per the retirement benefit liability calculation in FS is 2461 due to the re-instatement balance no. of staff in January 2019)

EMPLOYEES BY AGE

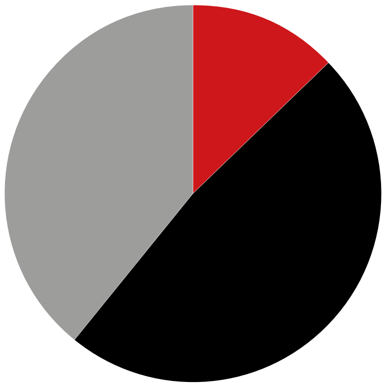


2,770
TOTAL NUMBER OF EMPLOYEES

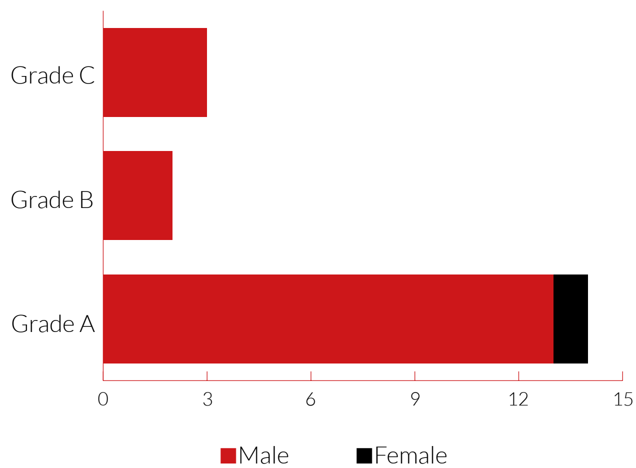
19
NEW RECRUITMENTS

RS. 6,019 MN
STAFF COST

EMPLOYEES AS PER GRADE



NEW RECRUITMENTS



Rewards and Recognition

An attractive remuneration package with both financial and non-financial incentives in line with the market rate has been offered to employees. It has a formal salary structure and does not discriminate alone lines of gender, age or ethnicity. The rewards system is linked to attendance and performance and employees were duly paid several incentives.

Salary increments and some other conditions are managed in line with the collective agreements signed with employees (unions).

CPC always values loyal employees and their contribution to the Corporation. Employees were rewarded in line with their longevity and contribution, details of which are given below.

Service awards 2018

20 years of service	37
25 years of service	40
30 years of service	30
35 years of service	16
Total	123

CPC employees are eligible to Employees' Provident Fund (EPF) and Employees' Trust Fund (ETF) benefits. CPC contributes 15% and 3% to EPF and ETF respectively in order to secure their future after the retirement. In addition, the Corporation provides gratuity at retirement according to the Gratuity Act and additional retirement benefits through the thrift society.

Service Awards Ceremony at BMICH

Diversity and equal opportunity

CPC is a nondiscriminatory employer and employee carder comprises a healthy mix of age, gender, religion and ethnicity. Employees are recruited on the basis of competence and suitability for the assigned job. Furthermore, it has an equal remuneration policy regardless of gender. Both women and men, in the same employment category receive the same remuneration package and the ratio of the basic salary and remuneration of women to men for all employee categories are 1:1.

Training

The CPC culture always promotes the development of its employees by providing opportunities for the acquisition of knowledge and experience. CPC provides in-house as well as external training to its employees and provide financial assistance to make use higher education opportunities, including training in overseas universities and institutions. CPC has spent Rs. 1.74 Mn. exclusively for financial assistance for postgraduate degree and postgraduate diplomas during the year 2018.

Staff Training at Aviation Katunayake

CPC culture extends to providing scholarships to the children of CPC employees and during the year 25 scholarships were given to such children.

In order to provide a productive and quality service, CPC conducts several training programs on productivity and quality improvement.

Health & Safety

CPC operations have high health and safety impacts due to the inherent inflammable nature of the products. Further, proper health and safety measures in CPC safeguard the smooth functioning of operations while protecting society as a whole. Therefore, all safety precautions are in place and observed at all times. Safety devices are checked during start-ups while routine and monthly checks and audits are carried out as per check lists to make sure that the equipment is in good working order. Good housekeeping surveys were carried out regularly and operations, engineering and management safety meetings were conducted every quarter. The 'Safety, Health and Environment Week' was held from 12 to 19 November 2018.

Fire Training at Head Office

Fire training classes were conducted to employees regularly and monthly fire drills were organized to ensure correct handling, transportation and storage of products and to avoid any health hazards to the society. With a view to enhance the awareness of employees to safety measures, CPC continued with the target based safety award scheme with cash awards including the "Man of the Month" award.

Health & Safety at Refinery

	2018	2017
Lost time accidents	1	2
First aid accidents	5	3
Minor fires reported	-	1

Blood donation campaign at Head Office

Staff Welfare

Staff welfare is considered essential in order to maintain a committed and engaged staff. Various welfare activities were organized during the year including loan schemes at concessionary interest rates. CPC has granted 53 housing loans, 437 home improvement loans, 10 and 30 car loans and 95 bicycle/three-wheeler loans during the year in order to help improve the living standards of employees.

Pirith Chanting at Refinery

Industrial relations

Uninterrupted supply of petroleum products is indispensable for daily operations of the entire country. Therefore, with the objective of guaranteeing the energy security of the country, management of industrial relations is critical for the corporation as well as for the entire economy. Maintaining harmonious industrial relations with employees and unions is essential for uninterrupted operations, productivity, business continuity and for profit growth. Employees of CPC have unionized with nine unions. Industrial relations also extend to external stakeholders such as customers, government, distributors, through quality and on time service delivery. As such CPC gives a high priority to the management of labor relations.

Child labor, forced labor or compulsory labor

All CPC employees are above the age of 18 years and unions in CPC act as a deterrent to any violation of labor rights. CPC does not promote child labor, forced labor or compulsory labor.

SOCIAL & RELATIONSHIP CAPITAL

CPC believes that reputational integrity & regulatory compliance is a primary attribute to build confidence among the community. CPC spent Rs. 5 Mn directly on Community Related CSR activities. CPC provides services that facilitates to the economic development, exhibits good governance and safeguard long term sustainability. Our services cover all over the country by providing best product and better quality at all the time.

Value Addition to Our Business Partners

Corporation continued to maintain and enhance its links with the strategic partners, particularly with the Government Treasury, CBSL, Bankers, Crude oil suppliers, shipping lines, local suppliers, dealers, so on.

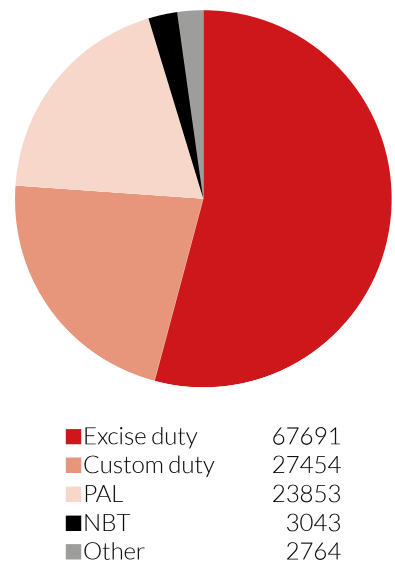
Since Sri Lanka does not have petroleum resources they need to be procured from external sources. Well defined procurement practices are in place, with the active involvement of the stock review committee, in order to supply quality, reliable and affordable products to the domestic market without any interruptions. After the Iranian sanctions CPC was turned to use Murban oil into its crude blend since Murban oil provides high yields of middle and light distiller than the bottom products. Still the bottom products output is unavoidable.

Procurement category	No. of Procurement completed	Amount (Rs. Mn.)
Down delegated procurements	747	36.4
Departmental procurement committee	166	475.2
Ministry procurement committees	2	264.8
Cabinet appointed procurement committees	2	8,471.9
Total	917	9,248.3

Payments to government

CPC is one of largest tax payers to the government and during the year CPC contributed Rs. 124,805 Mn (2017 – Rs. 145,978Mn)., which is 23.93% of the CPC net revenue.

GOVERNMENT CONTRIBUTION (RS. MN.)



During the year CPC paid Rs. 27.4 Bn as customs duty, which is 47.5% less than the previous year. The government revises the custom duties time to time in order to maintain the petroleum price levels in the country with a view to easing the cost of living burden of the general public. Furthermore, Excise Duty decreased by 1% to Rs. 67.69 Bn due to the reduction of custom duties of Auto Diesel in the month of November.

RS. 125 BN

CONTRIBUTION TO THE GOVERNMENT

917

NO. OF PROCUREMENT COMPLETED

RS. 9,248 MN

VALUE OF PROCUREMENT COMPLETED

Product responsibility

A systematic program was initiated to visit randomly selected filling stations in different areas, island wide and safety inspections and audits carried out to find out any hazards or shortcomings. Its main objective was to obtain feedback on the adherence to procedures, unsafe practices, housekeeping hazard detection and so on. Educating regional managers, area managers and other staff was also another objective. This program was a success and many problems were detected through this system and corrective action implemented. Further, this generated healthy enthusiasm among the CPC regional officers as well as filling station owners and their employees.

CPC does not sell any products that are banned in Sri Lanka. During the year, as sole and authorized entity to import Glyphosate to the country in the year 2018, CPC imported and sold Glyphosate only to the customers approved by the regulators.

Product and service labeling

Correct product and service labeling is crucial for petroleum products to safeguard health and safety. Therefore, labeling can be considered a social responsibility while ensuring that the correct product is used for the relevant purpose. Furthermore, labeling portraits the CPC's brand image and acts as a marketing tool to compete.

Supporting education

As a responsible corporate citizen CPC continued to support the living standards of the communities it deals with. As the only crude oil refining plant in the Country many students seek training from CPC and our officers spend their valuable time to conduct training in view of the future development of the country.

TRAININGS PROVIDED TO STUDENTS

IN-PLANT TRAINING WAS CONDUCTED TO UNIVERSITY STUDENTS

MONTHLY AND ANNUAL ASSESSMENTS ARE CONDUCTED FOR NAITA APPRENTICES

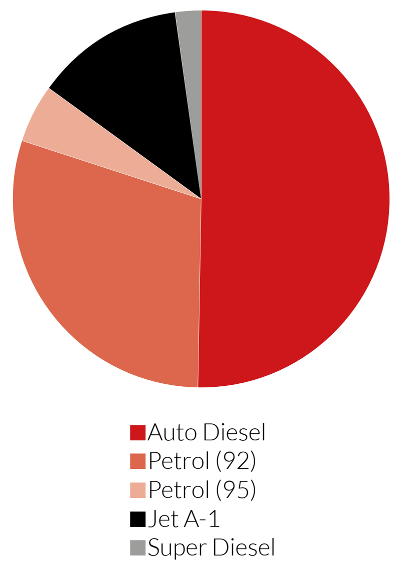
THIRTEEN INDUSTRIAL VISITS WERE CONDUCTED FOR SRI LANKA FORCES, UNIVERSITIES AND TECHNICAL COLLEGES

CPC's operations vastly impact the economy of Sri Lanka directly as well as indirectly. Indirect economic impacts accumulate through the process of encouraging economic activities of other industries that impact the overall national economic growth and quality of life of the people. CPC's policy is to enhance positive economic impacts by:

- Providing fuel to general public at subsidized prices
- Providing quality petroleum products that are more efficient and environmental friendly
- Enhance the accessibility to petroleum products
- Generating indirect employment
- Agro chemicals were provided at low prices with a view to safeguard poor farmers against exploitation.

REFINED PRODUCTS IMPORT MIX

CPC imported USD 1955 MN (DAP basis) worth of refined products to country through suppliers and import details are as follows:



Additionally, CPC imported USD 1,024 MN (DAP basis) worth of crude during the year.

Business partnering

CPC operates 1278 dealer network over all the provinces ensuring product availability to the customers. As the market leader, extensive coverage of the fuel distribution network is a primary concern of CPC to maintain accessibility to the products regardless of the area.

PROVINCIAL FILLING STATIONS

Western	307
North	184
North western	181
East	146
South	142
Central	105
North central	84
Sabaragamuwa	78
Uva	51
Total	1278

INTELLECTUAL CAPITAL

Intellectual capital consists of intangibles associated with the culture, ethics, values, organizational knowledge, systems, processes & procedures, learning and brand value.

Our Brand

As a government enterprise our brand with "Energizing the Future" having more than 58 years of history, it is very close to the people of the country as petroleum products takes key part of the cost of living of the people and the fair trading under our brand lead to improve the quality of the lives of Sri Lankans.

Our Values

CPC has its owned ethical standards and values that are built into the culture of the Corporation. As our product impacts to the cost of living and living standards of the every person in all over the country, we maintain the fully standardized product to commit that the people are getting the right product and accessibility to the product. CPC always follow with the international standards for the petroleum product. CPC provides a diverse range of technical, operational and customer handling training to create dedicated expertise to deliver its value. Our stock control & Research Division actively contribute for products and service development without impact to the nature.

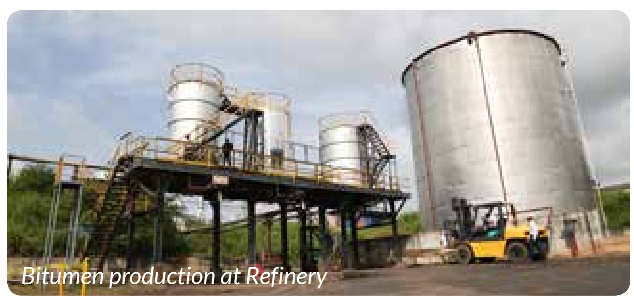
Process enhancements

CPC recommenced the production of bulk bitumen with the view of supplying quality bulk bitumen and recapturing the bitumen market. CPC started to blow the bulk bitumen through the Refinery using the furnace oil and the process helps to supply high quality bulk bitumen product at a lower cost for the infrastructure development projects in Sri Lanka. The production of the bulk bitumen lead to bring back the lost market share into a extent proving that the bitumen sales converted its loss position in 2017 into a profit of Rs. 110 Mn.

Developed an application to facilitate the Credit Coupon Delivery (CCD) to minimize the manual process of the coupon issuance and the reimburse process to supply effective services to the various government and private customers to regularize their fuel purchases. The new system will enhance the security position of the coupon while it helps to the dealers to ensure the accuracy and issue fuels. The system expedites the reimbursement process to release the funds to the dealers within very shorter period.

Continuous Learning & Development

A knowledge base forms an important intangible asset of any organization in the current business environment. Since the creating the knowledge base organization is a key strategy, CPC builds the knowledge base by providing various training opportunities to strengthen their competencies to fulfill their duties and responsibilities. There are 874 employees working with CPC having the service period over 20 years. Further, cumulative service experience of the currently available workforce surpassing the 39,200 years of service. This shows the building of the knowledge base in the corporation. The learning and supportive culture of the corporation makes sure to maintain and tacit knowledge of the employees.



Bitumen production at Refinery

874

NO. OF EMPLOYEES OVER 20YRS OF EXPERIENCE

39,200 YRS

CUMULATIVE SERVICE EXPERIENCE

RS 9.9 MN

LOCAL TRAINING COST

NATURAL CAPITAL

We nurture and live with the environment and we are obliged to protect it. CPC maintained its responsibility towards the environment by adopting sound practices. CPC is committed to train its employees on environment preservation while making sustainable use of limited resources since the activities of CPC affect a large number of people in society.

Waste Management

CPC is very much concerned about waste management and air emission. During 2018 construction of a waste water treatment plant was initiated. Under the ISO implementation program the Corporation improved its waste water management system by segregating contaminated and non-contaminated waste.

Water

A significant amount of water was taken from the Water Intake during the year while the balance amount of water was obtained from the Water Board. Water consumption by the Refinery for the year is given below.

	2018	2017
Treated water	767,540 MT	558,564 MT
Water board	164,718 MT	179,728 MT
Total	932,258 MT	738,292 MT

Energy consumption of refinery operations

	2018	2017
Fuel gas consumption	43,117 MT	37,616 MT
Fuel oil consumption	48,886 MT	51,989 MT
Specific energy consumption (MMK Cal/MT of Crude)	0.5510	

Introduction of Euro 04 to the market

932,258 MT

WATER CONSUMPTION

52.5 %

REDUCTION OF NORMAL LOSS

0.55 MMK CAL/MT OF CRUDE

SPECIFIC ENERGY CONSUMPTION

Energy consumption has an impact on the CPC's cost structure as well as impacting the environment through emission of gas. The expected normal loss has decreased by 52.5% (from 11,847 MT to 5,627 MT) in the year 2018.

Energy consumption for the Refinery (CEB supply) per month during normal hours varied between 197.0 MWh and 274.3 MWh. Energy consumption per month during peak hours varied between 54.9 MWh and 81.0 MWh. The maximum demand to the CEB supply varied from 1216 KVA to 1421KVA.

Environment friendly activities performed

CPC always attempt to supply environmental friendly petroleum products to the market. CPC introduced Euro 4 auto fuels to the market to ensure a more efficient and environmental friendly product.

Biodiversity

The Corporation's operations can have negative impacts on the biodiversity through oil spills, emission of fuel etc. Stringent operational procedures are in place and CPC takes all precautions and safety measures to mitigate the negative impacts to the biodiversity.

Description	Impact to biodiversity
Habitat conversion	No such data recorded
Changes in ecological processes outside the natural range of variation	No such data recorded
Species affected	No recorded impacts
Extent of areas impacted	No recorded impacts
Duration of impacts	No recorded impacts
Reversibility or irreversibility of the impacts	No recorded impacts

Compliance

During the year 2018 CPC has not paid any significant fines or non-monetary sanctions, for non-compliance with environmental laws and regulations.

STAKEHOLDER ENGAGEMENTS & FUTURE OUTLOOK

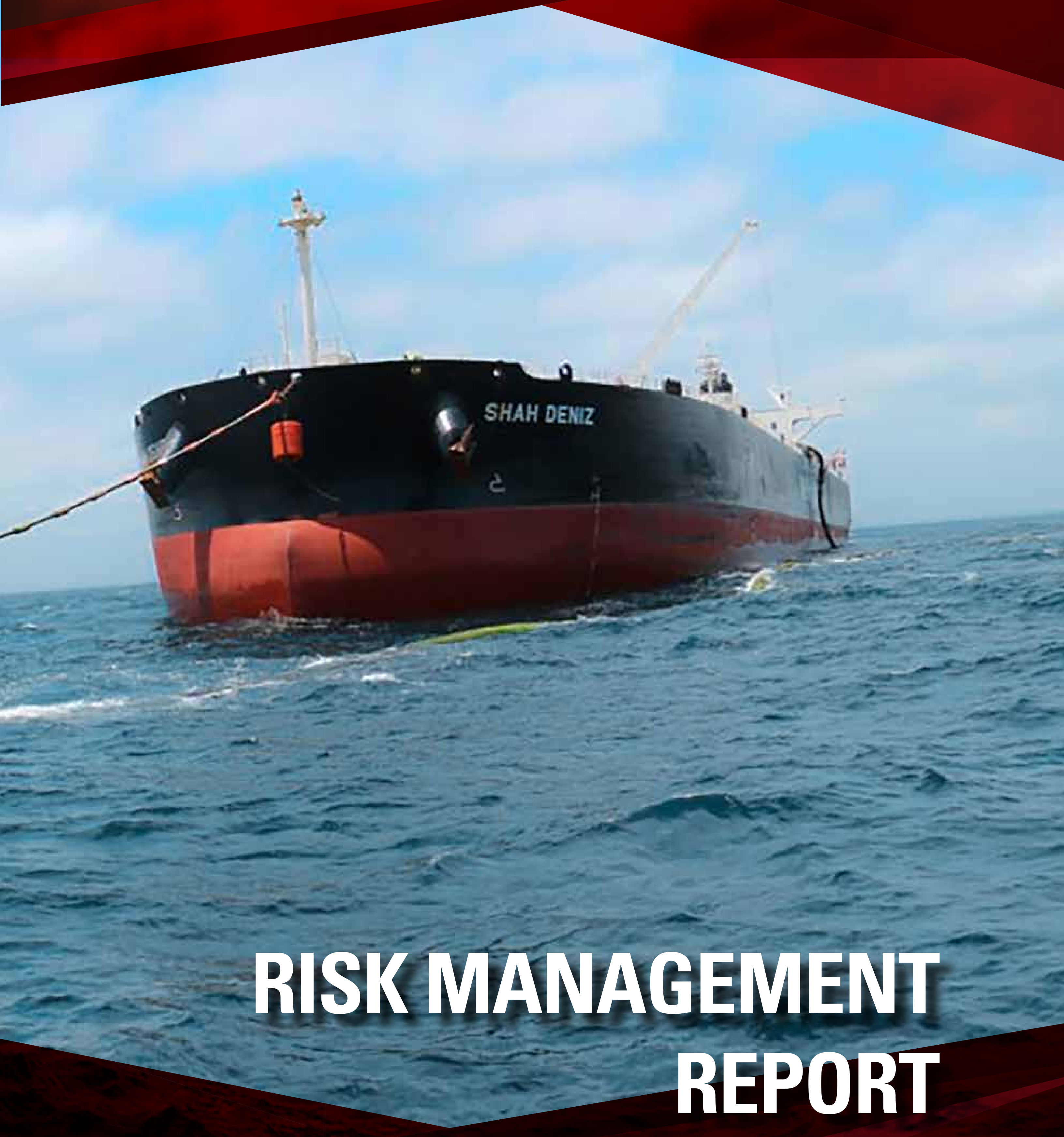
STAKEHOLDER ENGAGEMENTS

Stakeholder Category	Engagement Mechanism	Stakeholder power & Interest
Government and Regulators	• Periodic discussions and reporting to the government & regulators. • Periodic reporting system on the performance and compliances of CPC. • Submission of timely information to the government for the fiscal/macroeconomic decision making processes	High
Customers	• Production, promotion campaigns • Engagement through filling stations • Customer satisfaction surveys • Communications through marketing channels • Online and local engagement by the regional offices	Moderate
Employees	• Performance appraisals • Employee engagement activities • Meetings with the trade unions • Sport & other events • Welfare facilities to the staff	High
Community	• Regional office engagements • CSR activities and sponsorships • Media and other social events	Low
Suppliers and service providers	• Transparent bidding process • Supplier registration process • Regular meetings, written communication & relationship management	Moderate

FUTURE OUTLOOK

Cost reflective, transparent fuel pricing mechanism for domestic petroleum products is helping curtail the losses incurred by CPC. However, the existing formula does not cover the full costs incurred by CPC. Further, we look forward to the government settling the subsidy element without delay and hope the Government will embark on a certain amount of bank borrowings to this end. If the CPC is given the freedom to purchase US Dollars at competitive rates, it can increase its profitability. Once the Government succeeds in exploring petroleum efforts and the gas commercialisation process becomes productive, it is expected that the use of domestic gas would be possible and import of distillate importation limited.

