2015

# Annual Report

Ceylon Petroleum Corporation

# CONTENTS

# VISION, MISSION AND GOALS

## VISION

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

## Mission

- To achieve excellence in petroleum refining, sales and marketing of high quality products through a dedicated team of professionals and a loyal and efficient dealer network and by providing total solutions and services exceeding customer expectations, while utilizing a high technology base for growth and development of the enterprise with total employee participation and innovation, by maintaining high ethical norms in all its activities with highest concern for health, safety and environment

## Goals

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

# 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, Col 09.
Telephone: +94 11 5455455
Telegram: "LANKA OIL"
Cable: CEYPETCO
Telex: 21235 CEPETCO CE
Fax : +94 11 5455400
E-mail: cpcsec@ceypetco.gov.lk
Website: www.ceypetco.gov.lk

**Tax Payer Identification No. :** 409000053

**VAT Registration No. :** 409000053 - 7000

**Financial year:** 01 January to 31 December

**Board of Directors as at 31 December 2015:**
Mr. T G Jayasinghe (Chairman & Managing Director)
Mr. D C S Senevirathne
Mr. P Galhena
Mr. M G Jayasena
Mr. R Harischandra
Mr. K A Vimalenthirarajah

**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

# BOARD OF DIRECTORS

## Directorate as at 31 December 2015

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

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

**Mr. P Galhena**
(From 12.10.2015)
Reading for Ph.D - Colombo, FCMA (UK), CIM Passed finalist, BBA (Hons)(2nd Class) - Colombo, MBA (Merit) - Colombo, Finalist of ICASL
Chairman of AAICO Property Development Limited
Commission member of Public Utilities Commission of Sri Lanka
Board Director of Housing Development Finance Corporation Bank
Director of Titan Packaging Private Limited
Former Chairman of Sri Lanka Sustainable Energy Authority
Former Chairman of National Gem & Jewellery Authority of Sri Lanka
Former Chairman of Ceylon Shipping Corporation Limited
Former Chairman of Sri Lanka Handicraft Board – Laksala
Former Director of Lanka Coal Limited
Former Director of GSMB Technical Services Private Limited

**Mr. M G Jayasena**
(From 12.10.2015)

**Mr. R Harischandra**
(From 12.10.2015)

**Mr. K A Vimalenthirarajah**
(From 11.11.2015)

## Previous Directorate

**Mr. J R Wickramasinghe (Former Chairman & Managing Director)**
(From 21.01.2015 to 12.10.2015)
BSc Eng. (Mechanical Engineering) Hons. – Moratuwa, C.Eng., MIE(SL)
Director of Polipto (Pvt) Ltd
Former Project Director of MRIA

**Mr. W S M C Sirimewan**
(From 23.01.2015 to 12.10.2015)

**Mr. P R Gunawardena**
(From 26.01.2015 to 12.10.2015)
BSc (Science) – Colombo
Working Director of Sri Lanka Land Reclamation and Development Corporation
Founder Director & CEO of Polipto Lanka (Pvt) Ltd
Former Chairman & Managing Director of Ceylon Petroleum Storage Terminal Ltd
Former Working Director of Ceylon Electricity Board

**Mr. A K Senavirathne**
(From 30.01.2015 to 14.10.2015)
MBA (Bus. Admin) – Colombo, PG Dip B&FA – CASL, BSc (Chemistry) - Kelaniya
Director General of Department of Fiscal Policy
Director of De La Rue Lanka Currency and Security Print (Pvt) Ltd
Director of National Savings Bank
Former Chairman of National Insurance Trust Fund

**Mr. D D S Wickramaratne**
(From 06.02.2015 to 12.10.2015)

**Mr. M K Samarasinghe**
(From 06.02.2015 to 12.10.2015)
Dip in Auto Electrician - GTTI
Managing Director of Sri Kanth Professional Kitchen (Pvt) Ltd
Former Director of State Timber Corporation
Former Director of Institute of Fundamental Studies

**Mr. A H S Wijesinghe**
(From 09.01.2014 to 01.12.2015)
MHRDP – GGSIU – India, PG Dip in Local Government Administration – PIM – USJP, BA – Kelaniya
Additional Secretary (Development) of Ministry of Petroleum Resources Development
Former Commissioner General of Land Title Settlement

# SENIOR MANAGEMENT

**Chairman & Managing Director**
Mr. T G Jayasinghe
MSc (Regional Development Planning) – AIT - Thailand, Dip in Development Policy & Planning – UOW – UK, Dip in Regional Development Planning – UNCRD – Nagoya, BA (Ceylon), SLPS – Class I

## Oil Refinery

**Refinery Manager**
Mr. N R R Jayasekera
BSc (Eng.), MBA, C.Eng., MIE(SL)

**Deputy Refinery Manager (Manufacturing & Operations)**
Mr. E A S Edirisinghe
BSc (Eng.), C.Eng., MIE(SL), MSLEMA

**Acting Deputy Refinery Manager (Maintenance & Projects)**
Mr. D M P Dissanayake
BSc (Eng.) Hons., LLB Hons., C.Eng., MIE(SL)

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

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

**Deputy Operations Manager ( Sapugaskanda Terminal)**
Mr. W M A I Wansekera
BSc (Physical Science) – Colombo, Graduate Training Program in Information Technology

## Technical Services & Corporate Affairs

**Deputy General Manager**
**(Technical Services & Corporate Affairs)**
Mr. G A S P Gunawardena
BSc Eng. (Mechanical Engineer)

## Finance

**Acting Deputy General Manager (Finance)**
Mr. R S Suntharalingam
ACMA (UK), BCom (Hons), CGMA

**Finance Manager**
Ms. R T A Dabare
ACMA (UK), CGMA

## Legal

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

## Security & Investigations

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

## IT Function

**Manager (Information Technology)**
Mrs. M S R Fernando
BSc (Computer Science) Hons. – Colombo, Master of IT – Colombo, Reading for Executive MBA - Colombo, MBCS, MIEEE

## Procurement and Stores

**Manager (Procurement & Stores)**
Mr. S D S Rajapakse
BSc Eng. (Mechanical), C.Eng.

## Human Resources and Administration

**Deputy General Manager (HR & Administration)**

Mr. S W Gamage

MBA - PIM-USJP, MSc - WAU-Holland, BSc - Ruhuna, PG Dip B&FA - CASL, Assoc. M (CIPD-UK), FCPM

**Manager (Human Resources)**

Mr. K W S Pushpalal

BA (Political Science) Sp. Hons – Colombo, Certified professional member of AHRI – Australia, ACPM

## Marketing

**Deputy General Manager (Marketing)**

Mr. W M K R B Wickremasinghe

MBM, BSc (Chemistry), M.I.Chem.C, CMSLIM

**Acting Marketing Manager (Retail)**

Mr. W D L C Abeygunawardana

BSc (Bus. Admin) – USJP, PGDM (Mgt) - Wayamba

## Commercial & Supply Chain

**Deputy General Manager (Commercial & Supply Chain)**

Mr. M K Garusinghe

BSc - Colombo, MSc (Maritime Affairs) - WMU – Sweden, MBA - PIM-USJP, MICS (UK), MISMM, EDBA - Colombo, Dip in Professional Shipping - Norway

**Commercial Manager**

Mr. W K S Gunawardhane

MSc (Maritime Affairs) - WMU – Sweden, MSc (Mgt & IT) - Kelaniya, BSc. (Mathematics) Sp. (2nd class upper) - Kelaniya, MSLIM

## Aviation Operations

**Manager (Aviation - Operations)**

Mr. M A D Mallikarachchi

BSc Eng. (Production), MPMI, MIE(SL)

## Engineering & Premises

**Manager (Engineering & Premises)**

Mr. G P K Wijekoon

BSc (Eng.), A.M.I.E (SL), PG Dip in Structural Design

## Agro Chemicals

**Acting Deputy Manager (Agro Marketing)**

Mr. H S K Abhayawardhana

## Secretariat

**Acting Head of Secretariat**

Mr. S Liyanaarachchige

MBS - Colombo, CPM, BCom Sp. - Peradeniya

## Shipping

**Manager (Shipping)**

Mr. P A U R Karunaratne

BSc (Physical Science) – Colombo, Dip in General Management – NIBM, PG Certificate of Training in Management - PIM, Certificate in Shipping & Clearance – ISMM

## Internal Audit

**Deputy Manager (Internal Audit)**

Mr. K.D.G.N.I. Saparamadu

FCA, ACMA(UK), CGMA, MBA(USQ)

# ABOUT THIS REPORT

This year, we present our Annual Report by being more transparent on Ceylon Petroleum Corporation's strategy, performance, governance, value creation and sustainability. This report talks about the performance of the Corporation for the period from 01 January 2015 to 31 December 2015 while paying attention to the economic, social and environmental aspects. We follow an annual reporting cycle and the contents included in this report have been selected through a systematic process. We have enhanced the scope and coverage of this report than last year by including the aspects prescribed by the Global Reporting Initiative (GRI) and those specific to our industry.