If refinery modification is implemented, CPC has the ability to avoid the loss from the sale of furnace oil and Naphtha due to lack of storage capacity. For that a policy decision need to be taken for external funding with a Government guarantee. CPC will continue to focus on driving growth and efficiencies to address the increasing demand for petroleum products uninterruptedly while minimizing cost. Strategic priorities are in place to maintain the market leader status and CPC hopes to capitalize on the government backup as a public enterprise. The Agro Sector plans to expand its operations by introducing new pesticides which are environmental friendly. The loss making situation could be avoided once the current oil refining process is technically modified enabling it to convert the bottom products such as furnace oil into upgraded high yielding products. On the other hand, storage capacity needs to be enhanced to accommodate excess production during low demand seasons and to store crude oil when the oil prices are down in the international market.



RISK MANAGEMENT REPORT

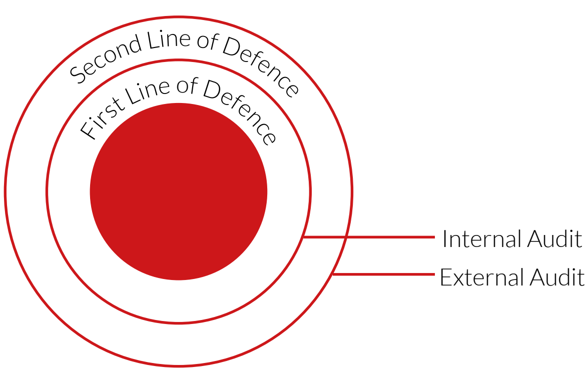
RISK MANAGEMENT REPORT

Risk management has become an integral component of CPC's operations as the country's largest petroleum products provider within a volatile social, political and economic environment.

The purpose of risk management is to

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

CPC's risk management framework



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

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

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

INTERNAL CONTROL SYSTEM AND INTERNAL AND EXTERNAL AUDITS

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

1. INTERNAL CONTROL SYSTEM

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

2. INTERNAL AND EXTERNAL AUDIT

Internal and external audit play a vital role in the risk management process. Internal and external auditors examine the design and effectiveness of the financial and other operational systems in order to recommend remedial actions and improvements to manage the risks they identify. Audit Committee established by the Board of Directors reviews the significant audit findings and the management responses.

STRATEGIES TO MANAGE RISK

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

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

GOVERNANCE STRUCTURE OF CPC

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

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

The governance structure is further elaborated under the Governance section of this report.

RISKS EXPOSURE TO CPC

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

RISK	IMPACT	RESPONSE	STRATEGIES
ECONOMIC RISK			
Country's inflation rate exerts pressure to the Corporation. As the market leader in providing petroleum products as well as a government owned institute, some of petroleum products are supplied with highly subsidized rates in order to meet social and economic circumstances rather than to earn profits. Slight changes in the petroleum prices impact the entire economy drastically.	Negative economic factors such as inflation rate increases the cost while reducing the revenue crashing the profits.	Frequently deploys aggressive cost management initiatives enabling CPC to sell petroleum products at competitive prices aiming to balance both the profitability of the Corporation and socio economic conditions in the Country.	Introduce a full cost reflective pricing mechanism specially for Kerosene.
COMMODITY PRICE RISK			
Sri Lanka does not have petroleum reserves and a substantial part of the energy sector is fed through petroleum imports. Therefore, prices are beyond the control of the CPC and completely in the hands of suppliers.	Increase in global oil prices negatively impacts cost of sales, margins and cash position.	The stock review committee constantly monitors the country's stock situation and optimizes purchases subsequent to analysis of global price fluctuations, trends and price related opportunities.	• Introduce a total cost reflective pricing mechanism • Increase the storage capacity to store stocks when prices are down in the global market.
PRODUCTION RISK			
Crude oil is processed locally to obtain refined products.	Quality of the output and wastage impacts profitability.	Optimize capacity and refining technology to increase the output and efficiency of the refinery.	• Upgrade refinery operations • Increase storage capacity to store refined output

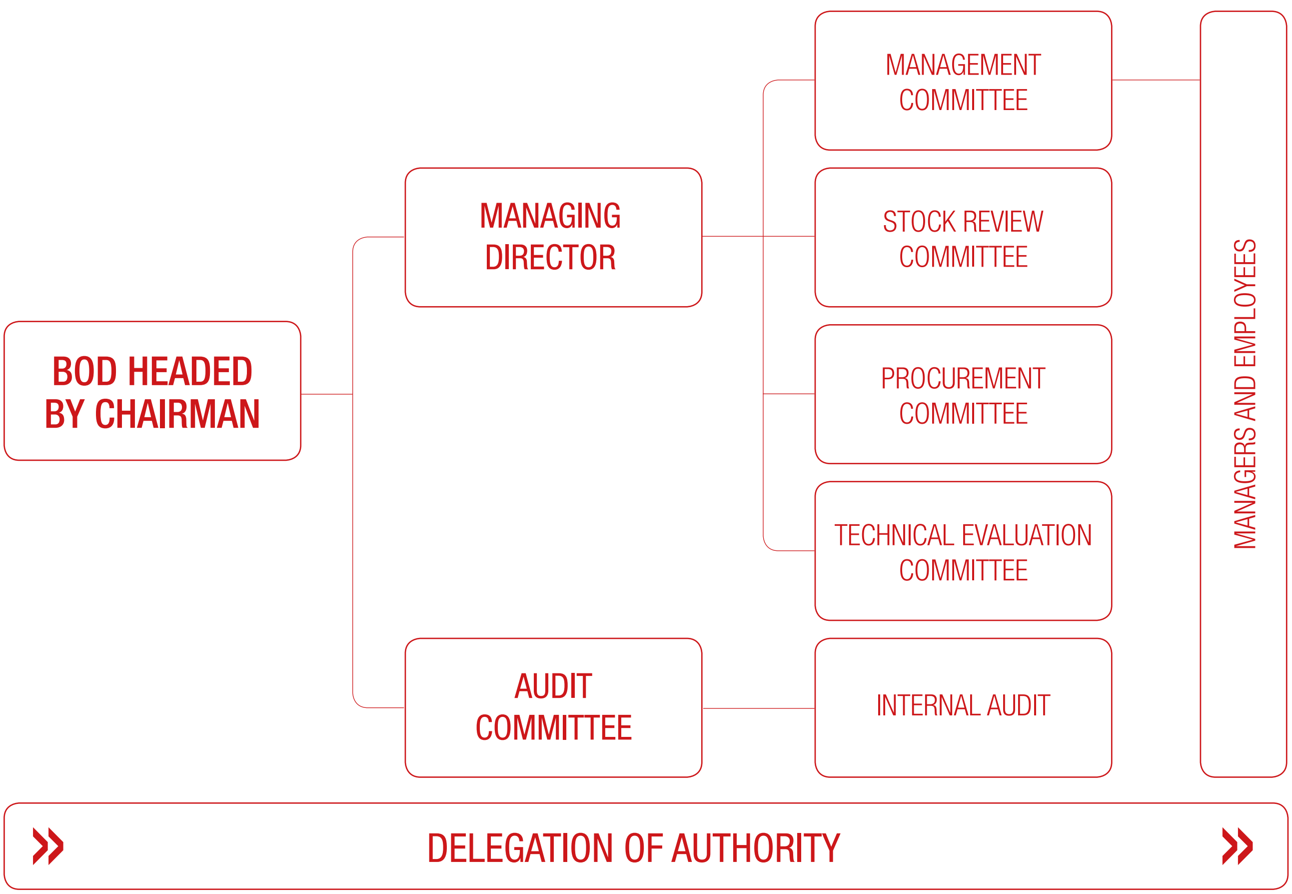
RISK	IMPACT	RESPONSE	STRATEGIES
OPERATIONAL RISK			
Efficiency of processes and systems affect the productivity of CPC's operations.	Either the lack of controls or ineffective controls and systems failures result in excessive wastage of both resources and time, ultimately affecting smoothness, continuity and quality of supply as well as overall profitability	• Establish and implement a clearly defined operational risk management policy. • Continue utilizing existing audit processes to flag up operational issues quickly. • Continue with norms and practices of procurement established by the state for strategic enterprises.	Update process control systems to leverage the latest available technology as well as auditing instruments and thereby enable the Corporation to compete with the private sector on an equal footing.
SAFETY RISK			
Strict safety standards required for the highly volatile products handled by the Corporation.	Lack of attention to safety standards impact business operations and endanger human lives and physical assets of the Corporation.	• Policies and procedures on organizational health and safety are in place • Regular training provided to employees on minimizing or eradication risks	A regime of continuous training established for all employees.
MARKET RISK			
The CPC is a competitive oligopoly with just one private sector player competing.	Changing attitudes among customers with respect to the competition as well as macroeconomic conditions affects the revenue margins and cash position of CPC	• Diversify the product portfolio • Enter into sustainable agreements with the customers. • Increased collection from debtors	Improve credit control including controlling the receivables from government institutions.
HUMAN RESOURCES RISK			
Attracting, recruiting, training and retaining high quality staff is a constant need in an evolving industry. Optimizing human resources while reducing or eradicating labor related litigation are challenges for the CPC.	An inadequate, improperly placed or inappropriate labor pool adversely affects operational efficiencies and, implicitly. the quality of petroleum products and reputation of CPC. Litigations against human resources are an unnecessary cost to CPC.	• Establish a strong training regime • Establish win-win engagement mechanisms with employees and their representation to form equitable employer-employee relationships. • Establish staff welfare, incentives and other benefit schemes to lower attrition levels.	Introduce Performance based reward and promotion system while making the transgression penalties equally clear to employees.
INFORMATION TECHNOLOGY RISK			
Information interchange and evidence based real-time decision making are critical to modern petroleum sector business operations. These require mission critical cutting-edge technology to be utilized on a continuous basis.	Improper data and information gathering and upstreaming, data integrity and security will signicantly and negatively impact the operational efficiency of the corporation.	• CPC uses the SAP system to record its transactions. • Conduct an IT awareness and usage audit as well as train and retrain staff on the use of emerging technology.	Take full control over the SAP system administration rights

RISK	IMPACT	RESPONSE	STRATEGIES
EXCHANGE RATE RISK			
CPC's local business transactions are in Sri Lankan rupees while its purchases and loans are paid in US dollars.	Depreciation in the Sri Lankan Rupee against the US Dollar increases exchange rate losses.	Exchange rates quoted by all banks are monitored on a daily basis and Dollars are purchased not at the banks quoted rate but at the market rate subsequent to monitoring market behaviour.	• Obtain autonomy to purchase US Dollars at competitive rates from any licensed commercial banks, instead of limiting to purchase only to state owned commercial banks • Convert the US Dollar loans to Sri Lankan Rupee loans
INTEREST RATE RISK			
CPC borrows funds to ensure smooth flow of petroleum products to the country when they are unable to generate funds internally.	Interest charged on borrowings unfavorably impacts CPC's profitability through interest expense and financial charges.	Reduce the foreign currency loan interest rates.	• Government should settle the subsidy element without delay • Government can embark certain amount of bank borrowings by way of subsidy element receivable
LIQUIDITY RISK			
Inability to meet the Corporation's fiscal obligations in a timely manner is a result of the liquidity risk.	Paying additional interest when the entity is unable to settle on time negatively impacts the interest cost, cash flow and liability position. Additionally, the inability to quickly trade an asset obstructs expected profitability.	• The Corporation's liquidity position is consistently monitored to ascertain future liquidity requirements • The Corporation has arranged diversified funding strategies through cordial relationships maintained with banks and the General Treasury • Excess cash is invested appropriately by balancing the Corporation's profitability and liquidity position	Further enhance collection from debtors including government institutions.
CREDIT RISK			
Credit risk arises as CPC sells its products on credit. Default risk is the potential losses arising from default of payment by a customer. Concentration risk stems from high lending exposure to a particular customer, sector or product.	Paying additional interest when the entity is unable to settle on time negatively impacts the interest cost, cash flow and liability position. Additionally, the inability to quickly trade an asset obstructs expected profitability.	• CPC's receivables are well diversified with a number of product categories offered to different sectors. • CPC sets-off the receivables from government institutions against a part of the taxes and duties payable to the government	Further reduce the credits given to government institutions since nearly 75% of the trade receivables at EoY are from government related establishments which in turn exerts pressure on the Corporation to follow up on recovery.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

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



BOARD OF DIRECTORS

Board of Directors is the main driving force of the Corporation who makes decisions on strategic, financial and reputational matters. Ceylon Petroleum Corporation Act No. 28 of 1961 sets out the parameters for the board to function and ensures good corporate governance. Further it sets out the roles and responsibilities of the directors, including the composition and tenure of the directors. The Corporation's board of directors is appointed by the Minister of Petroleum Resources Development. Out of the board members, one director is a representative of the General Treasury and one director is a representative of the Ministry of Petroleum Resources Development. During the year 2018 all directors were non-executive except the Chairman and Managing Director.

Director	Directorship status	Appointment Date	Resignation Date
Mr. D Ranatunga	Chairman	29.05.2017	26.10.2018
Mr. N R R Jayasekera	Managing Director	12.06.2018	26.10.2018
Mr. K A Vimalenthirarajah	Non-executive Director	19.11.2015	
Mr. A T Bandara Herath	Non-executive Director	29.05.2017	26.10.2018
Mr. R A N Jayasundara	Non-executive Director	29.05.2017	26.10.2018
Mr. S Dhanatunge	Non-executive Director	29.05.2017	26.10.2018
Mr. W S Perera	Non-executive Director	29.05.2017	26.10.2018
Mr. S Wijesinghe	Actg. Chairman/Managing Director	12.11.2018	17.12.2018
Mr. A H S Wijesinghe	Non-executive Director	28.11.2018	17.12.2018
Mr. S Liyanagama	Non-executive Director	28.11.2018	17.12.2018
Mr. K I D P Kularatne	Non-executive Director	28.11.2018	17.12.2018

Details of the present board of directors are given below.

Director	Directorship status
Mr. G. S. Withanage	Chairman
Mr. N R R Jayasekera	Managing Director
Mr. K A Vimalenthirarajah	Non-executive Director
Mr. M Wijesinghe	Non-executive Director
Mr. M Y Hussain	Non-executive Director
Mr. W. R. Perera	Non-executive Director
Mr. P P S Rohitha	Non-executive Director

Summarized expertise of present directors outlining their qualifications and experiences are included on pages 26 to 30 of this report.

BOARD ATTENDANCE DURING 2018

Regular Board meetings are held monthly, while special Board Meetings are assembled as and when required. Corporate and Senior Managers attend meetings on invitations. The Board Meetings are conducted on a formal agenda and Directors are provided with relevant comprehensive background information by Corporate Managements prior to meetings. During the year 15 board meetings were held. The table below shows each director's attendance at the board meetings.

BOARD ATTENDANCE 2018

Director	Attendance
Mr. D Ranatunga	10/13
Mr. N R R Jayasekera	12/13
Mr. K A Vimalenthirarajah	10/15
Mr. A T Bandara Herath	13/13
Mr. R A N Jayasundara	13/13
Mr. S Dhanatunge	12/13
Mr. W S Perera	13/13
Mr. S Wijesinghe	2/2
Mr. A H S Wijesinghe	2/2
Mr. S Liyanagama	2/2
Mr. K I D P Kularatne	0/2

DIRECTORS' INDEPENDENCE

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

THE ROLE OF THE BOARD

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

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

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

Apart from the above, Board holds the responsibility for granting approval for Annual Financial Statements, the Annual Budgets, Corporate Plan, Action Plan and reviewing financial performance on regular basis. The Board oversees the granting of approvals relating to key appointments, staff promotions, major capital expenditure investments and credit facilities to Corporate Customers.

SUB COMMITTEES

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

THE AUDIT COMMITTEE

The Audit committee plays an independent role from management with accountability to the board. The Audit committee comprises of non-executive directors as determined by the board. The composition, role played, number of meetings and the attendance of the Audit Committee is elaborated in the Audit Committee Report on pages 84 & 85 of this Annual Report.

MANAGEMENT COMMITTEE

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

Composition and attendance during the year

Committee Member	Attendance
Mr. D Ranatunga	4/8
Mr. N R R Jayasekera	8/8
Mr. A T Bandara Herath	6/8
Mr. S Dhanatunge	8/8
Mr. E A S Edirisinghe	8/8
Mr. V N Weerasooriya	8/8
Mr. M A D Mallikarachchi	6/8
Mr. M K Garusinghe	8/8
Mr. W M K R B Wickremasinghe	6/8
Mr. K W S P Withana	7/8
Ms. R A K C Ariyaratne	7/8

STOCK REVIEW COMMITTEE

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

PROCUREMENT COMMITTEES (PC) AND TECHNICAL EVALUATION COMMITTEES (TEC)

TEC and PC function under the guidelines issued by the NPA to ensure transparency, to minimize delays and to obtain financially the most advantageous and qualitatively best services and supplies to CPC. Technical Evaluation Committee pays attention to the technical aspects of the purchases while procurement committee takes care of the other aspects of a purchase.