*This year was a robust year for CPC with turbulent world and local economic and social situations.*

For the purpose of setting the aspect boundaries, CPC has identified following stakeholders;

- Internal Stakeholders
    - Employees

- External Stakeholders
    - Government
    - Customers
    - Business partners
    - Fund providers
    - Communities
    - Regulatory Authorities

# OVERVIEW OF THE CORPORATION

| Transport | Power Generation | Industries | Domestic | Aviation | Bunkering | Export |
|---|---|---|---|---|---|---|
| Petrol 92 | Auto Diesel | Fuel Oil | Kerosene | Avtur | Diesel | Fuel Oil |
| Petrol 95 | Fuel Oil | Ind Kero | L.P.G. | Avgas | Fuel Oil | Naptha |
| Auto Diesel | Naptha | Bitumen | | | | |
| 4 Star Diesel | | S.B.P. | | | | |
| | | Lubricant | | | | |
| | | Agro Chemical | | | | |

*No. of Filling Stations* 1,203

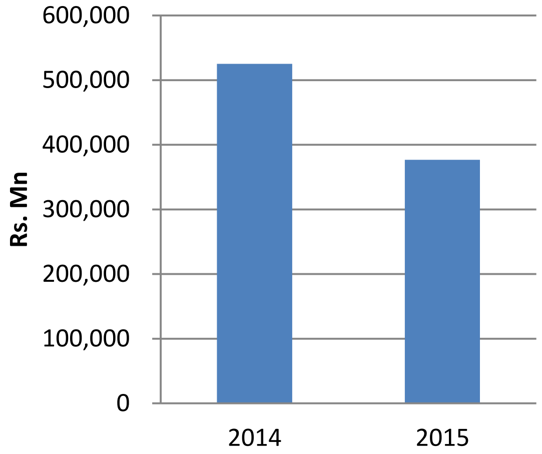
*No. of Employees* 2,579

*Payments to government* RS. 95 BN

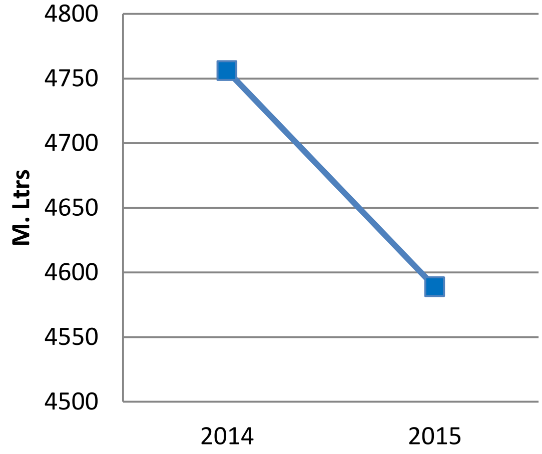
*Crude oil processed* 1,692,074 MT

# PERFORMANCE HIGHLIGHTS OF 2015

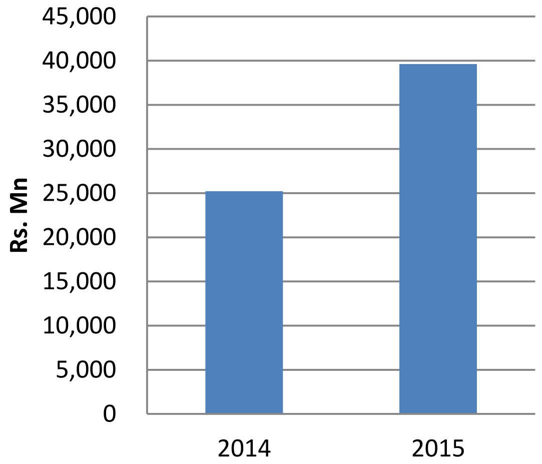
## Revenue



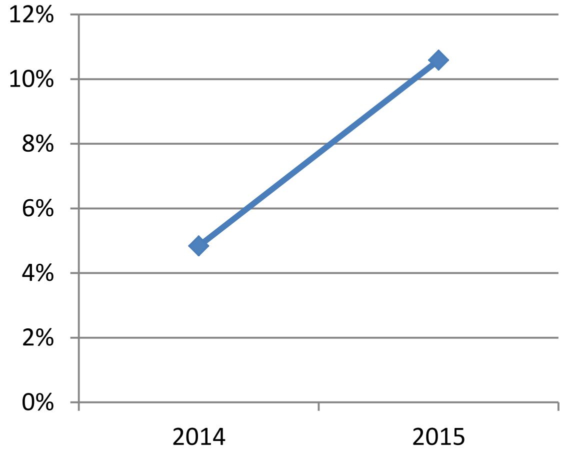

## Sales Volume



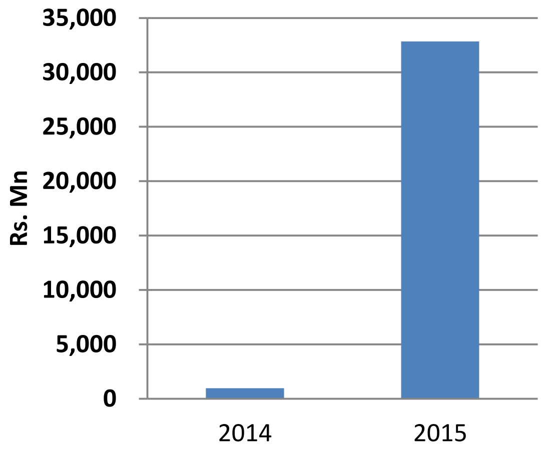

## Gross Profit



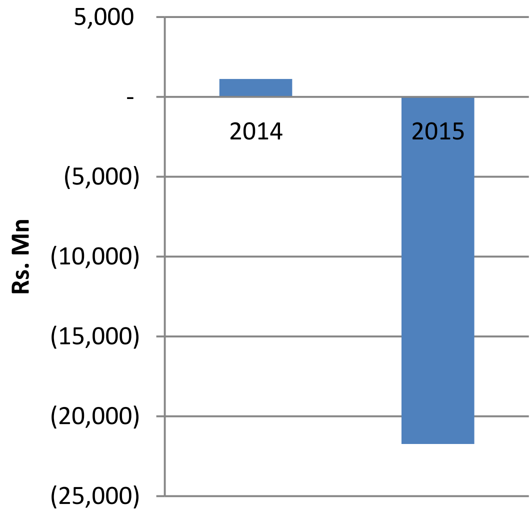

## Gross profit Margin




## Loss from exchange rate variation




## Profit / (Loss) after tax



# OUR VALUE CREATING BUSINESS MODEL

## INPUTS

**Financial capital**
Equity: (Rs. 229 Bn)
Borrowings: Rs. 268 Bn

**Manufactured capital**
PPE: Rs. 14 Bn
No. of filling stations: 1,203

**Intellectual capital**
- Reputation as a state owned entity
- Knowledgeable and experienced workforce

**Human Capital**
Permanent staff: 2,579
Gratuity: Rs. 861 Mn

**Social & Relationship capital**
- Oil suppliers in the international market
- Shipping lines
- Individuals
- corporates

**Natural capital**
- Specific energy consumption (MMK Cal/MT of Crude): 0.4755
- Paper: Use ISO 9001:2008, ISO 14001:2004 certified high quality "double A"

## ACTIVITIES

**Primary Activities**

Importing
Refining
Storing
Distributing

**Support Functions**

Business Strategy
Technical Services
People management
IT Support

## OUTPUTS

**Investors**
Interest paid: Rs. 15 Bn

**Government**
Taxes paid: Rs. 95 Bn

**Customers**
Revenue: Rs. 377 Bn

**Suppliers**
Payments: Rs. 292 Bn

**Employees**
Salaries & Benefits: Rs. 5Bn

**Community**
Providing petroleum products at highly subsidized rates

**Environment**
Constructing a waste water treatment plant

Corporate Governance

Risk Management and Internal Controls

# CHAIRMAN'S REVIEW

I am happy to present the Annual Report and the Audited Financial Statements of Ceylon Petroleum Corporation for the financial year ended 31 December 2015. This year was a robust year for CPC with turbulent world and local economic and social situations. Amidst that situation we were able to achieve a gross profit of Rs. 39.62 Bn which is 57% higher than the previous year and an operating profit of Rs. 27.42 Bn whereas in 2014 CPC's operating profit was Rs. 12.3 Bn only. However, exchange rate variation, finance expenses, hedging expenses and tax expense converted the operating profit into a loss. Loss after tax was Rs. 21.74 Bn in 2015.

**Operating context**

Sri Lankan economy grew by 4.8% in 2015 with the growth in all three sub-sectors. Agriculture sector achieved the highest growth while the service sector, the largest contributor to the economy, achieved a growth rate of 5.3%. Industry sector's growth was 3% during 2015. Sri Lankan Rupee was broadly stable till August 2015 and depreciated substantially afterwards with the CBSL's decision for a more flexible approach to decide the exchange rate. Overall Rupee depreciated by 9.03% against the US dollar during the year. Further, during the year, the government increased the customs duty of some products to discourage imports. On the other hand, global oil price decreased by 47.2% in 2015. In line with the global oil prices, the average price of crude oil imported by CPC also decreased by 47.6%.

**Our Performance**

Revenue for 2015 was Rs. 376.73 Bn and the gross profit was Rs. 39.62 Bn. Even though we can see a decline in revenue figure the gross profit has drastically increased by 57% with the reduction in international crude oil prices. With the high level of stakeholder engagement and with best management practices the operating profit more than doubled to Rs. 27.42 Bn from Rs. 12.3 Bn in the previous year. Conversely, corporation ended up having a total comprehensive expense of Rs. 21.9 Bn due to number of socio economic factors.

Domestic retail prices of petroleum products were revised down in January 2015 and no price revision was made to accommodate the change in international crude oil prices even though the international prices increased from January to June 2015. This eroded the corporation's gross profit. With the increase in customs duty on petrol to Rs. 35 per litre from Rs. 15 per litre, Corporation had to pay a higher amount of customs duty when importing petrol. Customs duty paid in 2015 was Rs. 32.98 Bn more than 2014. Depreciation of Sri Lankan Rupee against the US Dollar worsened the Corporation's profitability with the exchange rate variation loss of Rs. 32.84 Bn. Interest expense for the foreign currency loans obtained amounted to Rs. 14.98 Bn and the absence of a workable mechanism to settle US Dollar loans against the subsidy elements receivable from the Government is one of the biggest constraint faced by CPC. Further CPC was allowed to purchase US Dollars only from two state owned commercial banks restricting it to purchase US Dollars at competitive rates from other licensed commercial banks.

There was a remarkable improvement in recovering trade debts and as a result trade receivables have decreased by 49.21%. Still as at 31 December 2015 trade receivables amounted to Rs. 18.73 Bn out of which Sri Lankan Airlines Ltd accounted for Rs. 8.61 Bn CEB, IPP, Armed forces and Mihin Lanka (Pvt) Ltd are the other significant debtors outstanding as at 31 December 2015 amounting to Rs. 2.72 Bn, Rs. 1.78 Bn, Rs. 0.65 Bn and Rs. 0.55 Bn respectively.

**Way Forward**

Declining trend in the global oil prices did not prevail after the first quarter of 2016 whereas it indicated an increasing trend with slight ups and downs and it is expected to follow the increasing trend further in the coming quarters. Further the declining trend in foreign earnings will exert pressure on foreign exchange rates and it is expected that the global interest rates will rise which in turn causes Sri Lanka to pay higher interest rates for foreign loans obtained at prevailing market rates. Adding more, the Government is planning to increase its revenue mainly by increasing taxes. Nevertheless, it is expected that the economy will enjoy a high growth path in the medium term with appropriate policies. CPC management is also prepared to face the challenges originating from the external environment and to enter into a growth path while becoming a profit making entity.