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

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

RELATIONS WITH THE PARENT

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

INTERNAL CONTROLS

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

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

INTERNAL AUDIT

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

CORPORATE MANAGEMENT

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

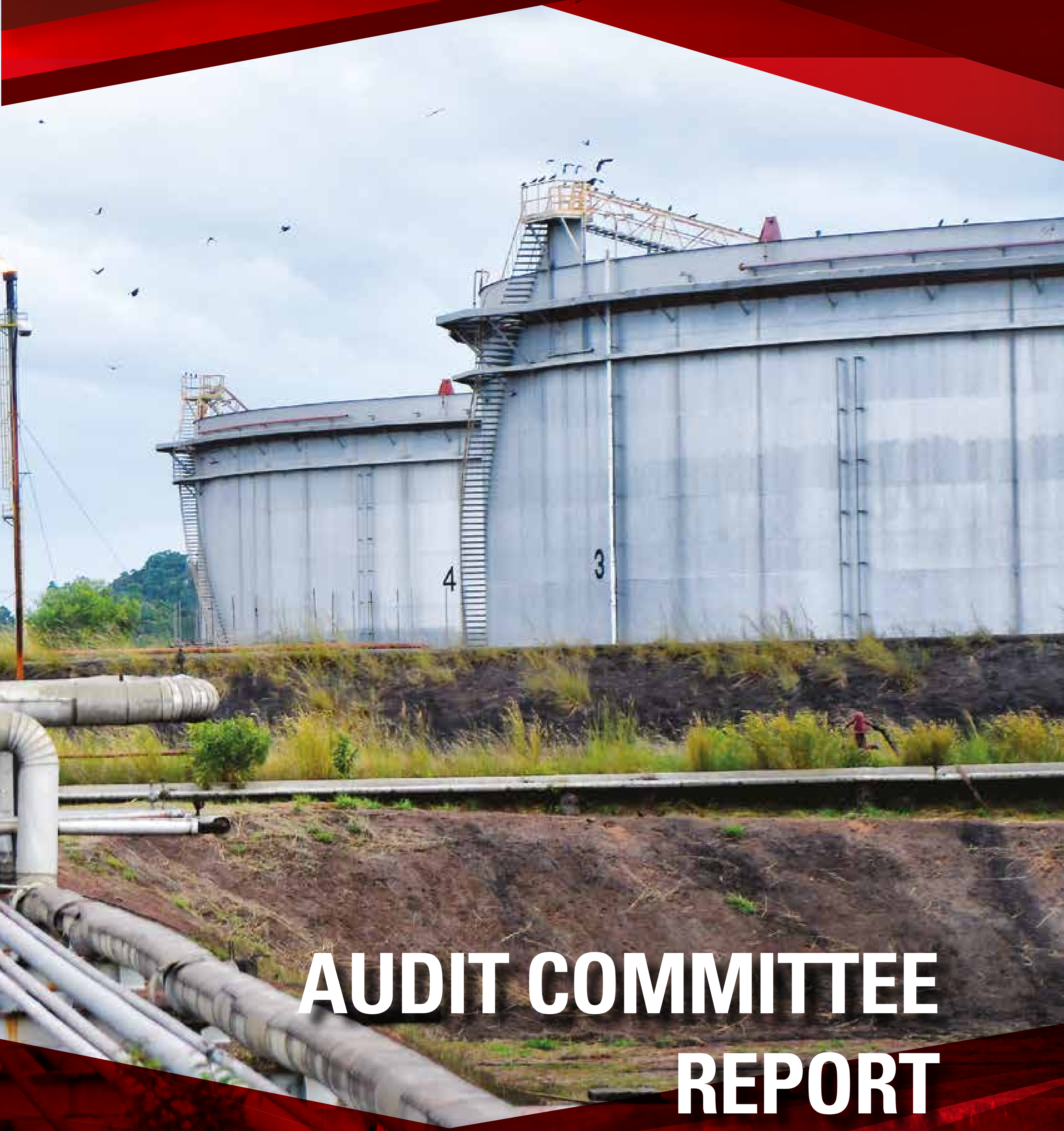
Refinery operation is headed by the Refinery Manager who is assisted by Deputy Refinery Managers in different core technical areas such as Electrical & Instruments, Manufacturing & Operations, Maintenance & Projects and Technical Services.

For better management, head office is divided in to several functions and each function is headed by a Deputy General Manager or a Manager who assists the Chairman and Managing Director in day-to-day functioning of the Corporation. The Corporate Managers are well balanced with skills, experience and qualified with academic degrees and relevant professional qualifications in their respective functional areas. Summarized biographies of senior and corporate management outlining their qualifications are included on pages 31 to 35 of this report.

COMPLIANCE AND TRANSPARENCY

Complying with all applicable legislation, regulations, standards, best practices and codes is integral to the success and sustainability of the Corporation. CPC's corporate governance is structured by the guidelines published in the Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka and Public Enterprises Guidelines for Good Governance issued by the Department of Public Enterprises – Ministry of Finance in 2003. Board of Directors is committed to comply with those requirements safeguarding strong corporate governance practices.

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



AUDIT COMMITTEE REPORT

AUDIT COMMITTEE REPORT

Audit committee of CPC is a subcommittee of the Board of Directors and non-executive directors, who possess the relevant qualifications and experience, were appointed to the Audit Committee by the Board of Directors and it is accountable to the Board. The primary role of the Audit Committee, which reports its findings with its recommendations to the Board of Directors, is to ensure the integrity of the financial reporting, audit processes, the maintenance of sound internal control and risk management system.

The Committee's responsibilities include the following:

- Monitor management compliance in business operations.
- The integrity of the financial statements and the significant reporting judgments contained in them.
- Ensure the adequacy of disclosures in financial reporting system.
- The activities and effectiveness of the internal audit function.
- The effectiveness of the internal control and risk management systems.
- Review the risks that the Corporation is exposed to, the actions taken to mitigate the risk and their impact.
- Examine and approve the audit plan for the year.
- Review the audit report issued by the Auditor General and follow-up for management corrective actions.
- Review and ensure implementation of the COPE recommendations.

COMPOSITION OF THE COMMITTEE

The Audit Committee consists of three members of the Board and during this year under review, Corporation has conducted five (05) Audit Committee meetings. At the 79th Audit Committee Meeting three non-Executive Directors namely Mr. K. A. Vimalenthirarajah (Chairman) Mr. R. A. N. Jayasundara & Mr. A. Bandara Herath acted as members of the Audit Committee and continued as Members for the 80th, 81st, 82nd and 83rd Audit Committees. The Audit Charter of the Committee has been prepared covering scope of responsibilities, authorities and specific duties stipulated in Treasury Circular issued in relation of conducting Audit Committees in Public Commercial Enterprises.

TASKS OF AUDIT COMMITTEE

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

TASKS PERFORMED BY THE AUDIT COMMITTEE

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

- Reviewed the adequacy of internal control system to safeguard the all assets of CPC.
- Discussed the key strategic issues faced by the Corporation

- Discussed the internal audit reports and audit reports issued by Auditor General and observations thereon.
- Reviewed and passed the Annual Internal Audit Plan for the year 2018.

MEETINGS

During the year under review, five (05) Audit Committee meetings were conducted to discuss duties entrusted to them as noted above.

Meeting No.	Date	Participation	Members present
79	13.03.2018	3/3	Mr. K A Vimalenthirarajah Mr. A T Bandara Herath Mr. R A N Jayasundara
80	02.04.2018	2/3	Mr. K A Vimalenthirarajah Mr. R A N Jayasundara
81	02.06.2018	3/3	Mr. K A Vimalenthirarajah Mr. A T Bandara Herath Mr. R A N Jayasundara
82	21.08.2018	3/3	Mr. K A Vimalenthirarajah Mr. A T Bandara Herath Mr. R A N Jayasundara
83	04.09.2018	3/3	Mr. K A Vimalenthirarajah Mr. A T Bandara Herath Mr. R A N Jayasundara

INTERNAL AUDIT FUNCTION

The key functions of the Internal Audit includes assessing internal controls, identifying risk areas and verifying accuracy and completeness of transactions through audit procedures which are implemented through the Audit Plan approved by the Audit Committee at the beginning of the year. Audit queries are raised to highlight matters identified during the audit process. In addition to the above, Internal Audit Function is engaged in special investigations to provide observations and recommendations to the management about various matters of importance, identification of risk related to the areas of product losses, revenue losses, discussion of Auditor General's Reports and replies to Audit queries and periodic review of Annual Audit Plan and the performance of Internal Audit Function based on actual works carried out.

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

- Reviewed 2018 monthly financial Statements.
- Discussed Auditor General's Report on Financial Statements for the year 2017.
- Reviewed the adequacy of internal controls system and communicate weaknesses to respective parties.
- Discussed Internal Audit Reports at the Audit Committee meeting.
- Discussed the current position of COPE recommendations given for Auditor General's report on Financial Statements.
- Involved in pre-audit activities.

CONCLUSION

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

K.A.Vimalenthirarajah
Chairman - Audit Committee

ANNUAL REPORT 2018

DIRECTORS REPORT

DIRECTORS REPORT

The Board of Directors of Ceylon Petroleum Corporation has pleasure in presenting the Annual Report together with the Audited Financial Statements of the Corporation and its group for the year ended 31 December 2018, in accordance with Section 32(3) of the Ceylon Petroleum Corporation Act No. 28 of 1961.

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

The registered office of the Corporation is situated at No. 609, Dr. Danister De Silva Mawatha, Colombo 09. The Audited Financial Statements included in this Annual report have been prepared and presented with the relevant disclosures in accordance with Sri Lanka Accounting Standards (SLFRSs / LKASs) issued by the Institute of Chartered Accountants of Sri Lanka and the provisions of the Finance Act No. 38 of 1971 and subsequent amendments thereto.

Principal Activities

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

Subsidiary Company

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

Financial Statements of the Corporation and the Group

The Audited Financial Statements of Ceylon Petroleum Corporation and its group for the year ended 31 December 2018 duly signed by the Deputy General Manager (Finance) and approved by the Board of Directors of the Corporation.

Director's Responsibility for Financial Reporting

The Board of Directors is responsible for the preparation and presentation of the Financial Statements of the Group and Corporation, which reflects a true and fair view of the state of affairs of the Corporation and of the Group. The directors are of the view that the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows, Significant Accounting Policies and Notes thereto appearing on pages 116 to 147 have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards as mandated by the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and the Finance Act No. 38 of 1971.

Significant Accounting Policies and Changes during the year

During the year under review, there were no changes in the accounting policies adopted except the implementation of SLFR 9 and SLFRS 15, which were consistent with those adopted in the previous financial year as required by the Sri Lanka Accounting Standard No. 01 on 'Presentation of Financial Statements'.

Financial outcome

Summary of the Financial Results of the Corporation for the year ended 31 December 2018 with comparative figures are given below.

	2018 Rs. Bn	2017 Rs. Bn
Revenue	592.25	516.77
Less : Sales Taxes (Excise duty & NBT)	(71.29)	(70.82)
Net sales Revenue	520.97	445.95
Cost of Sales	(523.98)	(418.96)
Gross Profit	(3.01)	26.99
Other Operating Income	0.81	0.68
Selling & Distribution Expenses	(14.91)	(15.50)
Administrative Expenses	(6.02)	(4.96)
Financial Charges	(12.06)	(10.53)
Finance Income	12.90	11.06
Exchange rate variation	(82.72)	(4.92)
Profit / (Loss) before Tax	(105.02)	2.82

Revenue & Profits

The revenue of the Corporation has increased by 14.6% compared to the year 2017 recording the highest revenue in the history of the corporation. Revenue and profit/ (loss) of segment during the year under review are given below.

	Sales Rs. Mn.	Profit/(loss) Rs. Mn.
Transportation	412,716	(96,042)
Power generation	74,757	(10,669)
Aviation	64,189	3,841
Industrial	13,661	(75)
Domestic	17,688	(14,619)
Agro Chemical	151	(19)
Export & Bunkering	9,090	(1,132)
Total	592,253	(118,715)

Taxation

Income tax expense has been paid as per the Inland Revenue Act No. 24 of 2017 and the amendments thereto. Since the Corporation incurred a loss, no material income tax liability has been arisen. The details are given in the Note 07 to Financial Statements on page 127.

Special Fee

During the year 2014, the General Treasury instructed CPC to pay Rs. 10 Bn as a special fee and requested to charge that fee as an expense of Rs. 250 Mn for the year 2014, Rs. 750 Mn for the year 2015 and Rs. 1,000 Mn per annum for the period 2016 to 2024 to the Income Statement. Accordingly, Rs. 1,000 Mn has been amortized for the year 2018.

Donations

CPC has incurred over Rs. 5 Mn on Corporate Social Responsibility activities.

Property, Plant & Equipment

The details of Property, Plant & Equipment of the Corporation and its group are given in Note 08 to the Financial Statements on page 128.

Contributed Capital

The total Contributed Capital of the Corporation as at 31 December 2018 was Rs. 28,487.125 Mn (2017 -Rs. 28,487.125 Mn).

Reserves

Capital reserves of the Corporation as at 31 December 2018 was Rs. 4,992.686 Mn (2017 - Rs. 4,992.686 Mn).

Directors

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

Name of the director	Executive / Non Executive Status
Mr. G. S. Withanage (Chairman)	Executive Director
N R R Jayasekera (Managing Director)	Executive Director
K A Vimalenthirarajah	Non-Executive Director
Mr. Mohan Wijesinghe	Non-Executive Director
Mr. Mohommad Yoosuf Hussain	Non-Executive Director
Mr. W. R. Perera	Non-Executive Director
Mr. P. P. Saman Rohitha	Non-Executive Director

Directors' Meetings

Details of the directors' meetings which comprises of Board meetings and Audit Committee meetings are presented on pages 78 to 85. Directors' attendance at the meetings held during the year is given on page 79 of the Annual Report.

Directors' Remuneration

Directors' emoluments paid during the year are as follows;

	2017 Rs. Mn	2018 Rs. Mn
Directors' emoluments	1.388	1.595

Directors' Interest in Contracts

Directors' interests in contracts with the Corporation, both direct and indirect, are disclosed in Note 31 to the Financial Statements.

Risk Management and System of Internal Controls

The Board of Directors assumes overall responsibility for managing risks. For this purpose, the Board of Directors has instituted an effective and comprehensive system of Internal Controls in the Corporation. Specific steps taken by the Corporation in managing risk are detailed in the Risk Management report on pages 70 to 75.

Corporate Governance Directors' Declarations

The Board of Directors declares that

- The Corporation complied with all applicable laws and regulations in conducting its business and has not engaged in any activity contravening the relevant laws and regulations;
- The Directors have declared all material interests in contracts involving the Corporation;
- The business is a going concern with supporting assumptions and the Board of Directors has reviewed the Corporation's Corporate / Business plans and is satisfied that the Corporation has adequate resources to continue its operations in the foreseeable future. Accordingly, the Financial Statements of the Corporation and its Group are prepared based on the going concern concept
- The directors have conducted a review of internal controls covering financial, operational and compliance controls and risk management and have obtained a reasonable assurance of their effectiveness and successful adherence herewith.
- The procedures and practices in conformity with the Corporate Governance rules and regulations are described in the Corporate Governance Report on pages 76 to 81 of this report.

Human Resources

The Corporation has recognized the valuable role of Human Resources in transforming its business mission and vision into reality. Accordingly several measures were taken to enhance its human resource capital and to optimize their contribution towards the achievement of corporate goals and objectives.

Our human resources policy emphasizes on providing all categories of employees with adequate opportunities for continuous upgrading of their knowledge and skills through local and overseas training. Development of human capital to ensure availability of a high level technical and managerial capability within its human resources has become a priority objective for the Corporation.

Outstanding Litigations

In the opinion of the Directors and the Corporation's lawyers, pending litigations against the Corporation disclosed under Note 28 of the Financial Statements will not cause any material impact on the financial stability of the Corporation or on its future operations.

Compliance with Laws and Regulations

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

Environmental Protection.

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

Statutory Payments

The Directors, to the best of their knowledge and belief, are satisfied that all statutory payments due to all relevant regulatory and statutory authorities have been made on time with the available financial capabilities.

Events after the Statement of Financial Position Date

No event of material significance that require adjustments to the Financial Statements, other than those disclosed in Note 29 to the Financial Statements on page 145 has occurred subsequent to the date of the Statement of Financial Position.

Going Concern

The Board of Directors has prepared the Corporate Plan with a view to improve the outlook of the Corporation, to enhance the operations and to ensure strengthened commercial viability for the future. Accordingly, the Financial Statements are prepared and presented based on a going concern basis.

Appointment of Auditors

The Auditor General is the Auditor of the Corporation. He has been appointed in terms of the provisions in Article 154 of the Constitution of the Democratic Socialist Republic of Sri Lanka. The auditor's remuneration for the audit shall be determined in accordance with the section 31 of the Ceylon Petroleum Corporation Act No. 28 of 1961.

Auditors’ Remuneration and Interest in Contracts with the Corporation

The audit fee of Rs. 2 Mn has been recognized in the financial statements for the year ended 31 December 2018 by the Corporation. As far as the Directors are aware, the Auditors do not have any other relationship or interest in contracts with the Corporation or with its Subsidiary.

Acknowledgment of the Contents of the Report

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

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

G.S Withanage
Chairman

N R R Jayasekera
Managing Director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FINANCIAL STATEMENTS

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தேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE

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Chairman

Ceylon Petroleum Corporation

Report of the Auditor General on the Financial Statements and Other Legal and Regulatory Requirements of the Ceylon Petroleum Corporation and its Subsidiary for the year ended 31 December 2018 in terms of Section 12 of the National Audit Act, No. 19 of 2018.

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Ceylon Petroleum Corporation ("Corporation") and the consolidated financial statements of the Corporation and its subsidiary ("Group") for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 and Finance Act No. 38 of 1971. My report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution will be tabled in due course.

In my opinion, except for the effects of the matters described in the basis for Qualified Opinion section of my report, the accompanying financial statements of the Corporation and Group give a true and fair view of the financial position of the Corporation and the Group as at 31 December 2018, and of their financial performance and their cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

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1.2 Basis for Qualified Opinions

1.2.1 Going Concern of the Corporation

Attention is drawn to the matter that the operations of the Corporation had resulted in an after tax net loss of Rs. 105,050.6 million and a total comprehensive expense of Rs. 104,769.6 million for the year 2018 and shown a negative net assets position of Rs. 281,761.5 million as at the end of the year under review. The negative impact of exchange rate variation and the interest cost incurred on foreign currency denominated loans had mainly caused to further increase the accumulated losses of the Corporation at the end of the year under review. It was resulted to retain further negative net assets position of the Corporation. Thus, the ability of the Corporation to continue as a going concern without the financial assistance from the Government is doubtful.

1.2.2 Deviating with Sri Lanka Accounting Standards (LKAS)

(a) According to the paragraph 10 of LKAS 2, all other cost incurred in bringing the inventories to their present location and condition should be considered as cost of inventories. However, Excise Duties amounting to Rs. 67,691.9 million incurred in the year under review for importation of fuel and manufacturing of petroleum product had been set off against the revenue without being considered as cost of the inventory. As a result, the actual cost of sales, revenue for the year under review and the value of closing inventories had not been shown in the financial statements.

(b) LKAS 16 - Property, Plant & Equipment: Fully depreciated assets approximately costing to Rs. 4,821.48 million are being continuously used by the Corporation without reassessing the useful economic lifetime of those assets and accounting them accordingly. Further, at a sample audit test check it was revealed that, 12 lands belongs to the Corporation as at the end of the year under review had not been revalued. Therefore, the accuracy of fair value of such assets is in doubt.

(c) LKAS 36 – Impairment: No evidence was made available for audit to ensure that an impairment test had been conducted by the Corporation for the year 2018.

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NAOSL

1.2.3 The Audit Opinion on the Financial Statement of the Subsidiary Company

The audit opinion on the financial statements of the Ceylon Petroleum Storage Terminal Ltd (CPSTL) for the year under review was disclaimed by me due to the following matters which will cause to a disaggrement with the corresponding balances/transactions of the Corporation and the group.

(a) Provision for impairment of trade receivable totalling of Rs. 174.7 million relating 19 parties for longer period had been reversed and charged to the profit and Loss account for the year under review by the Company. However, evidence was not available to ensure whether any assessment had been done to evaluate the recoverability of them before such reversal. Further, the existence and the accuracy of these trade receivable balances could not be assured in audit through any other collaborative evidences.

(b) **The Inventory**

The accuracy of the valuation and completeness of inventory items valued at Rs. 657 million shown in the Statement of Financial Position as at the end of the year under review could not be relied upon in audit due to following reasons.

(i) It was observed that, more than 2500 types of inventory items with huge quantity had been 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.

(ii) According to the practice of the Company, a provision for slow moving inventory items had been made for the entire inventory items for over 03 years at the end of each year from its inception. According to the records of the Company, even though slow moving items over 03 years valued at Rs.230.2 million were observed at the end of the year under review only Rs.15.6 million had been provided. A proper technical evaluation had not been carried out prior to the reduction of provision by Rs. 214.6 million.