We, together with the senior management team, have identified some urgent long term and short term projects which are necessary to upgrade and expand the operations of CPC with a view to make the Corporation a profit making entity, thereby enhancing the value for the economy and public. Accordingly, for short term projects we made appropriate budgetary allocations for the years 2016 and 2017 and decided to manage the projects with available funds to be generated internally while planning to generate funds for long term projects externally. As part of business expansion, we are planning to enter into LP Gas market and to expand the bunkering, bulk bitumen and lubricant business. Initial steps have been already taken to expand the lubricant business by way of building up a lubricant blending plant on BOT basis in collaboration with Hyrax Oil Sdn Bhd, Malaysia.

There is an urgent necessity for a transparent fuel pricing mechanism for domestic petroleum products which should reflect the cost. In addition we anticipate the government to settle the subsidy element without delay and appreciate if the Government can undertake certain amount of bank borrowings by way of subsidy element receivable. I hope relevant authorities will respond to the concerns we raised within the next financial year. If the Government's petroleum exploration efforts and the gas commercialisation process become successful, it is expected to use domestic gas and to reduce the importation of distillate.

**Acknowledgement**

I would like to extend my gratitude to the Hon. Minister, Hon. Deputy Minister and other officials of the Ministry of Petroleum Resources Development for their continuous support and assistance. My special appreciation also goes to the officers of the Ministry of Finance, Public Enterprises Department, Sri Lanka Customs, Central Bank of Sri Lanka, Department of Inland Revenue and our bankers for their untiring support. I also take this opportunity to thank my fellow Directors, management and all employees of CPC, together with all our distributors and business partners for your loyalty and patronage. Without your enduring efforts CPC would not have functioned smoothly. I look forward to work with you all in taking this Corporation to greater heights while adding value to the economy.

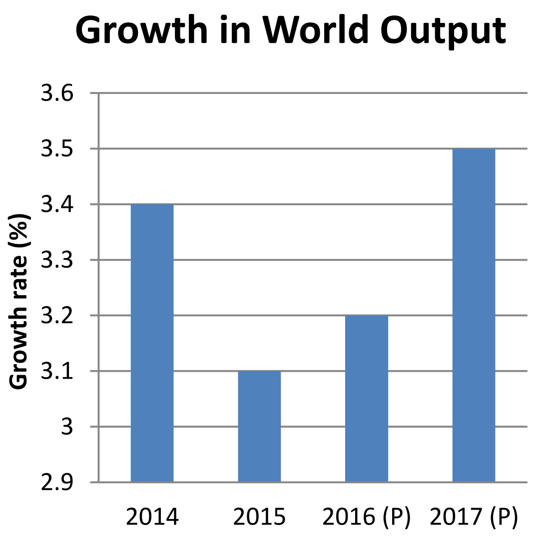
Thank You

T G Jayasinghe
**Chairman & Managing Director**

# OUR OPERATING ENVIRONMENT

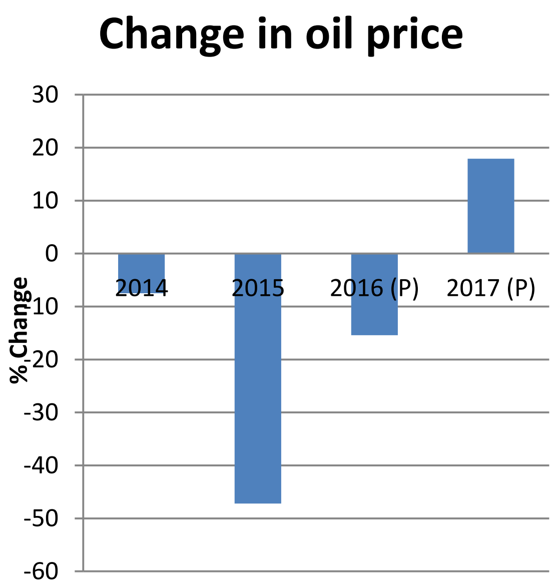
## World economy

Global economic activity continued to be subdued in 2015 since the growth rates in emerging market and developing economies declined while the advance economies showed a moderate growth. World output grew by 3.1% in 2105 whereas it has grown by 3.4% in 2014. Growth rate of advanced economies was 1.9% and 6.6% in developing Asia, out of which China and India achieved growth rates of 6.9% and 7.3% respectively. Inflation in most of the countries was maintained at subdued levels with the continuous decline in oil prices. However, oil exporting countries faced shrinkages in their economies. In 2016 global economy is expected to grow at 3.2% and 3.5% in 2017.




Source: World Economic Outlook (April 2016), IMF

Oil price has decreased by 47.2% in 2015 (In 2014 it has decreased only by 7.5%) and in 2016 the overall price is expected to decrease by 15.4% even though the global prices increased after the first quarter of 2016. However, oil prices are projected to increase by 17.9% in 2017.

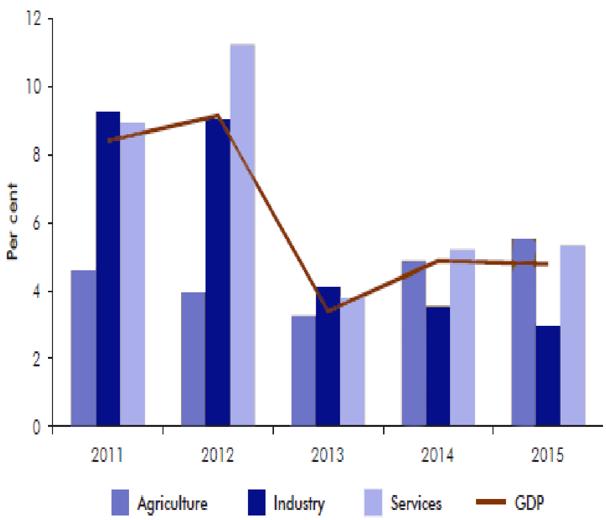



Source: Baselines for medium term commodity prices (Aug 2016), IMF

Global economic environment's volatilities in 2015 affected the Sri Lanka's economy in a challenging manner and it is expected to create challenges in 2016 as well. Continuous decline in global oil prices will stagnate the growth of Middle Eastern countries, which indirectly decline the income from workers' remittances and tea exports exerting pressure on foreign exchange rate. It is expected that the interest rates will rise globally which in turn causes Sri Lanka to pay higher interest rates for foreign loans obtained at variable rates.

## Sri Lankan economy

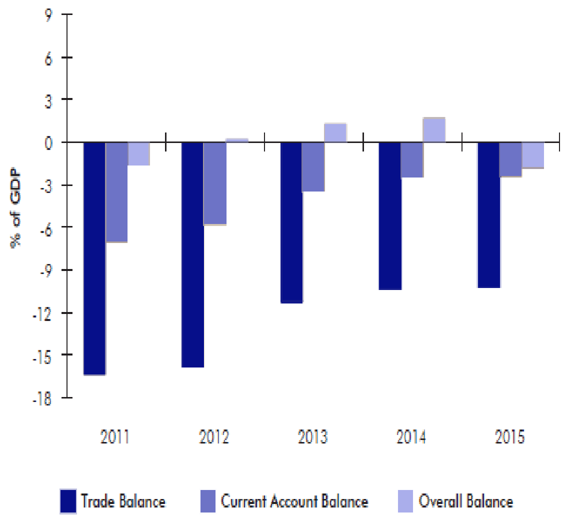
Gross domestic production achieved a growth rate of 4.8% in 2015 (2014 – 4.9%) contributed by all three sub-sectors agriculture, services and industry and their growth rates were 5.5%, 5.3% and 3% respectively. Agriculture sector, which account for 7.9% of GDP, achieved the highest growth rate mainly from vegetables and paddy production although the fishing, rubber and tea production contracted. Service sector, highest contributor to GDP, strengthened its growth from financial services, real estate, information, transport activities as well as wholesale and retail trade activities. The industry sector achieved its growth rate of 3% mainly from waste treatment, electricity and the manufacturing sub-sectors regardless of the slight contraction in construction and mining and quarrying sub-sectors.




(a) The data is based on the base year 2010 GDP estimates of the Department of Census and Statistics.

Source: Central Bank of Sri Lanka

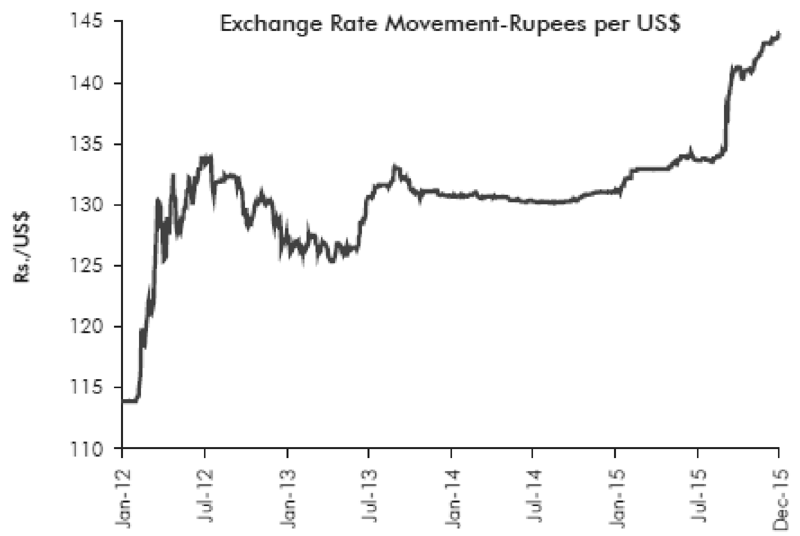
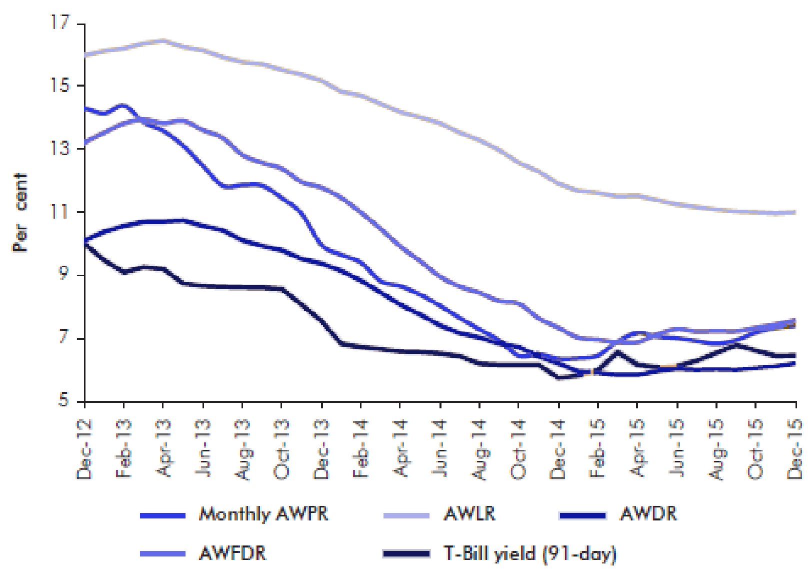
Balance of payments generated an overall deficit in 2015 as a result of reduction in net foreign exchange inflows, including worker remittances, and capital outflows even though the country gained extensively from the lower oil prices and positive trend in the tourism sector.