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(c) **Inter Company Balances**

The accuracy, valuation and existence of the Inter Company Balances between the Company and the Ceylon Petroleum Corporation (CPC) and Lanka Indian Oil Company (LIOC) were not assured in audit due to following reasons.

(i) A receivable amount of Rs. 1,173 million from CPC had been written off from their accounts to eliminate the loan interest components of throughput charges of 13 cents per litre considering the settlement of Exim Bank Loan. However, no any impairment provision had been made in this regard by the Company.

(ii) A difference of Rs. 2,475.8 million including the amount shown in the (i) above was observed between the amounts shown as receivable from the 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.

(iii) According to the balance confirmation received from the LIOC, the amount payable to the Company was Rs. 351.5 million, whereas according to the financial statements of the Company the corresponding amount was shown as Rs. 406.59 million. Therefore, an un-reconciled difference of Rs. 55.1 million was observed between those two balances.

(d) A difference of Rs. 199.8 million was observed between total of Income Tax Payable, Value Added Tax (VAT) payable, Withholding Tax (WHT) Payable, Pay as you earn (PAYE) Payable and Economic Service Charge (ESC) Payable balances appeared in the financial statements of the Company and the corresponding amounts shown in the records maintained by the Department of Inland Revenue (IRD) as at the end of the year under review.

(e) The recoverability of overpaid 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.

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(f) The reliability of payable balance of WHT and output VAT amounting to Rs. 19.1 million and Rs. 13.9 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. 5,195 million are being continuously used by the Company without reassessing the useful economic lifetime of those assets and accounted them in terms of Section 51 of LKAS 16. Further, the Company had not re-valued its assets since the inception of the Company and a proper revaluation policy was not established for this purpose. Hence, the non-current assets shown in the financial statements had not reflected the fair value of such assets.

(h) A sum of Rs 32.6 million which had been transferred to the expenses (Repair and Maintenance) account from Capital work in progress account (WIP) recognizing it as recurrent expense in the year 2017 was reversed in the year under review. However, a proper basis had not been observed for such reversal. As a result, the net profit and the expenses in the year under review had overstated and understated by similar amount respectively.

(i) Several Transport Charges and Vessel Charges had been accounted on cash basis which contrary to section 27 and 28 of the LKAS 01 by the Company.

(j) No any provision had been made in the financial statements of the year under review by the Company for total estimated loss of over Rs. 150 million incurred due to two major fuel leakages which were reported at the Muthurajawela SPBM on 08 September 2018 and at the Kolonnawa Installation on 12 October 2018.

1.2.4 Lack of Evidence for Audit

(a) A balance of Rs. 1,135.8 million had been continuously carried forwarded in the financial statements since the year 2012 as receivable from the Department of Inland Revenue and Sri Lanka Customs. No provision had been made in this regard in the financial statements in the year under review.

(b) According to the confirmation received, an amount of Rs. 4,591.2 million had to be paid by the Corporation to the People's Bank as at the end of the year under review in respect of hedging transactions taken place for procurement of oil during the period of 2007 to 2009. However, it had not been brought to accounts of the Corporation.

(c) According to the record of the SAP system, 6.6 KL of Petrol 90 Octane and 7,718.7 KL of LFO 1500 H were shown at the end of the year under review. However, such stock had not been verified in the annual physical stock verification carried out by the Corporation and therefore, the existence of such stock is in doubt.

(d) Value Added Tax aggregating Rs. 437.8 million was shown under other receivable balance in the statement of financial position at the end of the year under review. Out of this, amounting to Rs.326.4 million is continued since 2011. Moreover, the tax invoices and other relevant supporting documents were not made available in this regard. Therefore, the recoverability of those balances is in doubt.

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

1.2.5 Un-reconciled Differences

(a) According to the financial statement for the year 2018, the amount receivable from Ceylon Electricity Board (CEB) at the end of the year under review was Rs. 46,813.1 million whereas as per the records of CEB it was Rs. 46,029 million. Therefore, a difference of Rs. 778.3 million was observed between those two records. Out of this, an amount of Rs. 753.6 million receivable from the CEB had remained outstanding since the year 2013. The Corporation had not taken reasonable actions to recover the aforesaid amount.

(b) According to the financial statements of the Corporation, net amount payable to the Sri Lanka Customs as at 31 December 2018 was Rs. 8,318.5 million. However, as per the records of Sri Lanka Customs it was shown as Rs. 5,597.4

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million recoverable from the Corporation. Therefore, a difference of Rs. 2,721.1 million were observed .

(c) According to the financial statements of the Corporation, Nation Building Tax (NBT) & Income Tax payable to the IRD as at 31 December 2018 were Rs. 612.2 million and Rs. 6,948.2 million respectively. However, as per the records of IRD it shows as Rs. 1,476.8 million and 4,974.6 million respectively. However, reasons for differences of Rs. 864.6 and Rs. 1,973.6 million were not explained to the audit.

(d) According to the records of IRD, the total refundable VAT amount at the end of the year under review was Rs. 29.5 million whereas as per Financial Statement it was Rs. 437.8 million. Therefore, a difference of Rs. 408.3 million was observed between those two balances.

(e) There are receivable balances of Turnover Tax amounting to Rs, 19.3 million and VAT amounting to Rs, 1,555.6 million from the Corporation were shown in the record of the IRD at the end of the year under review. However, there were no any corresponding balances shown in the Financial Statement of Corporation for the year under review.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report.I believe that the audit evidenace I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Corporation's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to CPSTL concern and using the going concern basis of accounting unless management either intend to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's and the group's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Corporation is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Corporation.

1.4 Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's and the Group's internal control.

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- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

2. Report on Other Legal and Regulatory Requirements

National Audit Act, No. 19 of 2018 include specific provisions for following requirements

- Except for the effects of the matters described in the Basis for Qualified Opinion paragraph, I have obtained all the information and explanation that required for the audit and as far as appears from my examination, proper accounting records have been kept by the Corporation as per the requirements of section 12 (a) of the National Audit Act No. 19 of 2018.

- The Financial statements presented is consistent with the preceding year as per the requirement of section 6(1) (d) (iii) of the National Audit Act, No. 19 of 2018.

- The Financial Statements presented includes all the recommendations made by me in the previous year as per the requirement of section 6 (1) (d) (iv) of the National Audit

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Act. No. 19 of 2018 except for the audit observations under 1.2.2 (e,f,g), 1.2.3 (a,b,e), 1.2.4 (a) this report.

Based on the procedures performed and evidence obtained were limited to matters that are material, nothing has come to my attention;

- to state that any member of the governing body of the Corporation has any direct or indirect interest in any contract entered into by the Corporation which are out of the normal cause of business as per the requirement of section 12 (d) of the National Audit Act, No. 19 of 2018

- to state that the Corporation has not complied with any applicable written law, general and special directions issued by the governing body of the Corporation as per the requirement of section 12 (f) of the National Audit Act, No. 19 of 2018 except for

Reference to law/direction	Description
(a) Public Enterprises Circular No. PED/12 of 02 June 2003 - Guidelines for Good Governance.	
(i) Guideline 4.2.3(b)	The Board had not periodically reviewed the performance of its Subsidiary in order to ensure the achievement of targets of the Subsidiary.
(ii) Guideline 4.2.6	Quarterly Performance Reports had not been forwarded to the line Ministry and the Department of Public Enterprises on or before 30 days before the end of each quarter.
(iii) Guideline 4.3	Minutes of Board meetings had not been forwarded to the Secretary to the line Ministry within 10 days after confirmation of such minutes.
(iv) Guidelines 5.2.4 and 5.2.5	(i) The draft Budget had not been placed before the Board of Directors for approval, three months before the commencement of the financial year.

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	(ii)	Copies of the final updated Budget approved by the Board had not been forwarded to the line Ministry, the Department of Public Enterprises, General Treasury and Auditor General not later than 15 days before the commencement of the year 2018.
(v) Guideline 9.3		The Corporation does not have a Scheme of Recruitments and Promotions which has been approved by the appropriate Ministry with the concurrence of the Department of Public Enterprise, General Treasury.
(vi) Guideline 9.4		The Corporation had released 06 employees to other institution in 2018 without the approval of the Cabinet of Ministers and paid emoluments to 04 employees of them using the funds of the Corporation.
(b) Finance Circular No. 124 of 24 October 1997 of the Ministry of Finance and Planning.		Covering up duties of a vacant post should be limited to a period of 03 months. Nevertheless, 16 officers had been assumed for cover up duties of the vacant posts including 13 Grade A posts such as Manager (Investigation), Manager Marketing (Retails), Regional Manager (Central) etc. for the period ranging one year to 10 years as at 31 December 2018.
(c) Public Enterprises Department Circular No. FP/06/35/02/01 dated 04 November 2013 and No. PED 03/2016 dated 29 April 2016		The Corporation had borne the Pay As You Earn (PAYE) tax of its employees amounting to Rs. 259.9 million without deducting it from their personal emoluments for the year under review.
(d) Guideline 4.2 of the Government Procurement Guidelines (2006)		Master Procurement Plan had not been prepared at least for three years by the Corporation

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- to state that the Corporation has not performed according to its powers, functions and duties as per the requirement of section 12 (g) of the National Audit Act, No. 19 of 2018 except for

(a) **Collection of Monthly Utility Fee (MUF)**

According to the Board Decision No. 38/1140 dated 29 October 2013, the Board has approved to recover a Monthly Utility Fee (MUF) from all Corporation Owned Dealer Operated (CODO) Filling Stations and Treasury Owned Dealer Operated (TODO) Filling Stations with effect from 01 January 2014. However, this decision had not been implemented as expected due to various reasons. Therefore, more than Rs. 300 million per annum had been lost to the Corporation since the year 2014. Accordingly, an approximate cumulative loss of Rs. 1,500 million sustained to the Corporation since the year 2014 to 2018. Action had not been taken by the Corporation to charge MUF from the dealers in both categories as mentioned above.

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

(c) **Audit Committee**

The recommendations made by the Audit Committee of the Corporation are not regularly reviewed by the Board. Instances were observed where information requested by the Committee was not completely and timely provided by the respective officials of the Corporation.

- to state that the resources of the Corporation had not been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws as per the requirement of section 12 (h) of the National Audit Act, No. 19 of 2018 except for.

(a) **Procurement and Contract Process**

According to the decision No.12/0295/510/003/TRB of 22 March 2012 taken by the Cabinet of Ministers, the line Ministry should make endeavor to enter into term contracts for supply of petroleum products with extended credit facilities, as opposed to the spot buying on weekly basis. However, 52 contracts (shipments) out of 78 valid Contracts (14 contract had been cancelled) were entered during the year 2018 on the basis of spot contract contrary to the above decision.

3. Other Audit Observations

(a) **Payment of Excise Duty**

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

(b) **Recovery of Duties and Taxes**

Amount of Rs.1,617.2 million which had been paid as Custom Duties and taxes before discharging the cargo of rejected shipment which includes excise duty of Rs. 648 million had not been recovered or settled at the subsequent payments by the Corporation since January 2017.

(c) **Capital Projects**

(i) An amount of Rs. 504.1 million had been allocated from the budget of the year under review for 20 capital projects where the aggregating estimated cost was Rs. 512.8 million. However, such projects had not been implemented until the end of year under review.

(ii) 02 projects where the total estimated cost of Rs. 6,756.8 million which should be commenced in 2017 and 2018 had not been commenced until end of year 2018

(iii) Actual cost of 04 capital projects commenced during the period of 2014 to 2018 had been exceeded the initial estimated cost by 20.05 million or by ranging 15 per cent to 85 per cent.

(d) **Stock Review Committee**

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

(e) **The Foreign Currency Denominated Loans**

The long term loans and short term loans denominated by US dollars had been increased by Rs. 1,311.6 million or by 493 per cent and Rs. 115,021.1 million or 64 per cent respectively at the end of the year under review compared with the balances at the end of the previous year. As a result, total cost on loan amount of Rs. 94,770.6 million which comprise interest expenses of Rs. 12,053.3 million and loss on exchange rate variation of Rs. 82,717.3 million had been incurred by the Corporation in the year under review. In the meantime, total investment had been increased by Rs. 83,180.3 million or 176 per cent and as per the Financial Statements interest income of Rs. 7,732.9 million was only earned in the year under review. As appear in the Financial Statements, as an amount of Rs. 83, 180.3 million had been invested in various short term investments using the borrowed money by the Corporation during the year under review. However, the Corporation had not taken proper action to settle the foreign currency loans by using their available cash which could have been reduced considerably the interest expenses and loss on exchange rate variations.

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The Corporation had obtained a loan amount of Rs. 1,310.8 million (USD $ 7.725 million) from People's Bank on September 2018 disregarding the availability of cash position of the Corporation. As a result, a loss on exchange rate variation amount of Rs. 114.7 million had been incurred by the Corporation during the year under review and total outstanding balance had been increased to Rs. 1,425.5 million at the end of the year under review.

(f) **Assets Management**

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

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

(ii) **Mahahena Land** – According to the correspondence made available, the Corporation had acquired this land by spending Rs. 0.625 million, and it had not been accounted for. However, this land is being utilized by the previous owner even after the acquisition in 1986.

(g) **Sapugaskanda Oil Refinery**

The existing 47 years old Refinery (commissioned in 1969) is a basic Refinery and is not being able to cater the increasing demand for petroleum products in the country and this Refinery is operating with low margin when compared with refineries operating with advanced technologies including facilities to produce petroleum products at lower cost and capabilities to upgrade bottom products to high value products such as petrol and diesel, whereby maximizing its operating efficiency. However, the CPC was unable to implement the proposed Sapugaskanda Oil Refinery Expansion and Modernization (SOREM) Project in order to ensure supplying of its products to the market in a cost-effective manner.

Even though preliminary feasibility study had been completed and the required land (35 acres) had been acquired for this purpose, as stated by the management, it was unable to initiate the project yet due to insufficient financial strength to invest for this project. Total cost of the project was estimated at US$ 2.1 billion with a payback period of less than 8 years, and the Net Present Value (NPV) of the project would be US$ 1,535 million. Further, the land acquired by incurring of Rs. 1,003 million for that purpose had been laying idled even up to date.

(h) **Enterprise Resource Planning (ERP) System**

There was no any agreement or a Memorandum of Understanding (MOU) between the Corporation, the CPSTL and the LIOC with regard to their individual responsibilities in respect of the involvement of the Enterprise Resource Planning (ERP) System introduced by the CPSTL. Further, this system is not adequately utilized, especially for the fuel stock reviewing purposes.

(i) **The Common User Facility**

The Shareholder Agreement and Share Sale Purchase Agreement for the above facility among Corporation, LIOC and the CPSTL were expired on 31 December 2008.

(j) **Revaluation of Assets**

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

(k) **The agreements for fuel supply**

The formal agreements for fuel supply had not been entered into with 14 major customers including CEB, Sri Lankan Air Line, Tri Forces, Sri Lanka Railways, etc.. even at the end of the year under review.

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(l) **Pipeline Network for Oil Transportation**

(i) The pipelines installed several decades back to transport of imported finished petroleum products such as petrol, diesel, kerosene and furnace oil from the Colombo Port to the Kolonnawa Petroleum Installation are in a state of repair and it was revealed that some of them have already been abandoned due to the deteriorated condition beyond repairs. There is an urgent need for the renovation and replacement of these pipelines, as a huge quantity of the national requirement of the petroleum products is being carried into Kolonnawa Fuel Storage Terminal through those deteriorated pipelines. There is a possibility of severe fuel crisis due to transporting the imported finished petroleum products through those deteriorated pipelines.

(ii) The Muthurajawela installation is fed through a Single Point Buoy Mooring (SPBM) facility located in the mid sea about 6 km from the shore and 7.2 km from Muthurajawela Terminal and there was no alternative supply source in case of rough sea conditions or when the SPBM facility is under maintenance. At the same time, there was no linkage between the Muthurajawela Terminal and Kolonnawa Installation for inter-terminal product transfers, which had also hampered the optimum utilization of those Terminals due to those constraints.

(iii) Even though, the approval of the Cabinet of Ministers for the implementation of "Cross Country Pipeline Project" had been granted on 13 September 2012, it had not been implemented even up to date of this audit report.

(m) Instances were observed where the dealerships had been granted in the year under review by the Corporation contrary to the provision of the Marketing Manual of the corporation.

(n) **Tricomalee Tank Farm**

The Tank Farm contained of 100 Oil Tanks, each having a capacity of 12,500 cubic meters (m^3) (10,000 MT) and other associated facilities, had been constructed in 1930. The land with an extent of 358.553 hectares belong to the Tank Farm had been given on lease basis by the Government of Sri Lanka to the Commissioners of the Lord High Admiralty of the British Government for a period of 999 years before

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gaining independence to Sri Lanka. In 1961 at the request of the Government of Sri Lanka, the Corporation had paid Sterling Pounds 250,000 in three installments and taken over the possession of Land, Tank Farm, Buildings and other equipment with effect from 01 April 1964. Nevertheless, no legal documents had been obtained up to date from the Government for the above land.

In 2003, the Government of Sri Lanka had entered into an agreement with the LIOC and the Corporation to lease out the storage facilities and the land to the LIOC for a period of 35 years and lease agreement should be executed within 6 months from the date of the agreement. The Corporation had not yet entered into any lease agreement or uses the tanks. However, LIOC is using those assets from the year 2003.

(o) **Payment of Penalty**

A sum of Rs. 57.7 million was paid to the Department of Customs to settle the amount outstanding since 2002 in respect of the bunkering operations on the basis of reimbursement that amount from the General Treasury. However, actions had not been taken by the Corporation to get recover from the General Treasury even up to date.

(p) **Hedging Transactions**

As per the audit examination carried out pertaining to the hedging transactions taken place in respect of procurement of oil during the period of 2007 to 2009, the total loss incurred to the country on those transactions as at 31 December 2017 was Rs. 14,028 million. Moreover, the Commercial Bank had filed a case at the Commercial High Court, Colombo against the Corporation by claiming US$ 8,648,300.

W P C Wickramaratne
Auditor General

STATEMENT OF COMPREHENSIVE INCOME

		CPC		Group	
FOR THE YEAR ENDED 31 DECEMBER	Note	2018	2017 Restated	2018	2017 Restated
		Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
Revenue	2	520,967.224	445,950.386	522,238.384	446,625.013
Cost of Sales		(523,982.111)	(418,961.837)	(531,324.830)	(425,879.817)
Gross (Loss)/Profit		**(3,014.887)**	**26,988.549**	**(9,086.446)**	**20,745.196**
Other Operating Income	3	812.825	670.446	1,076.449	878.366
Selling & Distribution Expenses		(14,911.630)	(15,498.189)	(3,612.614)	(2,479.327)
Administrative Expenses		(6,021.760)	(4,959.844)	(10,541.905)	(8,977.986)
Operating (Loss)/Profit	**4**	**(23,135.452)**	**7,200.962**	**(22,164.516)**	**10,166.249**
Exchange Rate Variation		(82,717.291)	(4,922.004)	(82,717.291)	(4,922.003)
Finance Income	5	12,889.174	11,067.082	13,007.051	11,256.523
Finance Expenses	6	(12,065.056)	(10,530.811)	(12,065.056)	(10,654.884)
Profit /(Loss) before tax		**(105,028.625)**	**2,815.229**	**(103,939.812)**	**5,845.885**
Income tax Expense	7	(22.010)	(1,759.595)	(1,346.922)	(2,260.333)
Profit/(Loss) for the year		**(105,050.635)**	**1,055.634**	**(105,286.734)**	**3,585.552**
OTHER COMPREHENSIVE INCOME					
Items that will not be reclassified to Profit or Loss:					
Re-measurement gain/(loss) on Retirement Benefit plan	18	137.696	(887.512)	212.776	(982.459)
Revaluation of Property, Plant & Equipment		159.841	10,210.907	159.841	10,210.907
Tax on Other Comprehensive Income		-	-	(18.336)	12.761
Items that are or may be reclassified subsequently to profit or loss:					
Net loss on Financial Instrument at fair value through OCI	10.1	(16.500)	(0.500)	(16.500)	(0.500)
Other comprehensive income / (expense) for the year		**281.037**	**9,322.895**	**337.783**	**9,240.709**
Total comprehensive Income/(expense) for the year, net of tax		**(104,769.598)**	**10,378.529**	**(104,948.951)**	**12,826.261**
Total Comprehensive Income attributable to :					
Owners of the entity		(104,769.598)	10,378.529	(105,033.639)	11,920.465
Non-Controlling interests		-	-	84.688	905.796
		(104,769.598)	**10,378.529**	**(104,948.951)**	**12,826.261**

*Certain numbers shown here do not correspond to the 2017 financial statements and reflect adjustments made as detailed on Note 26.

The notes appearing on pages 116 to 147 form an integral part of the Financial Statements.

STATEMENT OF FINANCIAL POSITION

		CPC		Group	
AS AT 31 DECEMBER		2018	2017 Restated	2018	2017 Restated
	Note	Rs.Mn.	Rs.Mn.	Rs.Mn.	Rs.Mn.
ASSETS					
Non - Current Assets					
Property, Plant & Equipment	8	23,406.070	23,608.585	39,452.925	40,363.333
Investment Property	8.3	38.681	40.128	38.681	40.128
Intangible Assets	8.4	-	-	127.342	0.278
Investment in Subsidiary	9	5,000.000	5,000.000	-	-
Non-Current Financial Assets	10	25,419.541	29,874.032	25,419.541	29,874.032
Trade & Other Receivables	11	12,970.642	8,963.640	14,109.473	9,407.897
		66,834.934	67,486.385	79,147.962	79,685.668
Current Assets					
Inventories	13	56,934.359	44,152.978	57,591.197	44,559.109
Trade & Other Receivables	11	94,907.195	86,990.589	100,401.890	90,589.895
Short term Investments	14	99,314.811	10,685.474	99,314.811	10,685.474
Cash and Cash Equivalents	15	11,279.951	9,385.759	14,428.596	10,859.879
		262,436.316	151,214.800	271,736.494	156,694.357
Total Assets		**329,271.250**	**218,701.185**	**350,884.456**	**236,380.025**
EQUITY AND LIABILITIES					
Capital and Reserves					
Contributed Capital	16	28,487.125	28,487.125	28,487.125	28,487.125
Capital Reserve	17.1	4,992.686	4,992.686	4,992.686	4,992.686
Financial Instrument fair value	10.1	(38.000)	(21.500)	(38.000)	(21.500)
Revaluation Reserve	17.2	10,370.748	10,210.907	10,370.748	10,210.907
Retained Earnings		(325,574.048)	(220,661.110)	(314,063.990)	(208,887.009)
Non Controlling Interest		-	-	8,255.421	8,387.732
Total Equity		(281,761.489)	(176,991.892)	(261,996.010)	(156,830.059)
Non - Current Liabilities					
Retirement Benefits Obligation	18	1,680.958	1,708.014	3,132.929	3,182.005
Deferred Tax	23	-	-	1,997.626	1,017.152
Loans & Borrowings	19	1,539.455	189.898	1,539.455	189.898
		3,220.413	1,897.912	6,670.010	4,389.055
Current Liabilities					
Trade and Other Payables	20	313,111.745	214,077.733	311,509.875	209,103.597
Current portion of Loans & Borrowings	19.1	37.980	75.959	37.980	75.959
Short term Borrowings	21	294,662.601	179,641.473	294,662.601	179,641.473
		607,812.326	393,795.165	606,210.456	388,821.029
Total Equity and Liabilities		**329,271.250**	**218,701.185**	**350,884.456**	**236,380.025**

*Certain numbers shown here do not correspond to the 2017 financial statements and reflect adjustments made as detailed on Note 26. The notes appearing on pages 116 to 147 form an integral part of the Financial Statements.
These Financial Statements give a true and fair view of the state of affairs of Ceylon Petroleum Corporation and its Group as at 31st Dec 2018 and its loss for the year then ended.

V N Weerasooriya
DY. GENERAL MANAGER (FINANCE)
The Board of Directors is responsible for the preparation and presentation of these Financial Statements. Approved and signed for and on behalf of the Board by,

G S Withanage
Chairman

N R R Jayasekera
Managing Director

K A Vimalenthirarajah
Director

08 June 2019, Colombo

STATEMENT OF CHANGES IN EQUITY

CPC	Contributed Capital	Revaluation Reserves	Capital Reserves	Financial Instrument fair value	Retained Earnings	Total Equity
	Rs.Mn.	Rs.Mn.	Rs.Mn.	Rs.Mn.	Rs.Mn.	Rs.Mn.
As at 1 Jan 2017	**28,487.125**	**-**	**4,992.686**	**(21.000)**	**(219,305.658)**	**(185,846.847)**
Prior Period Adjustments	-	-	-	-	(1,523.574)	(1,523.574)
Re -stated balance as at 1 Jan 2017	**28,487.125**	**-**	**4,992.686**	**(21.000)**	**(220,829.232)**	**(187,370.421)**
Profit for the year	-	-	-		1,055.634	1,055.634
Other Comprehensive Income				(0.500)	(887.512)	(888.012)
Revaluation surplus		10,210.907				10,210.907
As at 31 Dec 2017	**28,487.125**	**10,210.907**	**4,992.686**	**(21.500)**	**(220,661.110)**	**(176,991.892)**
Profit/(Loss) for the year					(105,050.635)	(105,050.635)
Other Comprehensive Income				(16.500)	137.696	121.196
Revaluation surplus		159.841				159.841
As at 31 Dec 2018	**28,487.125**	**10,370.748**	**4,992.686**	**(38.000)**	**(325,574.048)**	**(281,761.489)**

Group	Contributed Capital	Revaluation Reserves	Capital Reserves	Financial Instrument fair value	Retained Earnings	Shareholders Fund	Non Controlling Interest	Total Equity
	Rs.Mn.	Rs.Mn.	Rs.Mn.	Rs.Mn.	Rs.Mn.	Rs.Mn.	Rs.Mn.	Rs.Mn.
As at 1 Jan 2017	28,487.125	-	4,992.686	(21.000)	(209,073.494)	(175,614.683)	7,616.937	(167,997.746)
Prior Period Adjustments					(1,523.574)	(1,523.574)		(1,523.574)
Re -stated balance as at 1 Jan 2017	28,487.125	-	4,992.686	(21.000)	(210,597.068)	(177,138.257)	7,616.937	(169,521.320)
Profit/(Loss)for the year					2,652.361	2,652.361	933.191	3,585.552
Other Comprehensive Income for the year				(0.500)	(942.302)	(942.802)	(27.395)	(970.198)
Revaluation surplus		10,210.907				10,210.907		10,210.907
Dividend paid							(135.000)	(135.000)
As at 31 Dec 2017	28,487.125	10,210.907	4,992.686	(21.500)	(208,887.009)	(165,217.790)	8,387.732	(156,830.059)
Profit/(Loss) for the year					(105,352.507)	(105,352.507)	65.773	(105,286.734)
Other Comprehensive Income for the year				(16.500)	175.526	159.026	18.915	177.941
Revaluation surplus		159.841				159.841		159.841
Dividend paid				-		-	(217.000)	(217.000)
As at 31 Dec 2018	28,487.125	10,370.748	4,992.686	(38.000)	(314,063.990)	(270,251.431)	8,255.421	(261,996.010)

*Certain numbers shown here do not correspond to the 2017 financial statements and reflect adjustments made as detailed on Note 26. The notes appearing on pages 116 to 147 form an integral part of the Financial Statements

STATEMENT OF CASH FLOWS

		CPC		Group	
For the year ended 31 December	Note	2018	2017 Restated	2018	2017 Restated
		Rs.Mn.	Rs.Mn.	Rs.Mn.	Rs.Mn.
CASH FLOWS FROM OPERATING ACTIVITIES	**24**	**(18,548.432)**	**(7,320.527)**	**(15,255.275)**	**(5,420.040)**
Interest Paid	6	(11,214.798)	(10,087.044)	(11,214.798)	(10,211.117)
Retiring Gratuity Paid	18	(152.227)	(127.985)	(325.892)	(225.201)
Income Tax /ESC paid		(6,613.479)	(3,157.005)	(7,220.087)	(3,289.121)
Net Cash Generated from/(used in) Operating activities		**(36,528.937)**	**(20,692.561)**	**(34,016.053)**	**(19,145.480)**
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from Sale of Property, Plant & Equipment		0.046	11.791	26.640	15.427
Acquisition of Property, Plant & Equipment	8	(594.680)	(818.529)	(969.910)	(1,651.819)
Dividend income		390.663	243.105	0.063	0.105
Interest Received	5	6,805.872	6,656.295	6,923.750	6,845.736
Investment in Treasury Bonds		5,663.025	1,115.053	5,663.025	1,115.053
Investment in Fixed Deposits		(89,854.370)	21,981.159	(89,854.370)	21,981.159
Net Cash Flows from /(Used in) Investing Activities		**(77,589.443)**	**29,188.874**	**(78,210.802)**	**28,305.661**
CASH FLOWS FROM FINANCING ACTIVITIES					
Dividend Paid		-	-	(217.000)	(135.000)
New loans obtained		419,535.325	318,165.820	419,535.325	318,165.820
Repayment of Loans		(303,202.620)	(332,245.960)	(303,202.620)	(333,644.811)
Net Cash Flows From/(Used in) Financing Activities		**116,332.705**	**(14,080.140)**	**116,115.705**	**(15,613.991)**
Net Increase/(Decrease) in Cash & Cash Equivalents		2,214.325	(5,583.827)	3,888.851	(6,453.810)
Cash & Cash Equivalents at the Beginning of the Year		6,438.298	12,022.125	7,912.418	14,366.228
Cash & Cash Equivalents at the End of the Year	**15**	**8,652.623**	**6,438.298**	**11,801.268**	**7,912.418**

*Certain numbers shown here do not correspond to the 2017 financial statements and reflect adjustments made as detailed on Note 26. The notes appearing on pages 116 to 147 form an integral part of the Financial Statements

NOTES TO THE FINANCIAL STATEMENTS

1.1 CORPORATE INFORMATION

General

Ceylon Petroleum Corporation (the Corporation) is a Public Corporation incorporated under Ceylon Petroleum Corporation Act, No. 28 of 1961 and domiciled in Sri Lanka. The registered office of the Corporation is located at No. 609, Dr. Danister De Silva Mawatha, Colombo 09.

Principal activities and nature of operations

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

Parent entity and the ultimate controlling party

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

Date of authorization for issue

The Financial Statements of Ceylon Petroleum Corporation and its Group for the year ended 31 December 2018 were authorized for issue in accordance with a Resolution of the Board of Directors on 08th June 2019.

Statement of compliance

The Financial Statements of Ceylon Petroleum Corporation and its Group, which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of cash flows and Notes to the Financial Statements (the 'financial statements') have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs / LKASs) issued by the Institute of Chartered Accountants of Sri Lanka and the provisions of the Finance Act No. 38 of 1971 and subsequent amendments thereto.

1.2 BASIS OF PREPARATION

The financial statements of the Corporation and consolidated financial statements of the Group have been prepared in accordance with the Sri Lanka Accounting Standards comprising of SLFRS and LKAS (hereafter referred as "SLFRS") as issued by the Institute of Chartered Accountants of Sri Lanka..

The financial statements have been prepared on accrual basis and under historical cost basis, except for investment properties, certain office properties (classified as property, plant and equipment), financial assets that have been measured at fair value and defined benefit obligation which is measured at the present value of the obligation.

Presentation & functional currency

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

Materiality and aggregation

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

Basis of consolidation

The consolidated financial statements as at and for the year ended 31 December 2018 comprise of the Corporation and its Subsidiary (together referred to as the 'Group').

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

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

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

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

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

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

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

Non-controlling interests

Profit or loss and each component of other comprehensive income (OCI) of the subsidiary are attributed to the equity holders of the parent of the Group and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

1.3 ACCOUNTING POLICIES

Changes in Accounting Policies

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

Comparative Information

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

Going Concern

These financial statements are prepared on the assumption that the CPC & its Group is a going concern i.e. as continuing in operation for the foreseeable future. It is therefore assumed that CPC has neither the intention nor the necessity of liquidating or of curtailing materially the scale of its operation even though the corporation and the group have a negative equity position of Rs. 281,761 Million and Rs. 261,996 Million respectively as per the financial statements prepared for the year ended 31st December 2018.

Summary of Significant Accounting Judgments, Estimates and Assumptions

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

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

1.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.4.1 REVENUE RECOGNITION

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

The following specific criteria must also be met for the purpose of recognition of revenue.

Sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably.

Interest income & expenses

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

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

Dividends

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

Rental income

Rental income is accounted for on a straight-line basis over the lease terms and is included in other operating income in the statement of profit or loss.

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

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

Gains or Losses arising from investment securities

Gains or losses arising from the sale of equity shares and financial instruments accounted for on the date on which the transaction takes place.

Other Income

Other income is recognized on an accrual basis

Impact of SLFRS 15 Revenue from Contracts with Customers

The objective of SLFRS 15 Revenue from Contracts with Customers 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. As per the current practice of the Corporation, revenue from sales of goods is recognized when the goods are dispatched, or in the case of delivering the goods to the customer, legal ownership is transferred only upon delivery of goods to the customer.

In all such case, the revenue is recognized by the Group when the goods are dispatched or delivered and accepted by the dealers/customers.

Accordingly, it has been identified that there is no significant impact on the changes to the revenue recognition as per the SLFRS 15.

1.4.2 EXPENDITURE RECOGNITION

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

Taxation

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

(I) CURRENT TAX

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on elements of income and expenditure as reported in the Financial Statements and computed in accordance with the provisions of the Inland Revenue Act No. 24 of 2017 and the amendments thereto.

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

(II) DEFERRED TAXATION

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

Deferred income tax liabilities are recognized for all taxable temporary differences except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilized except where the deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

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

(III) SALES TAX

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

Borrowing Costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying asset, which are assets that necessarily take a substantial period of time to get ready for their intended use or sell, are added to the costs of those assets. All other borrowing costs are expensed in the period they occur.

1.4.3 FOREIGN CURRENCY TRANSACTIONS AND BALANCES

The Financial Statements are presented in Sri Lanka Rupees, which is the Corporation's functional and presentation currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are re-translated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to Income Statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Non-monetary items measured at fair value in foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

1.4.4 CURRENT VERSUS NON-CURRENT CLASSIFICATION

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

- Expected to be realized or intended to sold or consumed in normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized within twelve months after the reporting period

Or

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

All other assets are classified as non-current assets

A liability is current when it is:

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

Or

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

The Group classifies all other liabilities as non-current.

Deferred tax liabilities are classified as non-current liabilities.

1.4.5 FAIR VALUE MEASUREMENT

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

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

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

- In the principal market for the asset or liability

or

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

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

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

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

External valuers are involved for valuation of significant assets, such as land and investment properties and significant liabilities, such as retirement benefits obligation.

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

1.4.6 PROPERTY, PLANT & EQUIPMENT

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

Measurement

An item of property, plant & equipment that qualifies for recognition as an asset is initially measured at its cost of purchase directly attributable to the acquisition of the asset or construction together with any incidental expenses thereon.

The cost of self-constructed assets included the cost of materials and direct labor or any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring the site on which they are located and borrowing costs of qualifying assets. Such cost includes the cost of replacing part of the property, plant and equipment when that cost is incurred, if the recognition criteria are met.

Cost Model

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

Revaluation Model

Lands are measured at fair value less impairment losses recognised after the date of the revaluation. Valuations are performed frequently to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Any revaluation surplus is credited to the asset revaluation reserve in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the income statement, in which case the increase is recognised in the income statement. A revaluation deficit is recognised in the income statement, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

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

Subsequent Costs

The cost of replacing part of an item of property, plant & equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow into the Group and its cost can be reliably measured.

Restoration Costs

The cost incurred on repairs and maintenance of property, plant & equipment in order to restore or maintain future economic benefits is charged to Income Statement as incurred.

De-recognition

The carrying amount of an item of property, plant & equipment is derecognized on disposal or when no future economic benefits are expected from its use. The gain or loss arising from de-recognition of an item of property, plant & equipment is included in the Income Statement when the item is derecognized.

Depreciation

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

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

The estimated useful life of assets is as follows:

Assets	Years
Buildings	35-50 Years
Tanks	20-40 Years
Pipe Lines	5-40 Years
Plant & Machinery	5-10 Years
Gantries & Pumps	10-15 Years
Vehicles	4-5 Years
Furniture, Fittings & Office Equipment	3-10 Years
Buoy	10 Years
SPM Facility - Tank Farm	40 Years
Aviation Facility Mattala	
Fuel Hydrant	40 Years
Fuel Hydrant System	40 Years
Internal Road network & Fences	20 Years
Metering & Electrical System	10 Years
Fire Fighting System	10 Years
Other Assets	8 Years
Muthurajawela - PLEM	10 Years

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

Capital Work in Progress

Capital work-in-progress is stated at cost. These are expenses of a capital nature directly incurred in the construction of buildings, major plant and machinery and system development, awaiting capitalization.

Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of impairment at each reporting date.

1.4.7 INVESTMENT PROPERTIES

Basis of Recognition

Investment property is property that is held to earn rentals or for capital appreciation or both but not for sale in the ordinary course of business.

Measurement

Investment property is accounted for under cost method in the Financial Statements. Accordingly, after recognition as an asset, the property is carried at its cost, less accumulated depreciation and impairment losses.

Depreciation

Depreciation is provided on a straight-line basis over the estimated life of the class of asset from the date of purchase up to the date of disposal.

De-recognition

Investment properties are derecognized once disposed or permanently withdrawn from use because no future economic benefits are expected. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the period of derecognition. The amount of consideration to be included in the gain or loss arising from the derecognition of investment property is determined in accordance with the requirements for determining the transaction price in SLFRS 15.

Transfers are made to and from investment property only when there is a change in use.

1.4.8 INTANGIBLE ASSETS

Basis of recognition

An intangible asset is recognized if it is probable that future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably in accordance with the Sri Lanka Accounting Standard - LKAS 38 on 'Intangible Assets'.

After initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses, if any

An intangible asset is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss.

1.4.9 INVESTMENT IN SUBSIDIARY

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

1.4.10 INVENTORIES

Inventories are valued at the lower of cost and net realizable value, after making due allowances for obsolete and slow moving items. Net Realizable Value (NRV) is the estimated selling price at which inventories can be sold in the ordinary course of business less the estimated cost of completion and the estimated cost necessary to make the sale. NRV is assessed with reference to market conditions and prices existing at the reporting date and in the light of recent market transactions.

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

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

Consumables & Spares	-	At purchase cost on weighted average basis

1.4.11 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are cash in hand, demand deposits and short-term highly liquid investments, readily convertible to known amounts of cash and subject to insignificant risk of changes in value. For the purpose of cash flow statement, cash and cash equivalents consist of cash in hand and deposits in banks net of outstanding bank overdrafts. Investment with short maturities i.e. three months or less from the date of acquisition is also treated as cash equivalent.

1.4.12 PROVISIONS & LIABILITIES

Provisions

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

Defined Benefit Obligations - Gratuity

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

The management determines the appropriate discount rate at the end of each year. This is the interest rate that should be used in determining the present value of estimated future cash flows expected to be required to settle the defined benefit obligation. In determining the discount rate, management considers the interest rates of government bonds in the absence of deep market for corporate bonds in Sri Lanka. Other key assumptions for defined benefit obligation are based on current market conditions.

Provision has been made for retirement gratuities from the beginning of service for all permanent employees, in conformity with LKAS 19 - Employee Benefits. However, under the Payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of 5 years of continued service.

This is not an externally funded defined benefit plan.

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

DEFINED CONTRIBUTION PLANS – EMPLOYEES' PROVIDENT FUND & EMPLOYEES' TRUST FUND

Employees are eligible for Employees' Provident Fund contributions and Employees' Trust Fund contributions in line with the respective statutes and regulations. The Corporation contributes 15% and 3% of gross emoluments of employees to Employees' Provident Fund and Employees' Trust Fund respectively and records as an expense in the income statement in the periods during which services are rendered by employees.

1.4.13 CAPITAL RESERVE

Specific amounts received from Government Consolidated Fund and the net value of restructuring sale proceeds which eventually form the issued capital of the successor to Ceylon Petroleum Corporation are credited to a Capital Reserve.

1.4.14 FINANCIAL INSTRUMENTS

I) FINANCIAL ASSETS

Initial recognition and measurement

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Corporation initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price.