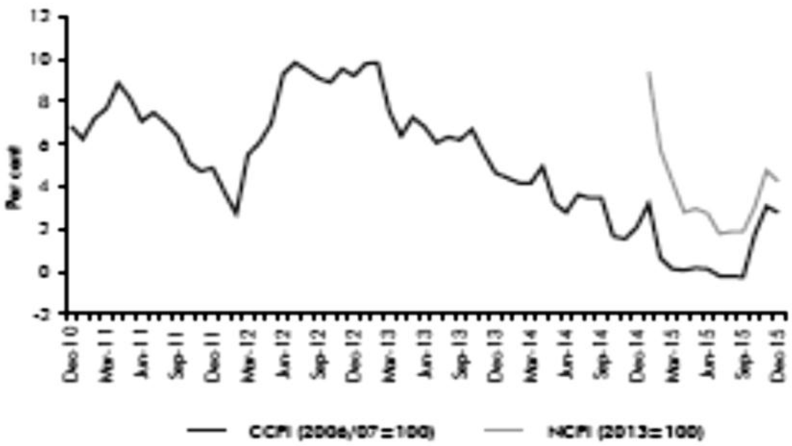



Source: Central Bank of Sri Lanka

There are positive signs on economic growth and it will enter a high growth path in the medium term with appropriate policies. It is expected to address the issues faced by the economy by increasing the government revenue while decreasing government expenditure, encouraging exports and foreign direct investments. Further it is required to introduce a market based pricing formulae for energy and public utilities. The projected growth rate for 2016 is 5.8% and expects to strengthen over the medium term at 7%. Export expenditure is expected to decline in 2016 from low international oil prices and less motor vehicle imports as well as from greater flexibility in determining the exchange rates. Afterwards export expenditure will rise with the anticipated increase in global crude oil prices and with the increase in imports of investment goods.

Behaviors in some key macro-economic variables which influence CPC's performance are summarized in the following table;

| Economic Indicator | Impact to CPC |
|---|---|
| **Exchange Rates**<br><br>Sri Lankan Rupee remained broadly stable till August 2015 and depreciated substantially in the latter part of the year as a result of the CBSL's decision to allow greater flexibility to decide the exchange rate. Overall Rupee depreciated by 9.03% against the US dollar during the year.<br><br><br>Source: Central Bank of Sri Lanka | CPC was unable to enjoy the full price reduction in the global crude oil market since the imported prices increased as a result of the rupee depreciation. This led to an exchange rate variation loss of Rs. 32.84 Bn. |
| **Interest rates**<br><br>Market interest rates were low during 2015 with the relaxed monetary conditions although some mountings were witnessed occasionally. CBSL maintained low interest rates with the objective of stimulating credit growth to the private sector and to encourage investments.<br><br><br>Source: Central Bank of Sri Lanka | Low interest rates environment enable the corporation to seek low cost funding sources. However, interest cost has increased since the CPC does not have a mechanism to settle the US Dollar loans obtained. |

| Economic Indicator | Impact to CPC |
|---|---|
| **Inflation**<br><br>2015 year had a low and stable inflation environment supporting the economy. Inflation was negative during July to September in 2015 as a result of low prices in several commodities and it increased gradually leading to a year-on-year headline inflation of 2.8% by the end of 2015.<br><br><br>Source: Central Bank of Sri Lanka | Lower oil prices boosted the demand for domestic auto fuel resulting sales volume to increase. However, revenue dropped due to the reduction in selling prices. |

## Petroleum Industry

Sri Lanka's auto fuel retail sector is played by two giants – Ceylon Petroleum Corporation (CPC) and Lanka IOC and CPC is the dominant player in the industry. A wide group of stakeholders and number of other industries are impacted from the behavior of this industry.

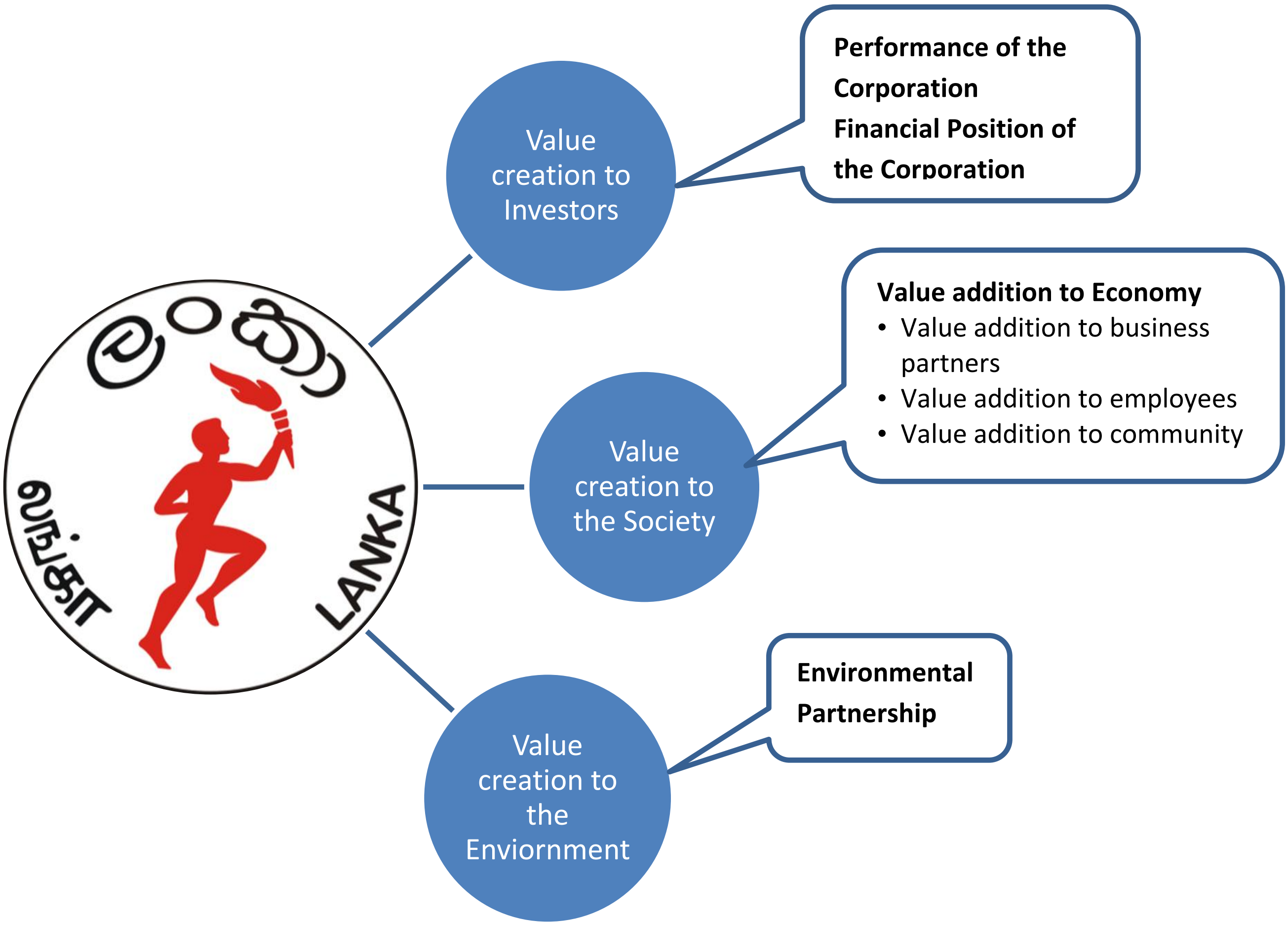
In line with the international crude oil prices, the average price of crude oil imported by CPC also decreased to US Dollar 54.80 per barrel in 2015 from US Dollar 104.53 per barrel in 2014. As the crude oil prices declined in the international market, domestic retail prices of petroleum products were also reduced substantially in January 2015 with the objective of passing the benefit of the price reduction in the global market to the general public. However, local prices were not revised up when the international oil prices hiked in the first few months in 2015. Reduction in retail oil prices and the increase in vehicles demanded more fuel from the transportation sector leading to a 20.9% hike in local petrol sale.

Price revisions made in some of the key petroleum products were depict in the below table;

| Product | As at 01.01.2014 | Revised in September 2014 | Revised in December 2014 | Revised in January 2015 | Revised in July 2015 | Revised in November 2015 | As at 31.12.2015 |
|---|---|---|---|---|---|---|---|
| **Petrol-90/92** | 162.00 | 157.00 | 150.00 | 117.00 | - | - | 117.00 |
| **Petrol -95** | 170.00 | 165.00 | 158.00 | 128.00 | - | - | 128.00 |
| **Auto Diesel** | 121.00 | 118.00 | 111.00 | 95.00 | - | - | 95.00 |
| **Super Diesel** | 145.00 | 140.00 | 133.00 | 110.00 | - | - | 110.00 |
| **Kerosene (Domestic)** | 106.00 | 86.00 | 81.00 | 59.00 | - | 49.00 | 49.00 |
| **Fuel Oil-800** | 92.20 | - | - | 82.20 | 80.00 | - | 80.00 |
| **Fuel Oil-1500** | 90.00 | - | - | 80.00 | - | - | 80.00 |
| **Fuel Oil-3500** | 90.00 | - | - | 80.00 | - | - | 80.00 |

Oil price is the main determiner of the industry's performance and there is an urgent necessity for a transparent fuel pricing mechanism for domestic petroleum products to ensure financial sustainability of the sector. Further it is necessary to find alternative opportunities to utilize the bottom products of the refinery such as furnace oil and naphtha. Government renewed the Sri Lanka's petroleum exploration efforts with the plan to develop and produce natural gas. If the gas commercialisation process is successful, it is expected to use domestic gas and to reduce the imported distillate.