Financial assets subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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

The Group classifies its financial instruments in the following categories:

A. FINANCIAL ASSETS AT AMORTISED COST

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes trade and other receivables, and loan to employees and investment in treasury bonds & bills, fixed deposits.

B. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH OCI

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by instrument basis.

Gains and losses on these financial assets are never recycled Income Statement. Dividends are recognised as other income in the Income Statement when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI.

The Group elected to classify its quoted and non-listed equity investments under this category.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired, or
- The Group 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 Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group 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 Group has retained.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group 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 group of financial assets that can be reliably estimated. Expected credit losses (ECL)s are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade and other receivables, evidence of impairment may include indications that the debtors or a group 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. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors.

The Group considers a financial asset in default when contractual payments are remote. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows. The Group review individually significant trade receivables at the each reporting date to assess whether impairment loss should be recognized in the income statement. Since the Group assess the trade receivable individually and found not to be additionally impaired.

II) FINANCIAL LIABILITIES

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, include trade and other payables as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts.

Subsequent measurement

Loans & borrowings and trade and other payables at Amortised Cost

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in Income Statement when the liabilities are derecognised as well as through the EIR amortisation process.

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 as finance costs in the Income Statement.

Derecognition

A financial liability is derecognised 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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

III) OFFSETTING OF FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Determination of fair value

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

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

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

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

The Institute of Chartered Accountants of Sri Lanka issued SLFRS 09 Financial Instruments which reflects financial instruments and replaces LKAS 39 Financial Instrument, recognition and Measurement. The Standard introduces new requirements for Classification and Measurement of Impairment and Hedge Accounting.

1.4.15 CONTINGENT LIABILITIES, LITIGATION & COMMITMENTS

Contingent liabilities are the possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognized in the Statement of Financial Position but are disclosed, unless they are remote.

1.5 ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

A) **SLFRS 16 - LEASES**

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.

This standard is effective for annual periods commencing on or after 01 January 2019.

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

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

- Plan Amendment, Curtailment or Settlement (Amendments to LKAS 19)
- Definition of Material (Amendments to LKAS 1 and LKAS 8)
- Prepayment Features with Negative Compensation (Amendments to SLFRS 9)

2. REVENUE

	CPC		Group	
	2018	2017 Restated	2018	2017 Restated
	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
Domestic	519,323.054	473,956.995	519,323.054	473,956.995
Export	72,434.772	42,814.169	72,434.772	42,814.169
Bunkering	495.054	-	495.054	233.906
Terminal Charge & Others	-	-	1,271.160	440.722
Total Sales	592,252.880	516,771.164	593,524.040	517,445.791
Less : Excise Duty & NBT	(71,285.656)	(70,820.778)	(71,285.656)	(70,820.778)
Net Revenue	**520,967.224**	**445,950.386**	**522,238.384**	**446,625.013**

3. OTHER OPERATING INCOME

	CPC		Group	
	2018	2017	2018	2017
	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
Income on Investment Property	39.879	38.359	39.879	38.359
Staff Loan Interest	214.659	210.318	794.110	563.085
Rental Income	10.914	10.328	14.311	12.994
Proft/(loss) on disposal of PPE	0.046	(4.914)	26.468	(1.319)
Profit on Sale of Filling Station equipment	17.149	22.728	17.149	22.728
Dividend Income	434.063	243.105	0.063	0.105
Sundry Income	96.115	150.523	184.469	242.415
	812.825	**670.446**	**1,076.449**	**878.366**

4.OPERATING PROFIT

	CPC		Group	
	2018	2017	2018	2017
	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
Operating Profit stated after charging the following expenses				
Directors' emoluments	1.595	1.388	13.027	11.172
Auditors' remuneration	2.000	2.000	3.943	3.800
Depreciation (Note 8)	725.587	726.476	1,545.840	1,604.831
Advertising Expenses	37.476	26.763	37.476	26.763
Legal charge & Other Professional fee	62.454	156.435	62.454	156.435
Disallowed VAT	2,741.672	2,252.653	2,741.672	2,252.653
Special Fee to General Treasury	1,000.000	1,000.000	1,000.000	1,000.000

5. FINANCE INCOME

	CPC		Group	
	2018	2017	2018	2017
	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
Interest Income on Treasury Bills, Fixed Deposits and Call Deposits	4,749.463	4,041.318	4,867.340	4,230.759
Interest Income on Credit invoice & Overdue trade debts	17.576	30.241	17.576	30.241
Interest Income on CEB/IPP/Aviation debtors	5,152.443	3,561.129	5,152.443	3,561.129
Interest Income on Treasury Bonds	2,968.440	3,433.551	2,968.440	3,433.551
Interest Income on R.F.C. A/C & Others	1.252	0.843	1.252	0.843
	12,889.174	**11,067.082**	**13,007.051**	**11,256.523**

6. FINANCE EXPENSES

	CPC		Group	
	2018	2017	2018	2017
	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
Interest on Long Term Loans	29.244	39.879	29.244	163.952
Interest on Foreign Currency Bank Loans	12,024.101	10,457.912	12,024.101	10,457.912
Other Finance Cost	11.711	33.020	11.711	33.020
	12,065.056	**10,530.811**	**12,065.056**	**10,654.884**

7. TAX EXPENSE

	CPC		Group	
	2018	2017 Restated	2018	2017 Restated
	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
Current tax:				
Current income tax	-	1,407.718	333.928	1,907.505
Under/(over) provision of previous years	(21.390)	-	7.454	(23.205)
WHT on Dividend	43.400		43.400	
Tax on distributable profit		351.877		351.878
Deferred tax:			-	
Origination and reversal of temporary differences - Income statement	-	-	962.139	24.155
Income tax expense - income statement	**22.010**	**1,759.595**	**1,346.922**	**2,260.333**
Income tax expense - Other Comprehensive Income	**-**	**-**	**18.336**	**(12.761)**
Total income tax expense	**22.010**	**1,759.595**	**1,365.258**	**2,247.572**

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

	CPC		Group	
	2018	2017	2018	2017
	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
Accounting profit/(loss) before tax	(105,028.625)	2,815.229	(103,939.812)	5,845.885
Add: Disallowable expenses	49,042.211	1,195.579	50,500.145	2,521.222
Less: Allowable expenses & exempt income	(1,520.186)	(1,711.796)	(3,158.891)	(2,952.876)
Adjusted trade profit	**(57,506.600)**	**2,299.012**	**(56,598.558)**	**5,414.231**
Less: Utilisation of tax losses	(7,883.226)	(2,707.151)	(7,883.226)	(2,939.276)
Add: Tax losses for the year	65,389.826	5,435.704	65,389.826	4,883.713
Taxable income	**0.000**	**5,027.566**	**908.042**	**7,358.669**
Income tax charged at				
28%	(0.000)	1,407.718	0.000	1,407.718
Concessionary rates	-	-	333.928	499.786
Under/(over) provision of previous years	(21.390)	-	7.454	(23.205)
Tax on distributable profit	-	351.877	-	351.877
WHT on Dividend	43.400		43.400	
Deferred tax charge to income statement	-	-	962.139	24.156
Origination and reversal of temporary differences - OCI	-	-	18.336	(12.761)
Income tax expense	**22.010**	**1,759.595**	**1,365.258**	**2,247.572**

Assessments have been issued to the Taxable years of 2002/2003, 2013/14, 2014/2015 and 2015/2016 to the value of Rs.2,755 Mn, Rs.100 Mn, Rs.723 Mn and Rs.70 Mn respectively and CPC has made valid appeals for those Assessments.

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

8. PROPERTY, PLANT & EQUIPMENT (CPC)

8.1. Cost

	Land & Building	Vested Property	Plant, Mach & Equip.	SPM Facility	Motor Vehicles	Furn/Fittings, Off. Equip & Other Assets	Capital Work in Progress	CPC Total
	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn
Bal as at 01/01/2018	15,737.888	1.016	11,214.907	2,238.273	1,321.927	2,257.419	532.479	33,303.909
Additions/Transfers	128.665	-	244.834	-	4.689	48.884	167.608	594.680
Re-valuation	159.841	-	-	-	-	-	-	159.841
Disposals	-	-	(21.479)	-	(1.626)	(0.917)	-	(24.022)
Bal as at 31/12/2018	16,026.394	1.016	11,438.261	2,238.273	1,324.990	2,305.387	700.087	34,034.407

8.2 Depreciation

	Land & Building	Vested Property	Plant, Mach & Equip.	SPM Facility	Motor Vehicles	Furn/Fittings, Off. Equip & Other Assets	Capital Work in Progress	CPC Total
	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn
Bal as at 01/01/2018	797.937	0.397	5,296.249	1,300.219	638.801	1,661.721	-	9,695.324
Charge for the Year	114.523	-	564.544	31.566	182.866	63.537	-	957.035
Disposals	-	-	(21.479)	-	(1.626)	(0.917)	-	(24.022)
Bal as at 31/12/2018	912.460	0.397	5,839.315	1,331.785	820.041	1,724.341	-	10,628.337
NBV as at 31.12.2018	**15,113.934**	**0.619**	**5,598.947**	**906.488**	**504.949**	**581.046**	**700.087**	**23,406.070**
Cost as at 31.12.2017	15,737.888	1.016	11,214.907	2,238.273	1,321.927	2,257.419	532.480	33,303.909
Acc.Dep as at 31.12.2017	797.937	0.397	5,296.249	1,300.219	638.801	1,661.721	-	9,695.324
NBV as at 31.12.2017	**14,939.951**	**0.619**	**5,918.658**	**938.054**	**683.126**	**595.699**	**532.480**	**23,608.585**

CPC has changed its accounting for the measurement of Land to the revaluation model and revalued amounts have been incorporated to the Financial statements. CPC revalued four lands during the year 2018 and engaged the Valuation Department, an accredited independent valuer, to determine the fair value of its land. Fair value is determined by reference to market-based evidence. This means that valuations performed by the valuer are based on active market prices, adjusted for any difference in the nature, location or condition of the specific property.

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

	2018	2017
	Rs.Mn	Rs.Mn
Cost / Carrying amount	0.073	0.073

Gross carrying amount of the fully depreciated Property, Plant & Equipment as at 31.12.2018 is Rs.4,821..475 Mn.(2017-Rs.4,683.676 Mn)

8. PROPERTY, PLANT & EQUIPMENT(GROUP)

8.1. Cost

	Land & Building	Vested Property	Plant, Mach & Equip.	SPM Facility	Motor Vehicles	Furn/Fittings, Off. Equip & Other Assets	Capital Work in Progress	GROUP Total
	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn
Bal as at 01/01/2018	21,918.021	1.016	20,112.482	5,038.682	3,074.768	11,163.662	1,252.454	62,561.084
Additions/Transfers	130.345	-	249.539	-	136.670	240.666	83.148	840.367
Re-valuation	159.841	-	-	-	-	-	-	159.841
Disposals	-	-	(21.479)	-	(48.811)	(1.021)	-	(71.311)
Bal as at 31/12/2018	**22,208.207**	**1.016**	**20,340.541**	**5,038.682**	**3,162.626**	**11,403.307**	**1,335.601**	**63,489.983**

8.2. Depreciation

	Land & Building	Vested Property	Plant, Mach & Equip.	SPM Facility	Motor Vehicles	Furn/Fittings, Off. Equip & Other Assets	Capital Work in Progress	GROUP Total
	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn
Bal as at 01/01/2018	1,380.623	0.397	9,261.547	3,616.237	1,831.216	6,107.732	-	22,197.751
Charge for the Year	163.317	-	1,080.688	192.113	326.428	147.899	-	1,910.445
Disposals	-	-	(21.479)	-	(48.714)	(0.946)	-	(71.139)
Bal as at 31/12/2018	1,543.940	0.397	10,320.756	3,808.349	2,108.930	6,254.685	-	24,037.058
NBV as at 31.12.2018	**20,664.267**	**0.619**	**10,019.786**	**1,230.333**	**1,053.696**	**5,148.622**	**1,335.601**	**39,452.925**
Cost as at 31.12.2017	21,918.021	1.016	20,112.482	5,038.682	3,074.768	11,163.662	1,252.454	62,561.084
Acc.Dep as at 31.12.2017	1,380.623	0.397	9,261.547	3,616.237	1,831.216	6,107.732	-	22,197.751
NBV as at 31.12.2017	**20,537.397**	**0.619**	**10,850.935**	**1,422.446**	**1,243.552**	**5,055.930**	**1,252.454**	**40,363.333**

8.3 Investment Property

	CPC		Group	
	2018	2017	2018	2017
	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn
Cost				
Bal at the beginning of the year	57.891	57.891	57.891	57.891
Add: Additions / Transfers	-		-	-
Bal as at the end of the year	57.891	57.891	57.891	57.891
Depreciation				
Bal at the beginning of the year	17.763	16.316	17.763	16.316
Add: Transfer from PPE				-
Add: Charge for the year	1.447	1.447	1.447	1.447
Bal as at the end of the year	19.210	17.763	19.210	17.763
Net Book Value	**38.681**	**40.128**	**38.681**	**40.128**

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

<table>
<tr><th>Description</th><th>Fair Value
Rs.Mn</th></tr>
<tr><td>No.80, Flower Road, Colombo 07</td><td rowspan="2">40.000</td></tr>
<tr><td>No.22/1, Thurstan Road, Colombo 03</td></tr>
<tr><td>Filling Stations</td><td>18.283</td></tr>
</table>

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

8.4 Intangible Assets

	Group			
	ERP System	SAP License	Automation System	Total
	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn
Cost /Carrying value				
At the beginning of the year	412.497	9.380	37.794	459.670
Additions/Transfers	129.542	-	-	129.542
At the end of the year	542.039	9.380	37.794	589.212
Amortisation				
At the beginning of the year	412.219	9.380	37.794	459.393
Charge for the Year	2.478	-		2.478
At the end of the year	414.697	9.380	37.794	461.871
Carrying value				
As at 31.12.2018	**127.342**	**-**	**-**	**127.342**
As at 31.12.2017	**0.278**	**-**	**-**	**0.278**

8.5 Capitalisation of Borroving Cost

The Group commenced the Construction of Development & Upgrading of Aviation Refuelling Terminal & the Existing Fuel Hydrant System and Installation of a Fuel Hydrant System of CPC at New Apron –E Bandaranaike International Airport (BIA)in January 2018. This Project is financed by the two outsource facilities (15% form the Commercial loan taken from Peoples Bank and the Balance 85% on Self financing basis by the contractor).

The amount of borrowing cost capitalized during the year 2018 was Rs.30.267 Mn.The rate was to determine the capitalization of borrowing cost was 7.56788%

9. INVESTMENT IN SUBSIDIARY

	CPC		CPC		Group	
	2018	2017	2018	2017	2018	2017
	Holding %	Holding %	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn
Ceylon Petroleum Storage Terminals Ltd.	66.67%	66.67%	5,000.000	5,000.000	-	-
			5,000.000	5,000.000	-	-

10. NON CURRENT FINANCIAL ASSETS

		CPC		Group	
		2018	2017	2018	2017
	Note	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn
Quoted equity investments	10.1	12.500	29.000	12.500	29.000
Unquoted equity investments	10.2	0.540	0.540	0.540	0.540
Non equity investments	10.3	25,406.501	29,844.492	25,406.501	29,844.492
		25,419.541	29,874.032	25,419.541	29,874.032

10.1. Quoted equity investments

	CPC		Group	
	2018	2017	2018	2017
	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn
Lanka Cement Ltd.				
5,000,000 Ordinary Shares of Rs.10/= each fully paid	29.000	29.500	29.000	29.500
Adjustment for fair value changes	(16.500)	(0.500)	(16.500)	(0.500)
	12.500	29.000	12.500	29.000

10.2.Unquoted equity investments

	CPC		Group	
	2018	2017	2018	2017
	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn
Associated News Papers of Ceylon Ltd.				
61,206 Ordinary Shares of Rs.10/= each	0.539	0.539	0.539	0.539
Lanka Leyland Ltd.				
100 Ordinary Shares of 10/= each	0.001	0.001	0.001	0.001
International Cooperative Petroleum association				
5,499 Shares of Us $ 100/= each fully paid				
Incorporated in USA	5.086	5.086	5.086	5.086
Less : Provision for Impairment	(5.086)	(5.086)	(5.086)	(5.086)
	0.540	**0.540**	**0.540**	**0.540**

The unquoted investments classified as financial assets of fair value through OCI, investments are carried at cost.

The maximum exposure to credit risk at the reporting date is the carrying value of equity securities classified as fair value through OCI.

None of the unquoted equity investments is either past due or impaired except the International Cooperative Petroleum Association for which an impairment provision has been made.

10.3.Non equity investments

	CPC		Group	
	2018	2017	2018	2017
	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn
Investment in Fixed Deposits	5.000	5.000	5.000	5.000
Investment in Treasury Bonds	25,401.501	29,839.492	25,401.501	29,839.492
	25,406.501	**29,844.492**	**25,406.501**	**29,844.492**

11. TRADE & OTHER RECEIVABLE

	CPC			
	2018		2017	
	Current	Non-Current	Current	Non-Current
	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn
Trade Receivables	82,575.246	3,601.342	76,956.161	-
Receivables- Inland Revenue & Custom Dept.	1,949.609	-	1,868.594	
Other Receivables	6,389.703	5,000.607	5,771.522	6,000.667
Deposits & Prepayments	376.945	833.577	282.587	24.786
Advance	3,572.133	-	2,057.605	
Loans & Advances to Employees	43.558	3,535.116	54.119	2,938.187
TOTAL	**94,907.195**	**12,970.642**	**86,990.589**	**8,963.640**

As at 31 December, the age analysis of trade receivables is set out below,

	CPC	
	2018	2017
	Rs.Mn	Rs.Mn
Less than 30 days	18,143.703	14,859.807
30 - 90 days	10,930.265	14,894.417
91 - 180 days	17,384.670	17,017.983
181 - 365 days	30,583.025	21,112.398
More than 365 days	9,610.400	9,120.833
Total	**86,652.063**	**77,005.439**
Provision for impairment	(475.476)	(49.278)
	86,176.588	**76,956.161**

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

	CPC	
	2018	2017
	Rs.Mn	Rs.Mn
Balance as at 1st January	49.278	49.621
Less: Amount Recovered	(1.097)	(0.343)
Less: Amount write off	-	-
Add: Provision for the year	427.295	-
Balance as at 31st December	**475.4763**	**49.278**

	Group			
	2018		2017	
	Current	Non-Current	Current	Non-Current
	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn
Trade Receivables	84,956.226	3,601.342	77,596.222	-
Receivables- Inland Revenue & Custom Dept.	1,949.609		1,868.594	
Other Receivables	6,629.877	5,000.607	5,910.078	6,000.668
Deposits & Prepayments	1,727.046	833.577	1,264.301	24.786
Advance	3,572.132	-	2,057.605	-
Loans & Advances to Employees	1,566.998	4,673.947	1,893.093	3,382.443
	100,401.890	**14,109.473**	**90,589.895**	**9,407.897**

The carrying amounts of trade receivables are denominated in following currencies;

	CPC		Group	
	2018	2017	2018	2017
	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn
Sri Lankan Rupees	60,826.272	63,555.887	63,207.252	64,195.948
United States Dollars	25,350.316	13,400.274	25,350.316	13,400.274
	86,176.588	**76,956.161**	**88,557.568**	**77,596.222**

12 FINANCIAL INSTRUMENTS

Financial Assets by category

	CPC		Group	
	2018	2017	2018	2017
	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn
Financial assets at amortized cost				
Trade and other receivables	105,928.227	86,096.650	111,211.653	86,875.269
Investments in treasury bonds	29,698.683	35,361.708	29,698.683	35,361.708
Placements with banks	95,022.630	5,168.258	95,022.630	5,168.258
Cash in hand and at bank	11,279.951	9,385.759	14,428.587	10,859.879
Financial assets at fair value through OCI			-	
Unquoted Equity Investments	0.540	0.540	0.540	0.540
Quoted Equity Investments	12.500	29.000	12.500	29.000
TOTAL	**241,942.531**	**136,041.915**	**250,374.592**	**138,294.654**

Financial Liabilities by category

	CPC		Group	
	2018	2017	2018	2017
	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn
Financial Liabilities at amortized cost				
Borrowings	296,240.036	179,907.331	296,240.036	179,904.331
Trade and other payables	287,898.385	183,282.528	286,005.430	177,816.873
TOTAL	**584,138.421**	**363,189.859**	**582,245.466**	**357,721.204**

12.1 Fair value of Financial Instruments

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

		Carrying Amount		Fair value	
As at 31 December		2018	2017	2018	2017
		Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
Financial assets					
Non Current Financial assets					
Quoted equity investments	12.1.1	12.500	29.000	12.500	29.000
Unquoted equity investments	12.1.2	0.540	0.540	0.540	0.540
Investement in Fixed Deposits	12.1.3	5.000	5.000	5.000	5.000
Investement in Tresury Bonds	12.1.1	25,401.501	29,839.492	25,401.501	29,662.613
Trade & Other receivables	12.1.4	106,403.879	86,096.650	105,928.227	86,096.650
Short term investments					
Bank deposits	12.1.3	95,017.630	5,163.258	95,017.630	5,163.258
Government bonds	12.1.1	4,297.182	5,522.215	4,297.182	5,480.095
Cash and cash equivalents	12.1.4	11,279.951	9,385.759	11,279.951	9,385.759
Total		**242,418.182**	**136,041.915**	**241,942.531**	**135,822.915**
Financial liabilities					
Loans & borrowings	12.1.3	1,577.435	265.858	1,577.435	265.858
Trade & other payables	12.1.4	287,898.385	183,282.528	287,898.385	183,282.528
Short term borrowings	12.1.4	294,662.601	179,641.473	294,662.601	179,641.473
		584,138.421	**363,189.859**	**584,138.421**	**363,189.859**

Determination of fair value

VALUATION MODEL

For all financial instruments where fair values are determined by referring to externally quoted prices or observable pricing inputs to models,independent price determination or validation is obtained.In an active market,direct observation of a traded price may not be possible .In these circumstances,the Group uses alternative market information and discounted cashflows to validate the financial instrument's fair value, with greater weight given to information that is considered to be more relevent and reliable.