# OUR VALUE CREATION AND IMPACTS




## Value Creation to Investors

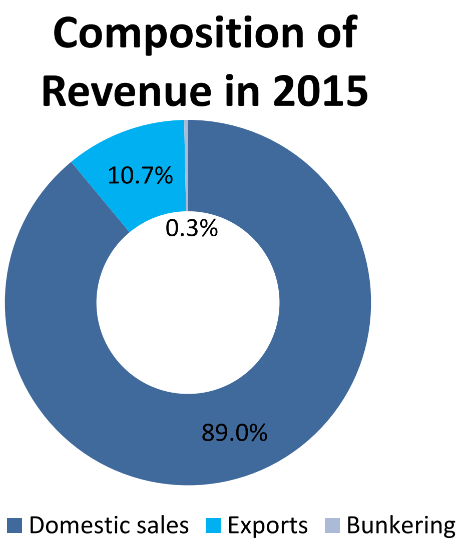
### Performance of the Corporation

2015 year was a robust year for CPC with turbulent world and local economic and social situations. CPC was ranked first in terms of turnover of the state owned business enterprises. Conversely, it was the highest loss making enterprise among them in 2015. Fall in crude oil prices in the global market increased the Corporation's gross profit margin whereas the continuous depreciation of LKR against the US Dollar, increase in finance expenses and customs duties eroded the corporation's operating and financial results.

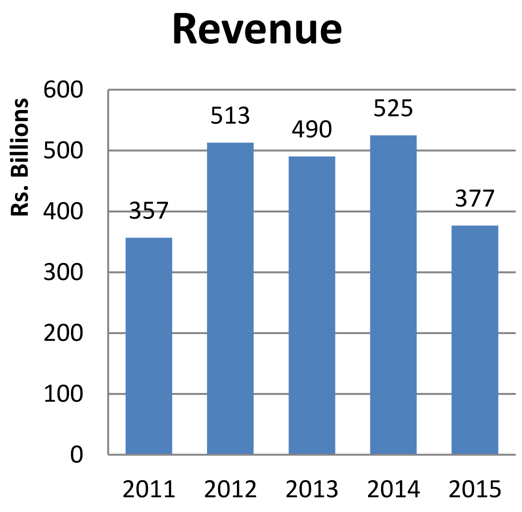
CPC earned revenue of Rs. 376.73 Bn and a gross profit of Rs. 39.62 Bn in 2015. Even though the revenue has decreased by 28%, gross profit has significantly increased by 57% to Rs. 39.62 Bn mainly due to decrease in cost of sales reflecting the fall in crude oil prices in the global market. Further the operating profit more than doubled to Rs. 27.42 Bn from Rs. 12.3 Bn in previous year. After 2009, this year was the year CPC generated a positive cash flow from operating activities amounting to Rs. 9.42 Bn. However; corporation had to incur a loss of Rs. 21.74 Bn mainly due to number of reasons which are detailed under profitability in this section.

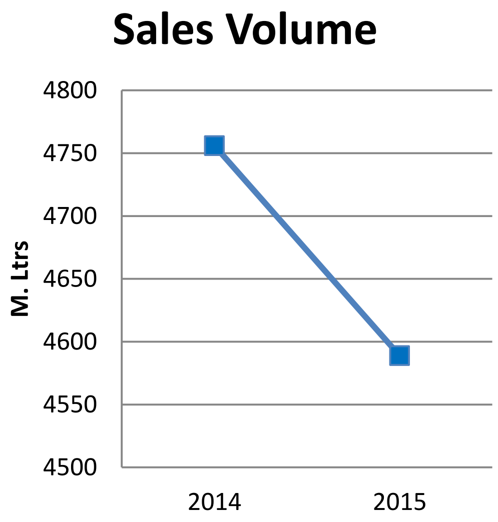
**Revenue**

Revenue is generated from the sale of petroleum products through domestic sales, exports and bunkering business, out of which domestic sales is the main source of income.




Revenue earned during the year has decreased by Rs. 148 Bn mainly because of the reduction in retail selling prices. Increase in sales taxes also caused the net revenue to decrease apart from the decrease in quantity demanded for diesel and furnace oil. Nonetheless, Auto Diesel earned the highest income amounting to Rs. 174.98 Bn which is 28.4% less than the previous year and the quantity demanded also is 10.14% less than 2014.



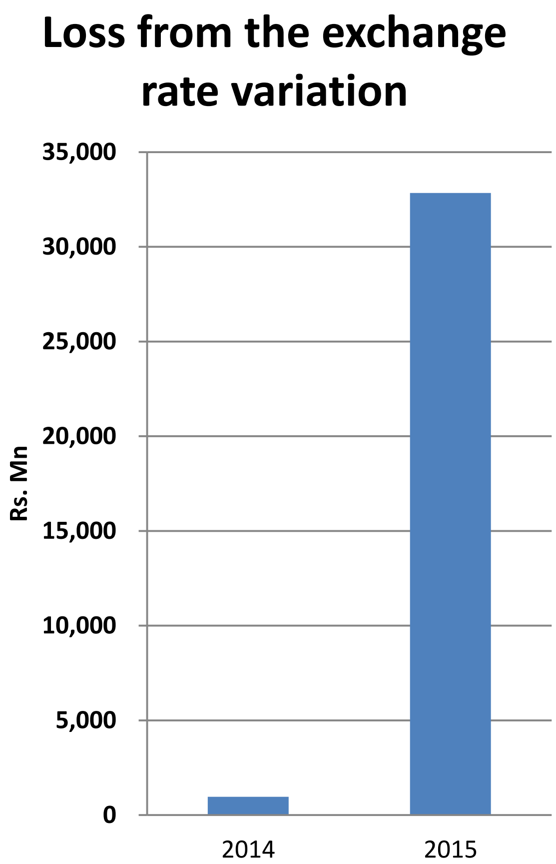




Despite the decrease in total revenue, there is an increase in both the sales volume and sales value in 95 Octane Petrol, Super diesel, Furnace oil 800", direct exports from Naphtha and Furnace oil 1500". Quantity sold in 2015 is more than in 2014 in 92 Octane petrol, kerosene, naphtha, agro chemicals even though their sales value is less than the previous year. Demand for Petrol and Super Diesel have increased due to the increase in modern vehicles. We can see some of the customers have shifted to Super Diesel from Auto Diesel since it is a sulphur free environmental friendly fuel. During the year Lanka Super Diesel demand has increased by 51.35% with a revenue increase of Rs. 894.16 Mn.

### Other Income

Other operating income, mainly consisting of staff loan interest, rental income, profit on sale of filling station equipment and dividend income, has decreased by Rs. 414 Mn mainly due to reduction in dividend income. In 2014, corporation received a dividend income of Rs. 437 Mn whereas in 2015 it received only Rs. 4,000 as dividend income.

### Exchange Rate Variation




Exchange rate variation amounting to Rs. 32.84 Bn took over the CPC's profitability substantially. 83% of the gross profit is used for this expense and it is 120% from the operating profit. In the previous year exchange rate variation was only Rs. 0.97 Bn.

### Finance Income

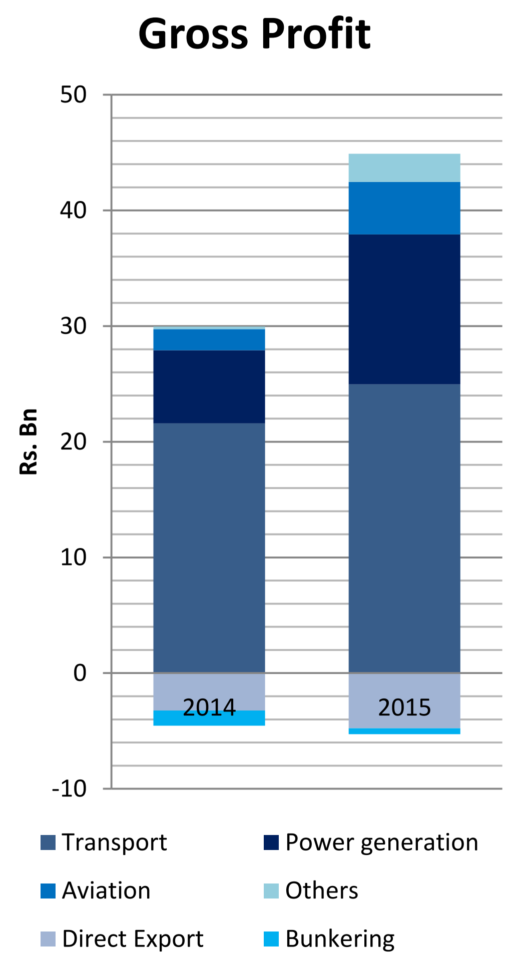
Finance income has increased by Rs. 880.29 Mn in 2015. Interest income from Fixed Deposits, Call Deposits and Government Securities has increased with the buildup of investments in those instruments together with the slight increase in interest rates. Interest received from overdue trade debtors has reduced in line with the decrease in trade debtors.

### Finance Expense

There is an increase in finance expenses by Rs. 1.07 Bn to Rs. 15.05 Bn, which utilized 55% of the operating profit. CPC is striving hard to reduce this cost and it is commendable to note that CPC did not pay any overdraft interest this year with effective fund management. Apart from that interest on long term loans and other finance costs have decreased by Rs. 16.85 Mn with the decrease in loans. Conversely, interest expense from the foreign currency bank loans eroded this achievement with Rs. 1,818 Mn increase mainly arose from the depreciation in Sri Lankan Rupee against the US Dollar. Had the CPC have a workable mechanism to settle US Dollar loans with the subsidy elements from the government, CPC would be a profitable entity.