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

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

12.1.3 Investment in deposits and loans & borrowings are evaluated by the Group based on parameters such as interest rates, creditworthiness of the bank, and the risk characteristics of the instrument. As at 31 December 2018, the carrying amounts of deposits, loans & borrowings are not materially different from their fair values.

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

12.2 Fair value hierarchy

The Group use the following hierarchy for determining and disclosing the fair value of financial instruments by valuation techniques:

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

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

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

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

	CPC			
As at 31 December	2018			
	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through OCI				
Quoted equity investments	12.500	-	-	12.500
Unquoted equity investments	-	-	0.540	0.540
	12.500	-	0.540	13.040

13. INVENTORIES

	CPC		Group	
	2018	2017	2018	2017
	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn
Crude Oil	10,125.490	10,025.945	10,125.490	10,025.945
Other Raw material	847.482	692.765	847.482	692.765
Finished Products	43,048.394	30,188.447	43,056.513	30,195.263
Intermediate Product	624.056	655.401	624.056	654.036
Other Materials & Supplies	2,670.653	2,999.244	3,335.054	3,542.842
Less: Provision for Slow Moving Items	(381.717)	(408.823)	(397.399)	(551.741)
	56,934.359	**44,152.978**	**57,591.197**	**44,559.109**

14. SHORT TERM INVESTMENTS

	CPC		Group	
	2018	2017	2018	2017
	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn
Bank Deposits	95,017.630	5,163.258	95,017.630	5,163.258
Investment in Treasury Bonds	4,297.181	5,522.215	4,297.181	5,522.215
	99,314.811	**10,685.474**	**99,314.811**	**10,685.474**

15. CASH AND CASH EQUIVALENTS

	CPC		Group	
	2018	2017	2018	2017
	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn
Components of Cash and Cash Equivalents				
Cash at Bank and in hand	11,279.951	9,385.759	14,428.596	10,859.879

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

	CPC		Group	
	2018	2017	2018	2017
	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn
Cash and cash equivalents	11,279.951	9,385.759	14,428.596	10,859.879
Bank overdrafts (Note 21)	-	-	-	-
	11,279.951	**9,385.759**	**14,428.596**	**10,859.879**
Add/Less: Adjustment for foreign currency translation	(2,627.328)	(2,947.462)	(2,627.328)	(2,947.462)
	8,652.623	**6,438.298**	**11,801.268**	**7,912.418**

16. CONTRIBUTED CAPITAL

	CPC		Group	
	2018	2017	2018	2017
	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn
Balance as at 31st December	**28,487.125**	**28,487.125**	**28,487.125**	**28,487.125**

No authorized capital has been fixed by the Parliament.

17.1 CAPITAL RESERVE

	CPC		Group	
	2018	2017	2018	2017
	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn
Balance as at 31st December	4,992.686	4,992.686	4,992.686	4,992.686

In 2003, the transfer of assets to CPSTL had been done at book values. Subsequently it had been decided to record the above transactions based on the values that had been agreed upon in the process of privatization. The effect of this had been adjusted under capital reserve.

17.2 REVALUATION RESERVE

	CPC		Group	
	2018	2017	2018	2017
	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn
Balance as at 1st January	10,210.907	-	10,210.907	-
Surplus from revaluation (Note 8)	159.841	10,210.907	159.841	10,210.907
Balance as at 31st December	**10,370.748**	**10,210.907**	**10,370.748**	**10,210.907**

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

18. RETIREMENT BENEFIT OBLIGATION

	CPC		Group	
	2018	2017	2018	2017
	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn
Balance as at 01st January	1,692.425	737.973	3,166.414	1,972.044
Less: Payable for those who left during the period	(6.805)	-	(6.805)	-
Payments made during the year	(152.227)	(127.985)	(325.891)	(225.201)
	1,533.392	609.988	2,833.718	1,746.843
Add: Current service cost	97.531	98.989	175.973	183.216
Interest cost	177.705	95.936	325.988	253.897
Actuarial (gain)/loss	(137.696)	887.512	(212.776)	982.459
	1,670.933	1,692.425	3,122.904	3,166.417
Add: Benefit China Bay /LLL/NYLON/CPSTL Employees	10.025	15.588	10.025	15.588
Balance as at 31 st December	**1,680.958**	**1,708.014**	**3,132.929**	**3,182.005**
Expenses on retirement benefit obligation				
Income Statement				
Current service cost	97.531	98.989	175.973	183.216
Interest cost	177.705	95.936	325.988	253.897
	275.235	**194.925**	**501.961**	**437.113**
Other Comprehensive income				
Actuarial (gain)/loss	(137.696)	887.512	(212.776)	982.459
	(137.696)	**887.512**	**(212.776)**	**982.459**

Actuarial valuation of retirement benefit obligation as at 31 December 2018 was carried out by messers Actuarial and Management Consultants (Pvt) Ltd, a firm of professional actuaries using the 'Projected Unit Credit method' as recommened by LKAS 19 - Employee Benefits

The principal actuarial assumptions used were as follows :

	2018	2017
Expected Salary increment	30% once in 3 years	30% once in 3 years
Expected Staff turnover	4.0%	4.3%
Interest /Discount Rate	11.0%	10.5%
Retirement age	60 years	60 years
No. of employees	2461	2573
Mortality	A 67/70 Moratality Table	A 67/70 Moratality Table

18.1 Sensitivity of actuarial assumptions used

The following table demonstrates the sensitivity to a possible change in key assumptions employed with all other variables held constant in the Retirement Benefit Obligations measurement as at 31 December 2018. The sensitivity of the Statement of Financial Position and Statement of Comprehensive Income is the effect of the assumed changes in the discount rate and salary increment on the profit or loss and Retirement Benefit Obligation for the year.

Assumption	Change in the assumption	CPC Sensitivity effect on Income statement	Sensitivity effect on Retirement Benefit Obligation
		2018	2018
		Rs.Mn.	Rs.Mn.
Discount Rate @11%	Increased by 1% point	104.587	(104.587)
	Decreased by 1% point	(118.104)	118.104
Salary Increment	Increased by 1% point	(161.431)	161.431
	Decreased by 1% point	139.555	(139.555)

19. LOANS & BORROWINGS

	CPC		Group	
	2018	2017	2018	2017
	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn
Treasury (A.D.B) Loan	113.939	189.898	113.939	189.898
Peoples Bank	1,425.516	-	1,425.516	-
	1,539.455	189.898	1,539.455	189.898

Peoples Bank Loan is guaranteed by a Treasury Guarantee of US$ 7.725 Mn issued to People,s Bank on behalf of CPC.

19.1. CURRENT PORTION OF LOANS & BORROWINGS

	CPC		Group	
	2018	2017	2018	2017
	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn
Treasury (A.D.B) Loan	37.980	75.959	37.980	75.959
	37.980	75.959	37.980	75.959

19.2. Loans Repayable within five years from 31st December is as follows:

	CPC		Group	
	2018	2017	2018	2017
	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn
Amount due within 2 years	75.959	151.919	75.959	151.919
Amount due within 3-5 years	361.063	113.939	361.064	113.939
Amount due after 5 years	1,140.412	-	1,140.412	-
	1,577.435	265.858	1,577.435	265.858

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

(a) Treasury (A.D.B) Loan - (Interest 14.0% p.a.) repayable in forty biannual instalments of Rs.37.977 Mil each commencing July ' 01.

(b) People's bank USD 7,725,000 Loan - (Interest 6 months LIBOR+5%p.a.) repayable in biannual instalments commencing from June 30, 2022 (after the 03 years of grace period).

20. TRADE & OTHER PAYABLES

	CPC		Group	
	2018	2017	2018	2017
	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn
Foreign Bills Payable	245,452.883	159,573.421	245,452.883	159,573.421
Other Creditors			-	-
- Amount due to Inland Revenue & Custom Dept.	25,213.361	30,795.204	25,504.444	31,286.721
- Accrued Expenses	40,456.654	22,229.416	37,177.662	15,242.779
- Refundable Deposits & Others	1,988.848	1,479.691	3,374.886	3,000.673
	313,111.745	214,077.733	311,509.875	209,103.597

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

21. SHORT TERM BORROWINGS

	CPC		Group	
	2018	2017	2018	2017
	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn
Bank & Other loans				
- Wholly Repayable within one year	294,662.601	179,641.473	294,662.601	179,641.473
- Bank Overdrafts	-	-	-	-
	294,662.601	**179,641.473**	**294,662.601**	**179,641.473**

Bank Borrowings are guaranteed by a Treasury indeminity of US$ 1,800 Mn issued to Bank of Ceylon & Peoples Bank on behalf of CPC.

Short term loans are obtained to finance import bills payable to the suppliers.

The interest rate applicable was 5.5% p.a. from June 2017 onwards.

22. EMPLOYEES

22.1 Staff Cost

	CPC		Group	
	2018	2017	2018	2017
	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn
Salaries & Wages	5,259.272	3,776.350	11,172.713	8,508.136
Defined Contribution Plan	484.158	377.211	1,016.423	832.295
Defined benefit obligation (Note 18)	275.235	1,082.437	501.961	1,419.572
	6,018.666	**5,235.997**	**12,691.098**	**10,760.004**

23 DEFERRED TAX-CPC

CPC has carried forward tax losses amounting to Rs 309,368 Mn (2017 Rs.252,006 Mn) which are available to set-off against the future tax profits. Deferred tax assets not accounted on these lossess amounts to Rs. 86,623 Mn (2017 Rs. 70,561 Mn)

23.1 Deferred Tax-Group

		Group	
		2018	2017
		Rs.Mn	Rs.Mn
Balance at the beginning of the period		1,017.152	1,005.757
Origination and reversal of temporary difference	- Income Statement	962.140	24.156
	- Other Comprehensive income	18.335	(12.761)
Balance at the end of period		**1,997.626**	**1,017.152**
Defferred tax assets		(360.250)	(241.807)
Deferred tax liability		2,357.876	1,258.959
Net deferred tax liability		**1,997.626**	**1,017.152**

23.2 Recognized deferred tax assets and liabilities

	2018-Rs.Mn.		2017-Rs.Mn.	
	Temporary difference	Deferred tax Liability/(Asset)	Temporary difference	Deferred tax Liability/(Asset)
Deferred tax liability				
Property, Plant & Equipment & Intangible assets	1,098.920	2,357.876	11.836	1,258.959
Deferred tax assets				
Inventories	15.379	(3.830)	(1.025)	(19.208)
Provisions	22.643	(1.850)	0.845	(24.495)
Employee benefit plan	(156.467)	(354.570)	(29.037)	(198.104)
Tax loss	-	-	28.776	-
	980.474	**1,997.626**	**11.395**	**1,017.152**

Deferred tax has been calculated using an effective tax rate. The rate has been increased from 13.44% to 24.42% due to multiple tax rates applied different levels of taxable income, resulting Rs. 980.474 Mn increase in the deferred tax liability as at 31 December 2018.

24. CASH FLOWS FROM OPERATING ACTIVITIES

	CPC		Group	
	2018	2017	2018	2017
	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn
Profit/(Loss) before tax Adjustment for :	**(105,028.625)**	**2,815.229**	**(103,939.812)**	**5,845.885**
Depreciation	958.482	924.305	1,911.892	1,802.661
Amortisation	-	-	2.478	7.331
Foreign Currency Translation	320.134	(390.177)	320.134	(390.177)
Dividend Income	(434.063)	(243.105)	(0.063)	(0.105)
Interest Income	(12,889.174)	(11,057.737)	(13,007.053)	(11,247.178)
allowance for impairment	427.295	5.086	125.393	5.086
Interest Expenses	12,065.056	10,530.811	12,065.056	10,654.884
Provision for Retirement Obligation	275.235	194.925	501.961	437.113
(Profit)/Loss on Sale of Property, Plant & Equipment	(0.046)	(8.144)	(26.468)	(11.739)
Operating Profit/(Loss) before Working Capital changes	**(104,305.705)**	**2,771.194**	**(102,046.481)**	**7,103.762**
Changes in Working Capital				
(Increase)/ Decrease in Inventories	(12,781.381)	(8,676.093)	(12,904.852)	(8,670.886)
(Increase)/ Decrease in Trade and Other Receivable	(6,549.021)	(33,236.720)	(8,964.319)	(32,789.633)
Increase/ (Decrease) In Trade and Other Payables	105,087.675	31,821.092	108,660.376	28,936.717
Cash Generated from/ (Used in) operating activities	**(18,548.432)**	**(7,320.527)**	**(15,255.275)**	**(5,420.040)**

25 OPERATING SEGMENT

	Transport	Power Generation	Aviation	Industries	Storage & Transportation	Others	Eliminations/ Adjustments	**Total**
	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn	**Rs.Mn**
Revenue								
External Customers	344,266.524	71,948.462	64,189.962	11,004.145	1,271.159	29,558.132	-	**522,238.384**
Inter Segment					11,859.065		(11,859.065)	**-**
Total Revenue	344,266.524	71,948.462	64,189.962	11,004.145	13,130.224	29,558.132	(11,859.065)	**522,238.384**
Results								
Operating Profit	(23,349.300)	3,030.319	5,165.605	1,545.195	1,404.353	(9,527.271)	(433.417)	**(22,164.516)**
Exchange Rate Variation	(64,495.977)	(12,155.002)	-	(1,650.305)	-	(4,416.007)	-	**(82,717.291)**
Finance Cost	(8,197.267)	(1,544.868)	(1,324.687)	(209.749)	-	(788.485)		**(12,065.056)**
Finance Income					117.877		12,889.174	**13,007.051**
Profit /(Loss) before tax	**(96,042.544)**	**(10,669.551)**	**3,840.918**	**(314.859)**	**1,522.230**	**(14,731.764)**	**12,455.757**	**(103,939.813)**
Income tax Expense					(1,324.912)		(22.010)	**(1,346.922)**
Profit/(Loss) for the year	**(96,042.544)**	**(10,669.551)**	**3,840.918**	**(314.859)**	**197.318**	**(14,731.764)**	**12,433.747**	**(105,286.734)**

26.CORRECTION OF ERRORS

During 2018, CPC discovered that NBT on wholesales or retail sales other than such sale by manufacturer had been erroneously calculated in its financial statements since the year 2011. As a consequence, Sales Revenue and the related Liabilities have been overstated and understated respectively. The error have been corrected by restating each of the affected financial statement line items for prior periods. The following tables summarise the impact on CPC & Group's consolidated financial statements

26.1 Statement of Financial Position

	CPC			Group		
	Impact of Correction of error			Impact of Correction of error		
1 January 2017	As previously reported	Adjustments	As restated	As previously reported	Adjustments	As restated
	Rs.Mn.	Rs.Mn.	Rs.Mn.	Rs.Mn.	Rs.Mn.	Rs.Mn.
Total Assets	**190,989.513**	**-**	**190,989.513**	**210,154.381**	**-**	**210,154.381**
Trade and Other Payables	182,095.327	1,523.574	183,618.901	179,661.102	1,523.574	181,184.676
Others	194,741.032	-	194,741.032	198,491.025	-	198,491.025
Total Liabilities	**376,836.359**	**1,523.574**	**378,359.933**	**378,152.127**	**1,523.574**	**379,675.701**
Retained earnings	(219,305.658)	(1,523.574)	(220,829.232)	(209,073.494)	(1,523.574)	(210,597.068)
Capital & Other reserves	33,458.811		33,458.811	41,075.748		41,075.748
Total Equity	**(185,846.847)**	**(1,523.574)**	**(187,370.421)**	**(167,997.746)**	**(1,523.574)**	**(169,521.320)**
31 December 2017	As previously reported	Adjustments	As restated	As previously reported	Adjustments	As restated
	Rs.Mn.	Rs.Mn.	Rs.Mn.	Rs.Mn.	Rs.Mn.	Rs.Mn.
Total Assets	**218,701.185**	**-**	**218,701.185**	**236,380.025**	**-**	**236,380.025**
Trade and Other Payables	212,140.166	1,937.567	214,077.733	207,166.030	1,937.567	209,103.597
Others	181,615.344	-	181,615.344	184,106.487	-	184,106.487
Total Liabilities	**393,755.510**	**1,937.567**	**395,693.077**	**391,272.517**	**1,937.567**	**393,210.084**
Retained earnings	(218,723.543)	(1,937.567)	(220,661.110)	(206,949.442)	(1,937.567)	(208,887.009)
Capital & Other reserves	43,669.218		43,669.218	52,056.950		52,056.950
Total Equity	**(175,054.325)**	**(1,937.567)**	**(176,991.892)**	**(154,892.492)**	**(1,937.567)**	**(156,830.059)**

26.2 Statement of Comprehensive Income

	CPC			Group		
For the year ended 31 December 2017	As previously reported	Adjustments	As restated	As previously reported	Adjustments	As restated
	Rs.Mn.	Rs.Mn.	Rs.Mn.	Rs.Mn.	Rs.Mn.	Rs.Mn.
Sales Revenue	446,502.378	(551.992)	445,950.386	447,177.005	(551.992)	446,625.013
Income Tax Expenses	(1,897.594)	137.999	(1,759.595)	(2,398.332)	137.999	(2,260.333)
Others	(443,135.157)	-	(443,135.157)	(440,779.128)	-	(440,779.128)
Profit/(Loss) for the year	**1,469.627**	**(413.993)**	**1,055.634**	**3,999.545**	**(413.993)**	**3,585.552**
Total comprehensive income	**10,792.522**	**(413.993)**	**10,378.529**	**13,240.255**	**(413.993)**	**12,826.261**

27. COMPARATIVE INFORMATION

Presentation and classification of Statement of Cash Flows have been amended for better and accurate presentation.

28. CONTINGENT LIABILITIES, COMMITMENTS & LITIGATIONS

Contingent Liabilities

Inland Revenue Department (IRD) has issued assessments on the Nation Building Tax for the periods from 2013 to 2016 amounting to Rs. 1,476.8Mn. Assessments on Value Added Tax have been issued by IRD for the periods from 2004 to 2015 is amounting to Rs. 1,555.6 Mn. CPC has made appeals before the Commissioner Generals of Inland Revenue for these assessments. Assessments issued under the Income Tax have been disclosed under the Note 07 – Tax Expense.

There was no any other material contingent liabilities existing at the date of statement of financial position.