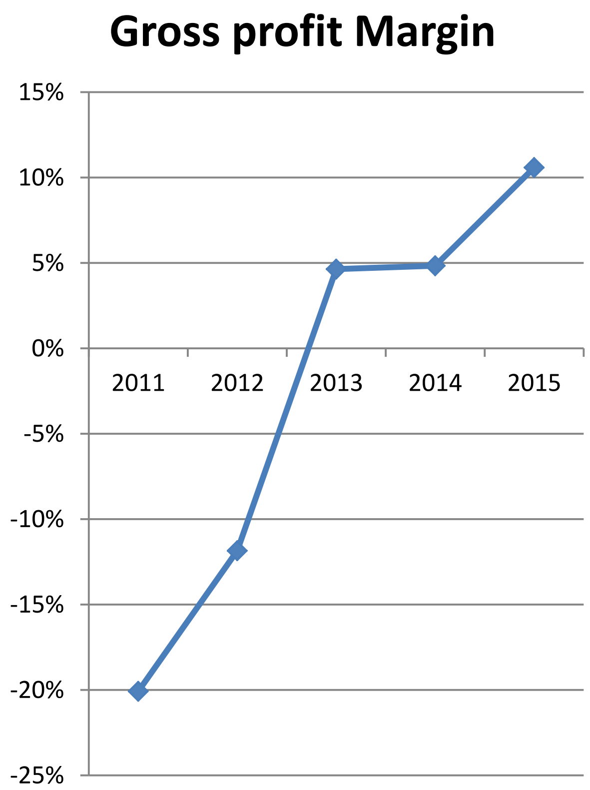
### Profitability

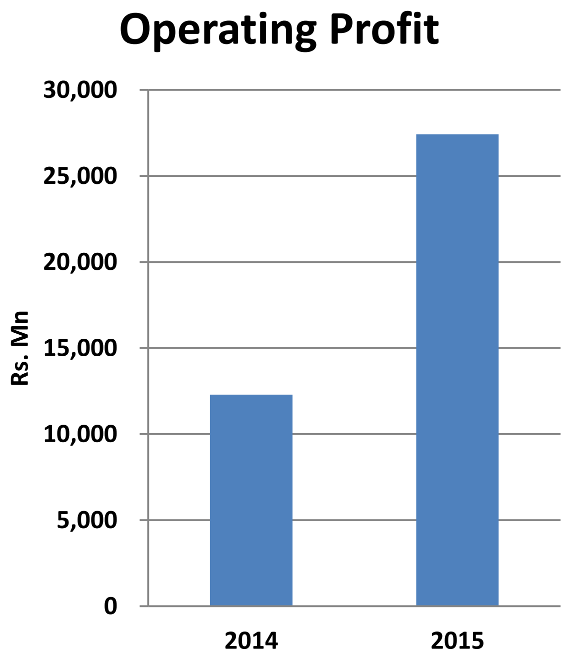
Gross profit margin grew to 11% from 5% year on year while the operating profit margin grew to 7% from 2%.



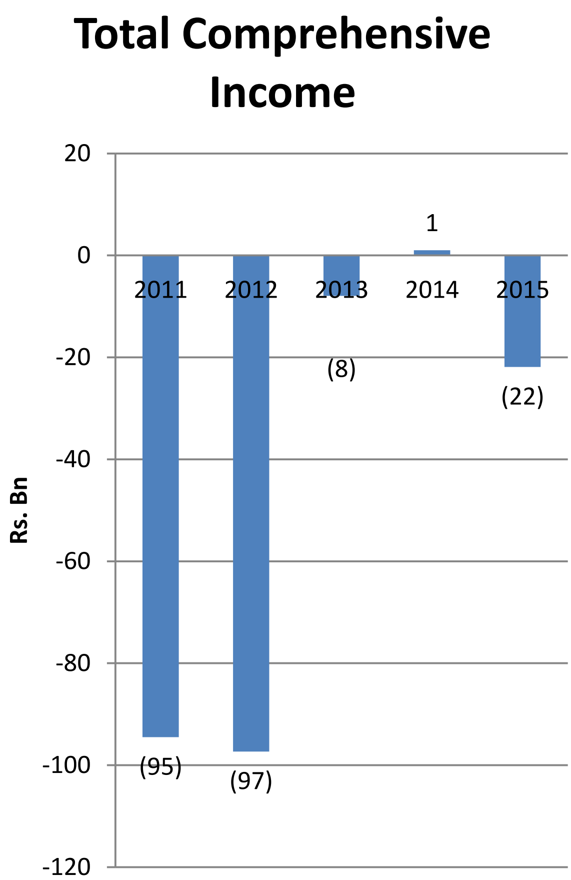

Cost of sales has significantly decreased by 32.57% with the fall in crude oil prices in the global market while the corporation managed to reduce the operation loss in cost of sales as well by 20.13%.

Highest contributor to gross profit is the transport sector and during the year under review profitability has increased by 15.62% from that sector. Gross profit from aviation sector has increased by 150% while the power generation sector gross profit has doubled compared to the previous year. Corporation was able to reduce its loss from bunkering to Rs. 515.46 Mn from Rs. 1,309.45 Mn.




Corporation produced Rs. 27.42 Bn as operating profit, which is Rs. 15.12 Bn more than the previous year. Decrease in administrative expenses also contributed to increase the operating profit apart from the increase in gross profit. Furthermore, corporation received a kerosene subsidy of Rs. 3.86 Bn which is 42% more than the previous year's subsidy.




Total Comprehensive Income ended up having a loss of Rs. 21.9 Bn in 2015 which wear away the marginal profit earned in previous year. Corporation had to incur a loss mainly due to following reasons;

- Non-existence of a cost reflective pricing mechanism 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 were revised down in January 2015 and price was not revised subsequently even though the international crude oil prices increased from January to June 2015. This eroded the corporation's gross profit margin. As per the section 17 of the Finance Act No. 38 of 1971, the Corporation is entitled to receive subsidy by the Government.
- CPC had to incur an exchange variation loss of Rs. 32.84 Bn since the Sri Lankan Rupee depreciated against the US Dollar. During the year, Rupee depreciated by 9.03% against the US dollar.
- Customs duty on petrol was increased to Rs. 35 per litre from Rs. 15 per litre during the year. As a result, corporation paid Rs. 31.21 Bn additionally to the customs when importing petrol.
- Interest expense for the foreign currency loans obtained amounted to Rs. 14.98 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 it was restricted to purchase 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 and less construction activities. As the CPC does not have enough storage facilities to keep them, they were compelled to export at low prices.
- Demurrages are also one of the key expenses CPC have to incur. Cross country pipe lines which are used to discharge the imported products from port to terminals create heavy congestions at berth due to low pressure being maintained at pumps consequent to their dilapidated condition. As a result, the average time taken to discharge cargo is more than the standard time causing CPC to incur huge demurrages.
- CPC had to pay Rs. 3.86 Bn to the Deustsche Bank for the proceedings against Sri Lanka as a result of the hedging transaction entered earlier.

Despite the various challenges faced corporation strived to reduce its loss through number of mechanisms.

- After having number of discussions foreign currency loan interest was reduced to 5% from 5.5% in US Dollar terms. This reduced the interest cost of CPC.
- After negotiations with BOC the acceptance commission was reduced. This decreased the finance cost of CPC.
- Treasury function was managed effectively and efficiently without keeping cash idling. Excess cash were invested in interest yielding sources while making sure that the CPC will not go into a bank overdraft. From this CPC earned Rs. 3.76 Bn during the year and no bank overdraft interest was incurred.
- Import procurement process became more transparent and many suppliers got the opportunity to submit bids. This positively contributed to the competitiveness of import of petroleum products with quality resulting in an overall reduction of import prices.
- With effect from 01.04.2015, cost reflective method was applied to aviation fuel price. This achieved a gross profit of Rs. 4.53 Bn from the aviation sector in 2015.
- Despite the decrease in demand from the power generation sector, CPC was able to keep retail prices fixed. From this step, CPC was able to achieve a gross profit of Rs. 12.97 Bn from the power generation sector during the year.
- Retail prices of furnace oil were kept at profit making levels regardless of the decrease in demand for the same.
- Cleared cargo using shipping guarantee / bank indemnity in the absence of original shipping documents.
- Many procedural development works were 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 Department of Railways amounting to Rs. 11.74 Bn. Further the subsidy receivable amounting to Rs. 4.46 Bn was set-off against the taxes payable.

## Financial Position of the Corporation

During the year corporation managed to decrease its trade receivables and its inventories while increasing its investments in non-equity investments and short term investments through improved debt collection. In 2015, corporation recovered Rs. 1.4 Mn from its written-off trade receivables. Contributed capital increased by Rs. 25 Bn from the Treasury Bond issued by the General Treasury. During the year loans and borrowings have decreased drastically by 47.92%.

**Trade Receivable**

With the remarkable improvement in recovering trade debts, trade receivables decreased to Rs. 18.73 Bn which is 49.21% less than 2014 year end. During the year CPC was able to set off its Rs. 11.74 Bn worth trade receivables from the three forces, police and Department of Railways against taxes and customs duties. Outstanding balance as at 31 December 2015 from Sri Lankan Air Lines Ltd accounted was Rs. 8.61 Bn. CEB, IPP, Armed forces and Mihin Lanka (Pvt) Ltd are the other significant debtors outstanding as at 31 December 2015 amounting to Rs. 2.72 Bn, Rs. 1.78 Bn, Rs. 0.65 Bn and Rs. 0.55 Bn respectively.

**Loans and Borrowings**

During the year loans and borrowings have reduced by Rs. 647 mn. However, the rate of settlement of foreign currency loans is not satisfactory largely due to non-availability of sufficient Dollars in the market and this resulted in a large exchange variation due to non-settlement of bills on time. This is a one main issue which converted the corporation into a loss.

**Retained Earnings**

Negative retained earnings increased further to Rs. 262.65 Bn with the continuous losses incurred since 2008 except the marginal profit made in 2014. Lack of a cost reflective pricing structure is the main reason for these losses and these losses have been financed through interest bearing bank loans, which worsen the financial performance of CPC.

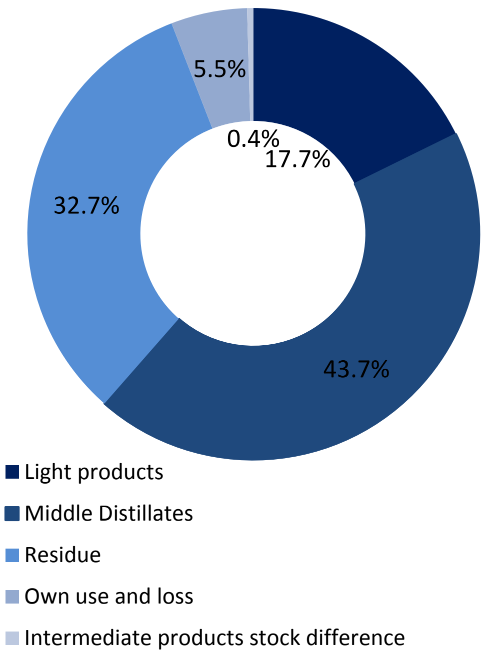
## Oil Refinery Operations

With 46 years of experience in refining oil CPC processed 1,692,074 Metric Tons of crude oil this year. Processing cost per ton of crude oil has decreased by 25.86% while the direct operating cost per ton has decreased by 29% as a result of the reduction in the cost of own use fuel oil and gas.

After the US sanctions on Iran, Refinery was using a blend of two crudes Murban and Oman blend. Oman blend was used to adjust the pour point of fuel oil produced to the level of specification. However, Oman blend crude was not profitable and processing of Murban crude was initiated during the year by overcoming the pour point problem using the unutilized Visbreaker unit.

Out of the 2015 production Gas oil was the dominant product while residue products fuel oil 800 and 1500 were in the second and third positions. Production of Chemical Naphtha, Mogas 92 & 95 octane, Kerosene, Gas Oil, fuel oil 800 and refinery fuel production were higher than last year.

## Manufacturing of petroleum products - 2015




## *Operating time efficiencies of key process units*

| | |
|---|---|
| Crude distillation unit | *88.80%* |
| Naphtha unifiner unit | *83.05%* |
| Platformer unit | *84.54%* |
| Gas oil unifiner unit | *60.64%* |
| Visbreaker unit | *75.47%* |
| LPG merox treater unit | *83.07%* |
| Gas oil hydrotreater unit 07 | *74.61%* |
| LPG unit | *83.04%* |
| Kerosene merox unit | *48.21%* |
| Turbo Generator 1 | *64.76%* |
| Turbo Generator 2 | *83.16%* |
| Diesel Generator 1 | *23.6%* |
| Diesel Generator 2 | *26.47%* |
| Water intake station | *49.06%* |

Crude distiller unit was on stream throughout the year except in few occasions. During the year there were two power failures for 12.35 hours due to Boiler V panel failure and Crude Distiller was shut down for 269.40 hours due to 01MP6B pump seal leak. Apart from the above reasons, refinery production was less than the previous year due to low throughput operations during platformer regenerations carried out during the year.

In order to enhance the operational efficiencies in the plant, once in every three years refinery operations are paused for repairs. During this year operations were paused from March 04th to April 10th to service and repair the plant. This safeguards less system failures while enhancing productivity.

Amidst those situations, refinery was in operation for 324.12 days with an average intake of 5,221 tons per stream day. Ocean loss which was 0.65% in the previous year has become 0.38% in this year due to minimum losses in transit. However this caused shore tank loss to increase.

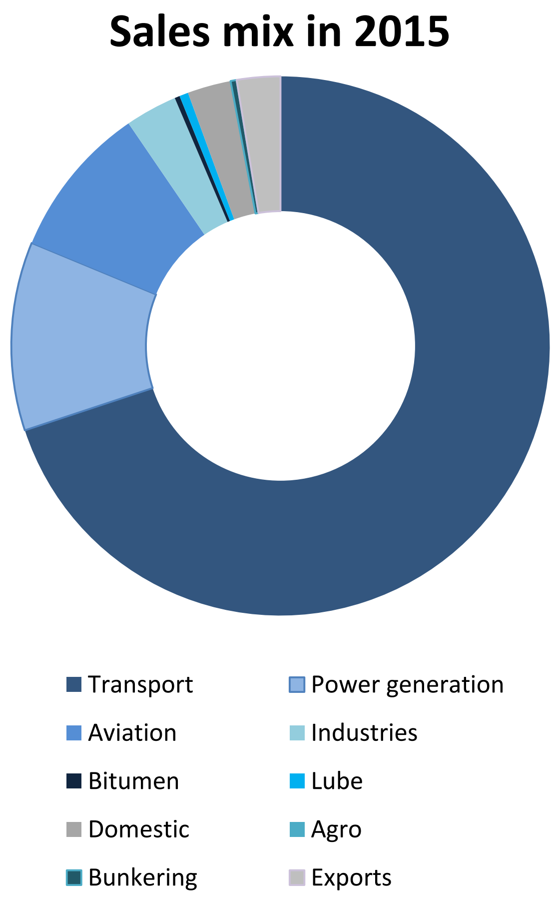
## Expansions during the year

CPC identified many areas where urgent attention is needed in order to avoid failures or bottlenecks, which can cause heavy financial losses or threaten energy security of the country or which can damage the image of the corporation or the country. With the corporation's plan to provide an improved service to the nation, capital projects in progress increased by Rs. 235 Mn. 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;

- Under the ISO implementation program automated bottle filling machine, bag sealing machine and batch number printing machine were introduced.
- Motor gasoline (Petrol) distribution facility was added to the Sapugaskanda distribution terminal.
- Completed network projects at Mattala International Airport, Head office building and Muthurajawela Lubricant stores.
- Completed bio metric based attendance system for refinery, all regional offices, Muthurajawela, and Rathmalana aviation functions.
- Implementation of Airport Apron Fuel Hydrant system at Mattala International Airport
- Refurbishment of the Crude oil SPM
- Maintenance of Dolphin Tanker Berth at Colombo Port
- Construction of stores at Head Office and lubricant storage complex & drum yard at Muthurajawela.

## Sector-wise Review



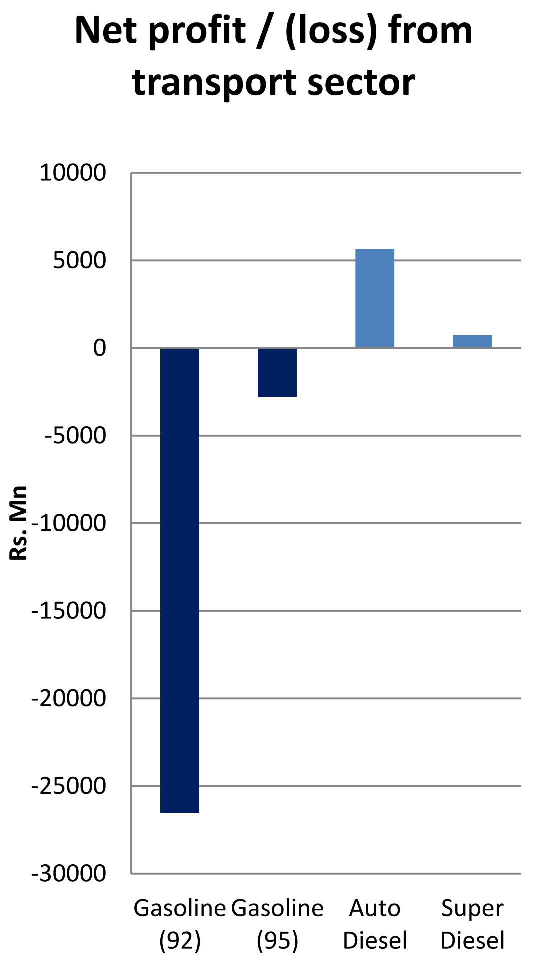

Except transport, domestic, Agro and Exports segments, all other segments made profits for the year 2015.

**Details of segmental loss**

| ***No of Filling Stations as at 31 December 2015*** | |
|---|---|
| CODOs | ***248*** |
| DODOs | ***911*** |
| Dealer control | ***44*** |
| **Total** | ***1,203*** |
| New filling stations opened in 2015 | ***35*** |

| ***Segment*** | ***2015 Rs. Mn*** |
|---|---|
| **Transport** – Petrol at subsidized rate | ***22,935*** |
| **Domestic** – Kerosene at subsidized rate | ***3,840*** |
| **Agro Chemicals** – Subsidized prices | ***79*** |
| **Exports** – Naphtha & Fuel oil priced below cost | ***6,173*** |

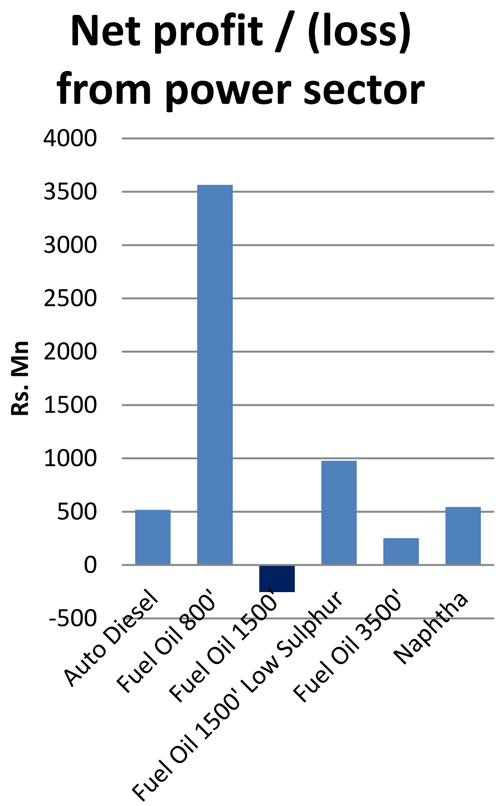
**Transport**




Transport sector is the largest sector in CPC and during the year it earned total revenue of Rs. 263.45 Bn and a gross profit of Rs. 24.96 Bn, which is the highest contribution to the gross profit. Overall fuel consumption has increased by 9% as a result of the domestic fuel price reduction announced in January 2015 in the transport sector. It is worthwhile to note that 95 Octane Petrol consumption has reported a growth of 50% compared to last year. Import of luxury vehicles and use of emission free fuel are the contributory factors for this change.

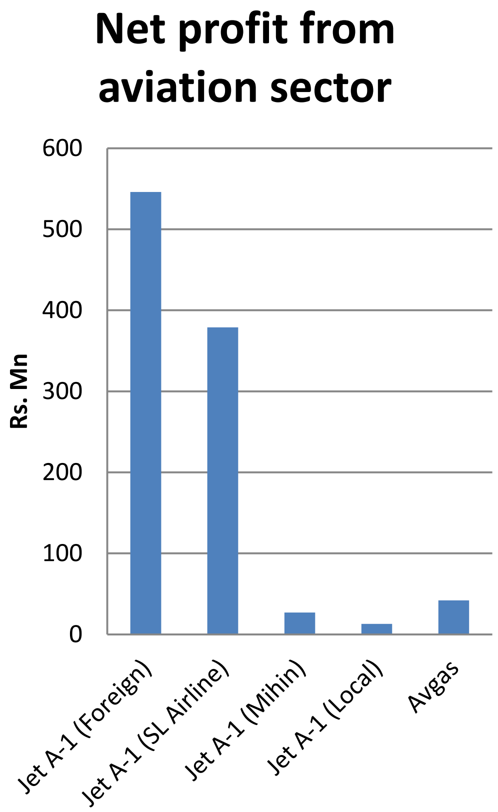
However transport sector's gross profit was converted to a net loss of Rs. 22.94 Bn with the exchange rate variation loss. Increase in customs duties on petrol by Rs. 20/- per litre also deteriorated the profitability of that sector.