Commitments

The material commitments of the CPC as at 31st December 2018 relates to following;

Commitments to the Banks

The Corporation established Letter of Credits (L/C) valuing Rs.50,725 Mn (USD 274.881Mn.) and Rs. 36,301 Mn (USD 196.716 Mn) at Bank of Ceylon and People's Bank respectively in relation to import of crude & refined petroleum products during the year for which procurement will be made subsequent to the year end.

Pending Litigations at the reporting date

There were 164 (2017-169) unsettled legal cases as at 31st December 2018 noted below.

Type of Legal Cases	No of Cases	
	CPC	Group
Labour Tribunal Cases	04	09
District Court Cases	22	34
High Court Cases	05	10
Court of Appeal Cases	05	07
Supreme Court Cases	13	20
Human Rights Commission	35	35
Department of Labor	41	49

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

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

The aforementioned cases are still pending in the Courts and therefore, no related provisions are made.

29. EVENTS AFTER THE REPORTING DATE

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

30. FINANCIAL RISK MANAGEMENT

The Group's activities expose to a variety of financial risks; market risk (including currency risk, interest rate risk), credit risk, liquidity risk and price risk. Risk management is carried out by management under policies approved by Board of Directors. Management identifies and evaluates the financial risks with reference to the operations of the Group. The Group's overall risk management programs seek to minimize potential adverse effects on the Group's financial performance.

The principal financial instruments of the Group comprise of fixed deposits, government securities, US Dollar deposits and cash. The main purpose of these finance instruments is to improve and maintain liquidity of the Group and to maximize financial return on the invested funds. The Group has various other financial instruments such as trade receivables and trade payables which arise directly from its business activities.

(A) MARKET RISK

(i) Foreign exchange risk

When the Corporation imports the petroleum products it is exposed to foreign exchange risk arising from currency exposure, primarily with respect to US dollars. The Group's functional currency is LKR in which most of the domestic transactions are denominated, and all other currencies are considered as foreign currencies for reporting purposes. Certain bank balances, trade receivables and trade payables are denominated in foreign currencies.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Corporation's profit before tax due to changes in the fair value of USD denominated liabilities.

	Value as at 31 Dec 2018 USD. Mn	Year end exchange rate	Change in exchange rate	Effect on profit before tax* Rs. Mn
Loans and Borrowings (USD)	1,596.80	184.5328	1% Increase	(2,947)
Trade and other payable (USD)	1,527.06	184.5328	1% Increase	(2,818)

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

Financial statements of the Group which are presented in LKR, are affected by foreign exchange fluctuations through both translation risk and transaction risk. The changes in foreign currency exchange rates affect the cost of materials, purchases and services obtained from various parties in foreign currencies. In particular, continuous depreciation of the LKR against the US$ and other foreign currencies has direct impact on the operating and financial result through its impact on cost of imported petroleum products and other purchases.

(II) INTEREST RATE RISK

Interest rate risk of the Group arises mainly from the borrowings and investments in the form of government securities and fixed deposits. In the case of supplier credit, interest rate varies largely from prevailing market rates. Foreign currency loans obtained through two state commercial banks are at negotiated rates of interest. The Group analyses the interest exposure on a continuous basis and monitors London Inter Banking Offer Rate (LIBOR) and money market rates.

(b) Credit risk

Credit risk is the risk of financial loss to the Group, if a customer fails to meet its contractual obligations. Most of the Group's customers are not independently rated, therefore the quality of customers is considered by taking into account its financial position, past experience and other qualitative factors. The Corporation has established a credit policy under which each new customer is analyzed individually for credit worthiness before the credit limit is granted. Customers who fail to meet the corporations' credit policy may transact with the corporation only on cash basis.

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposure to customers, including outstanding receivables and committed transactions.

(c) Liquidity risk

Cash flow planning and forecasting is performed by the Finance division of the Corporation. Finance division continuously monitors funds available to meet its various financial liabilities and optimum utilization of excess short term financial resources for better yields.

Surplus cash held over and above balance required for working capital management is invested in interest yielding financial instruments such as repos, Treasury bond investments, call deposits. At the reporting date, the Corporation held cash and cash equivalents of Rs. 11,280 Mn and other short term deposits of Rs. 99,315 Mn that are expected to readily generate cash inflows for managing liquidity risk.

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

December 2018 (Figures in LKR Million)					
	Less than 3 months	3 months to 12 months	1 – 2 years	3-5 Years	Over 5 years
Bank borrowings	142,138	152,524			
Long term debt	38	38	76		-
	142,176	152,562	76	-	-

(d) Price Risk

The corporation is exposed to the commodity price risk of petroleum products (both Crude & Finished Products) & other raw materials imported from overseas countries in US Dollars and other currencies. Cost reflective price mechanism is not in place in deciding domestic retail sales prices of petroleum products in line with international oil price movements. The Corporation regularly holds weekly stock review meetings at which future product requirements are discussed and planned for the required future importation. At the same time the corporation continuously interacts with the General Treasury by giving financial information of Petroleum products to make suitable timely managerial decisions.

31 DIRECTORS' INTEREST IN CONTRACTS & RELATED PARTY TRANSACTION WITH THE COMPANY

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

Mr. Dammika Ranatuga is the Chairman of both CPC and CPSTL and Mr. R.A.N. Jayasundara is a director of both CPC and CPSTL from 29 May 2017 and resigned with effect from 10/26/2018.

Compensation of key management Personnel

	CPC	
	2018	2017
	Rs.Mn	Rs.Mn
Short term Benefits	1.595	1.388

Following transactions were carried out with related parties

Transaction	2018	2017
	Rs.Mn	Rs.Mn
Sales & Services rended to related parties		
Subsidiary		
Ceylon Petroleum Storage Terminals Limited	496.328	482.747
Other related parties		
Ministry of Petroleum Resources Development	20.800	21.600
	517.128	**504.347**
Services received from related parties		
Subsidiary		
Ceylon Petroleum Storage Terminals Limited	11,369.446	13,025.648
	11,369.446	**13,025.648**
Dividend Received from related parties		
Subsidiary		
Ceylon Petroleum Storage Terminals Limited	434.000	243.000
Amount due from related parties*		
Subsidiary		
Ceylon Petroleum Storage Terminals Limited	501.361	331.605
Other related parties		
Ministry of Petroleum Resources Development	9.523	9.405
	510.884	341.010
Amount due to related parties*		
Subsidiary		
Ceylon Petroleum Storage Terminals Limited	3,206.618	6,979.634

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

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

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

32. CAPITAL MANAGEMENT

Primary objective of capital management is to maintain an optimum capital structure and maintain going concern status while safeguarding key stakeholders' interests. However, as at 31st December 2018 CPC still had a negative net asset position of Rs. 281,761 Mn due to accumulated losses incurred in the past and current financial year. The external auditors have mentioned in their audit report that the Corporation's ability to continue as going concern without the financial assistance from the Government of Sri Lanka is doubtful.

The heavy losses incurred by the Corporation are largely due to the sale of petroleum products at highly subsidized rates as retail price is determined by the government. To cover up such losses, as per the sec. 17 of Finance Act No. 38 of 1971, the Corporation is entitled to receive subsidy by the government. If the subsidies are given to the Corporation, its negative net asset position could be overcome.


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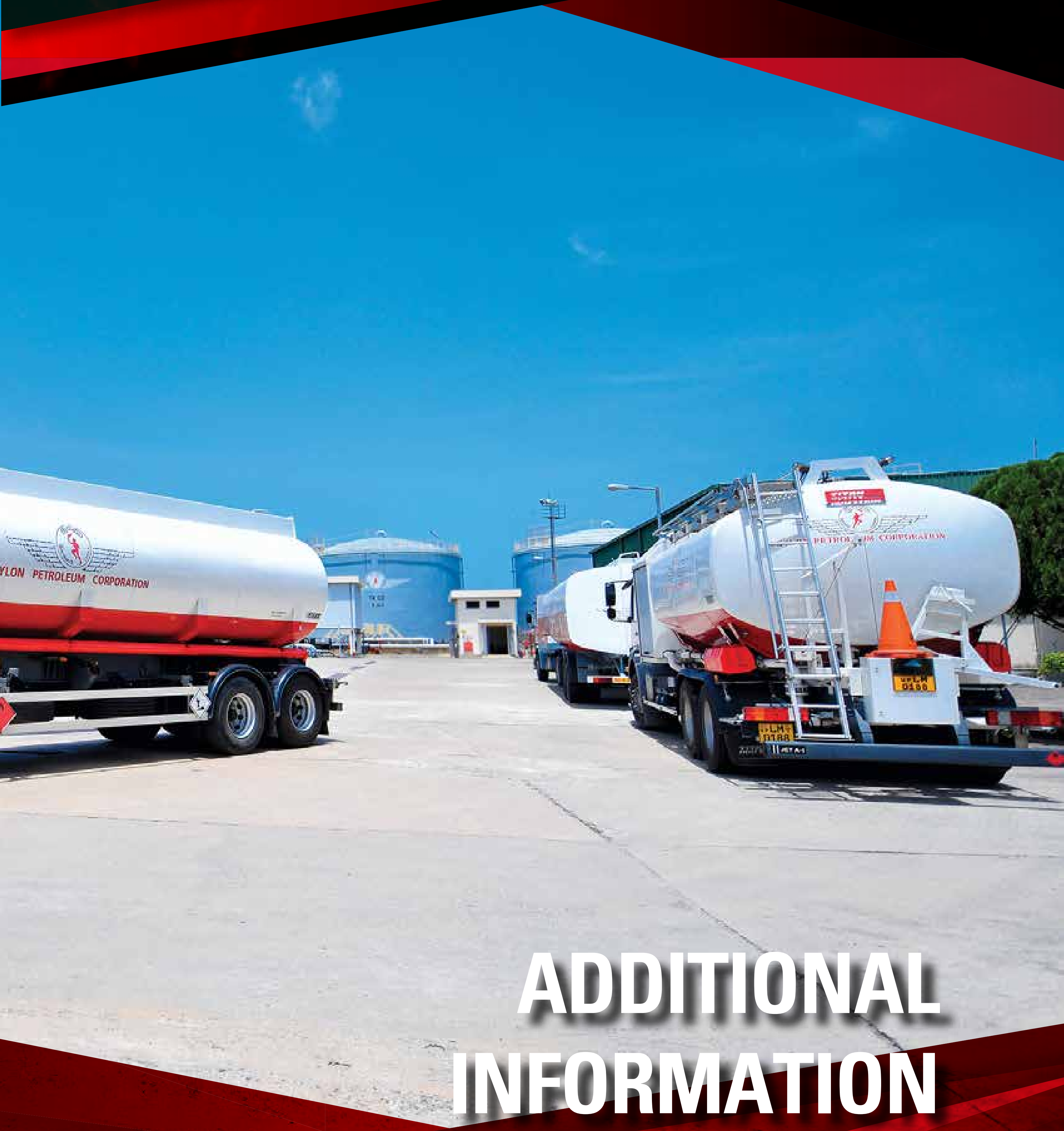


ADDITIONAL INFORMATION

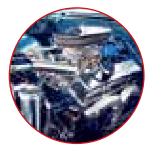
OUR LOCATIONS

Refinery
Oil Refinery, Sapugaskanda
T: 2400427,28,29
F: 2400436 /2400102
E: refcpc@sltnet.lk

Aviation Refueling Terminal
BIA, Katunayake
T: 2253376 / 2251319, 5855413
F: 2252331
E: avi.admin@ceypetco.gov.lk

Aviation Refueling Terminal
MRIA, Mattala
T: 0472031945
F: 0472031949
E: mria@ceypetco.gov.lk

Aviation Refueling Terminal
Ratmalana
T: 2637755/5664707
F: 2637755
E: cpcavirat@ceypetco.gov.lk



Muthurajawela Temrinal
Lubricant Storage Complex, Muthurajawela
T: 5769527/5731879
F: 5353353/5455423

Muthurajawela Temrinal
Bitumen Storage Complex, Muthurajawela
T: 5769519 / 3195763
F: 5353352 / 0115355456
E: sales.mutbitu@ceypetco.gov.lk

Agrochemicals Centre
CPSTL, Wellampitiya, Kolonnawa
T: 2694483 /5666815
F: 2572316
E: agrochem@ceypetco.gov.lk

Spugaskanda Distribution Terminal
S. Terminal, P.O. Box 54, Kelaniya.
T: 2401115, 2401118, 2401119
F: 2401111
E: st@ceypetco.gov.lk

Regional Office
North Central Regional Office,
Anuradhapura
T: 0252222374 / 0252235523
F: 025222485
E: ro.nc@ceypetco.gov.lk

Regional Office
North Western Regional office,
Kurunegala
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F: 0372227908
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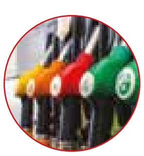
Regional Office
Central Regional Office,
Kandy
T: 081-2388674/ 0814471542
F: 0812388674
E: ro.central@ceypetco.gov.lk



Regional Office
Uva Regional Office,
Badulla.
T: 0552231979 / 0555677611
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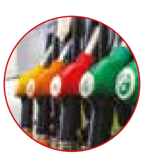

Regional Office
Sabaragamuwa Regional Office,
Kegalle.
T: 0355624900/0355624901
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Regional Office
East Regional Office,
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Regional Office
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F: 021222033
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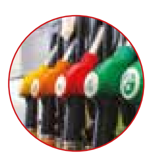
Regional Office
South Regional Office,
Galle
T: 0915620672 / 0915625670
F: 0912234858
E: ro.south@ceypetco.gov.lk



Regional Office
West Regional Office,
Nugegoda
T: 2815695 / 5663354
F: 4302316
E: ro.west@ceypetco.gov.lk

TEN YEARS SUMMARY

	2008	2009	2010	2011	2012	2013	2014 (Restated)	2015 (Restated)	2016	2017 (Restated)	2018

Domestic Sale of Bulk Products

(A) Value - Rupees Mn.

	2008	2009	2010	2011	2012	2013	2014 (Restated)	2015 (Restated)	2016	2017 (Restated)	2018
Petrol	66,434	60,055	65,158	90,499	117,600	132,398	140,885	127,879	145,476	158,843	172,088
Auto Diesel	151,070	119,046	122,360	165,800	246,441	216,420	244,407	174,984	206,545	210,814	220,922
Super Diesel	885	866	1,170	1,588	3,540	4,152	5,104	5,998	8,006	9,439	11,589
Kerosene	14,000	9,755	10,711	12,804	18,100	16,803	15,366	9,831	8,605	9,053	15,351
Furnace Oil	66,220	33,157	35,792	49,991	84,790	60,651	70,021	34,841	52,971	80,799	56,758
Total	298,609	222,879	235,191	320,682	470,471	430,424	475,783	353,533	421,603	468,948	476,708

(B) Quantity - Thousand Metric Tons

	2008	2009	2010	2011	2012	2013	2014 (Restated)	2015 (Restated)	2016	2017 (Restated)	2018
Petrol	384	416		563	619	640	687	838	965	1,057	1,018
Auto Diesel	1,371	1,427	1,422	1,849	1,930	1,559	1,757	1,579	1,875	1,920	1,794
Super Diesel	7	9	11	14	22	25	31	47	63	75	83
Kerosene	151	151	165	147	143	126	122	130	138	160	203
Furnace Oil	995	1,096	1,004	1,093	1,187	668	722	512	626	781	653
Total	2,908	3,099	3,086	3,666	3,901	3,018	3,319	3,106	3,667	3,993	3,751

(C) Retail Selling Prices In Petroleum Products

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

	2008	2009	2010	2011	2012	2013	2014 (Restated)	2015 (Restated)	2016	2017 (Restated)	2018
Petrol - 92 Octane	120	115	115	125	159	162	150	117	117	117	125
Auto Diesel	70	73	73	76	115	121	111	95	95	95	101
Super Diesel	85.3	88.3	88.3	98.3	142	145	133	110	110	110	121
Kerosene	50	51	51	61	106	106	81	49	44	44	70
Furnace Oil 800"	33.9	34.9	40	52.2	92.2	92.2	92.2	80	80	80	92
Furnace Oil 1500"	31.7	32.7	40	50	65	90	90	80	80	80	96
Furnace Oil 3500"	25	26	40	50	65	90	90	80	-		92

Operating Results

	2008	2009	2010	2011	2012	2013	2014 (Restated)	2015 (Restated)	2016	2017 (Restated)	2018
Revenue	341,670	237,663	256,329	356,442	512,910	490,381	525,182	376,734	423,061	445,950	520,967
Cost of Sales	-334,849	-232,271	-269,316	-420,227	-540,439	-464,374	-499,956	-337,119	-326,441	-418,962	-523,982
Gross Margin	6,821	5,392	-12,987	-63,785	-27,529	26,007	25,226	39,615	96,620	26,988	-3,015
Net operating expenses and interest	-21,557	-16,745	-13,936	-30,572	-62,041	-33,897	-24,532	-55,637	-27,067	-24,173	-102,014
Hedging expenses					-7,612			-3,864			
Profit/(Loss) before tax	-14,736	-11,353	-26,923	-94,357	-97,182	-7,890	694	-19,886	69,553	2,815	-105,029

Rupees Mn	2008	2009	2010	2011	2012	2013	2014 (Restated)	2015 (Restated)	2016	2017 (Restated)	2018
Equity & Liabilities											
Capital	1,000	1,000	1,000	3,500	3,500	3,500	3,500	28,487	28,487	28,487	28,487
Reserves	-2,416	-14,038	-38,369	-134,736	-232,045	-239,967	-236,791	-257,472	-214,334	-205,479	-310,248
L/T Liabilities	10,908	32,779	28,478	27,646	1,998	1,351	703	342	266	190	1,539
Gratuity Provision	567	735	746	626	547	538	664	861	754	1,708	1,681
Total	10,059	20,476	(8,145	-102,964	(226,000	(234,578)	-231,924	-227,782	-184,827	-175,094	-278,541
Represented by											
Fixed Assets, Including WIP	4,624	5,041	8,280	8,850	9,599	13,136	13,676	13,915	13,547	23,649	23,445
Investment	2,542	2,542	2,542	5,042	5,058	5,044	14,942	41,725	40,595	34,874	30,419
Net Current Assets	2,893	12,893	-18,967	-116,856	-240,657	(252,758	-260,542	-283,422	-238,969	-233,617	-332,405
Total	10,059	20,476	-8,145	-102,964	-226,000	-234,578	-231,924	-227,782	-184,827	-175,094	-278,541
Summarised Cash Flow Statement											
Net Cash flow from / (used in) Operating Activities	-1,228	41,840	-24,169	-102,756	-68,408	-13,920	-1,817	9,247	54,532	-20,693	-36,529
Net Cash flow from / (used in) Investing Activities	41	-309	-3,376	-644	1,148	-7,547	-1,826	-23,385	-6,010	29,189	-77,589
Net Cash flow from / (used in) Financing Activities	-1,001	-21,340	-4,379	119,017	62,540	7,232	28,745	41,036	-81,200	-14,080	116,333
Net increase / (Decrease) in cash & Cash Equivalents	-2,188	20,191	-31,924	15,617	-4,720	-14,235	25,102	26,897	-32,678	-5,584	2,214
Cash & Cash Equivalents at beginning of the year	9,961	7,772	27,963	-3,961	11,656	6,936	-7,299	17,803	44,700	12,022	6,438
Cash & Cash Equivalents at the year end	7,772	27,963	-3,961	11,656	6,936	-7,299	17,803	44,700	12,022	6,438	8,652
Accounting Ratios											
Profitability Ratios											
Gross Profit Ratio	2.00%	2.30%	-5.10%	-17.90%	-5.40%	5.30%	4.80%	10.50%	22.84%	6.05%	-0.58%
Net Profit Ratio	-4.40%	-4.90%	-10.50%	-26.50%	-18.90%	-1.60%	0.00%	-5.30%	12.53%	0.24%	-20.16%
Operating Ratios											
Inventory T/O Ratio	9.34	8.13	8.04	10.7	10.89	7.3	7.77	6.44	9.20	9.49	9.20
Interest Cover	-3.66	-1.39	-2.93	-9.48	-3.88	0.57	1.05	-0.32	7.14	0.68	-1.92
Liquidity Ratios											
Current assets Ratio	0.98	1.06	0.82	0.58	0.43	0.39	0.34	0.31	0.34	0.38	0.43
Quick Ratio	0.69	0.86	0.57	0.45	0.28	0.24	0.19	0.21	0.24	0.27	0.34

NOTES

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