**Power**




Power sector, second largest contributor to revenue and gross profit, earned total revenue of Rs. 42.59 Bn and a gross profit of Rs. 12.97 Bn. However, with the increased use of hydropower and coal power for electricity generation, demand for petroleum products for the same was drastically reduced compared with the 2014 consumption pattern. Consumption of Diesel and Furnace oil for Power generation was reduced. Regardless of the decrease in demand, CPC kept the retail prices fixed. This contributed to increase the profitability of the sector. Even so, Fuel oil 1500' incurred a loss of Rs. 252 Mn since the sales price is insufficient to cover up the expenses.

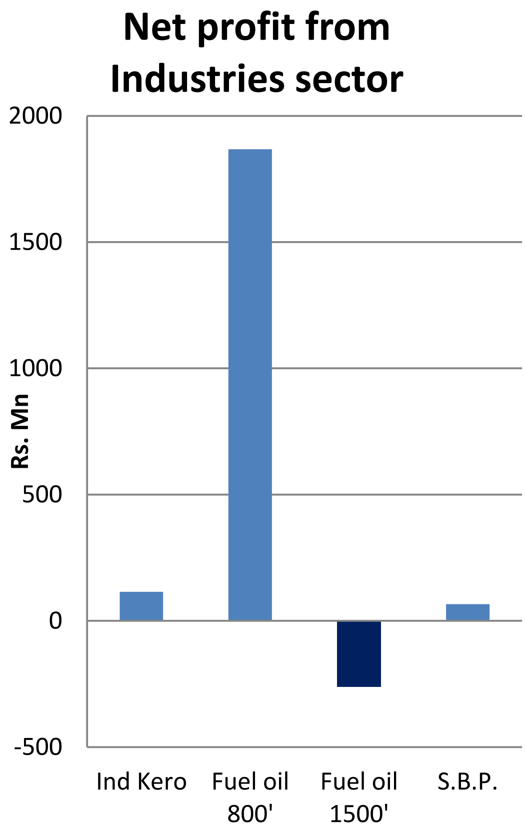
**Aviation**




Revenue from the aviation sector was Rs. 34.73 Bn and was able to achieve a gross profit of Rs. 4.53 Bn. Application of a cost reflective method to aviation fuel price with effect from 01.04.2015 is a positive move in making further profits from this sector. During this year, CPC was able to achieve a profit of Rs. 1.01 Bn and the profitability will increase further in coming years.

During the year, Airport apron fuel hydrant system was implemented with aviation fuel storage facility in Mattala Rajapakse International Airport. Since the quality of jet fuel is paramount important for the safety in flight, CPC follows the international standards issued by 'Joint Inspection Group' (JIG). Annual audits are conducted by JIG to make sure that quality assurance requirements are met. Status of 'Good' (above average) was achieved for the first time in the history from the audit carried out by JIG for aviation refueling terminal located at the Bandaranayake International Airport, Katunayake in 2014 and 2015 for the first time in the 27 years of Sri Lankan aviation history. Aviation unit at Mattala Aviation Refueling Terminal received a rating of Good (above average) while Ratmalana Airport received a rating of Satisfactory (average) from JIG audit. CPC's expectation is to achieve the status of 'excellent' once the BIA fuel hydrant and terminal upgrading project is completed.

**Industries**




During the year industries sector earned an income of Rs. 11.76 Mn and a gross profit of Rs. 3.59 Mn. Fuel oil is the main selling product in the industries sector and 133 Mn litres were sold to them in 2015. However, the quantity sold is 6% less than last year. Net profit earned from the industries sector was Rs. 1.79 Bn which stemmed from the Fuel oil 1500' loss of Rs. 262 Mn.

**Bitumen**

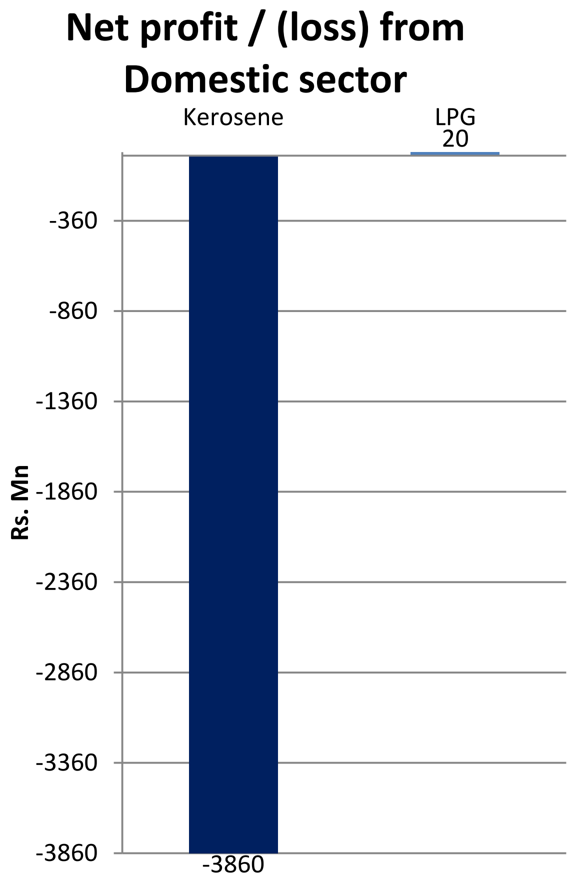
Sales revenue from Bitumen was Rs. 1.17 Bn and incurred a gross loss of Rs. 0.29 Bn in 2015. This year bitumen sales have dropped with the postponement of construction activities in the country. Apart from the drop in the bitumen sales, high stock holding cost is another concern in enhancing the profitability of Bitumen business.

**Lubricant**

Income earned from lubricant sector was Rs. 2 Bn and derived a gross profit of Rs. 187 Mn. Profit derived from lubricant sector was less than last year and was not satisfactory largely due to cost of import being so high compared with local producers who enjoy tax benefits which is passed through to local buyers. Therefore the quantity sold was also 6% less than the previous year.

**Domestic**

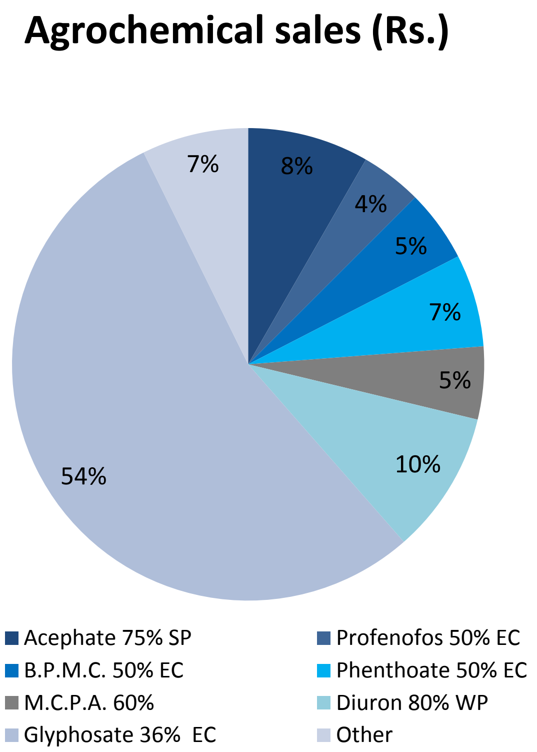
Income from the domestic operations was Rs. 9.7 Bn. Conversely cost of sales was Rs. 11.06 Bn leading to a gross loss of Rs. 1.36 Bn. It was an another sector which made a gross loss in 2015. Supply of LPG and Kerosene at subsidized prices is the main reason for this loss. Even though the domestic kerosene quantity sold is 12% higher than 2014, income earned was 33% less with the prevalent retail prices. Both the L.P.G. quantity sold and revenue earned is less than 2014.

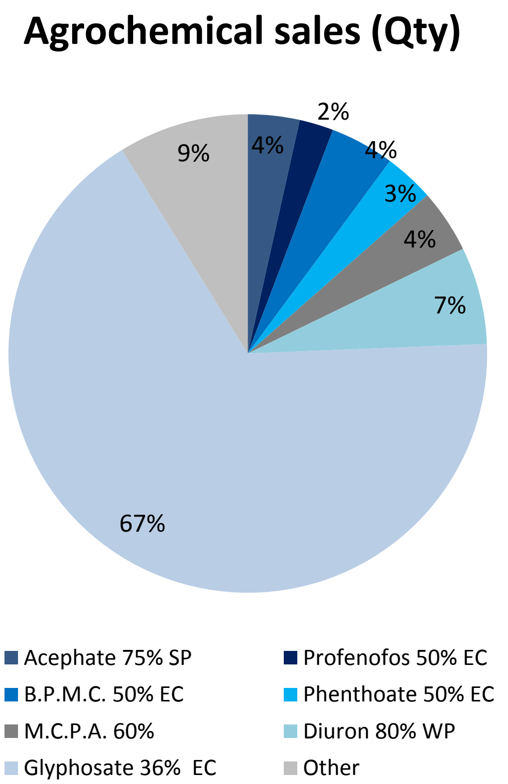



**Agrochemicals**

CPC continues to supply agro chemicals at reasonable prices to cater to the market demand in the agriculture sector, thereby boosting the country's agriculture production at low production cost. It was selling twelve agrochemical products. However, the most popular product, Glyphosate was completely banned in November 2015 by the Government and as a responsible corporate citizen CPC also discontinued its sales. This situation severely affected CPC's annual sales volume and value. Despite those challenges, sales volume of agro chemicals increased by

82% than last year. Yet, CPC had to incur a loss of Rs. 79 Mn. The Corporation is considering new pesticides to introduce to the market which are more environmental friendly.



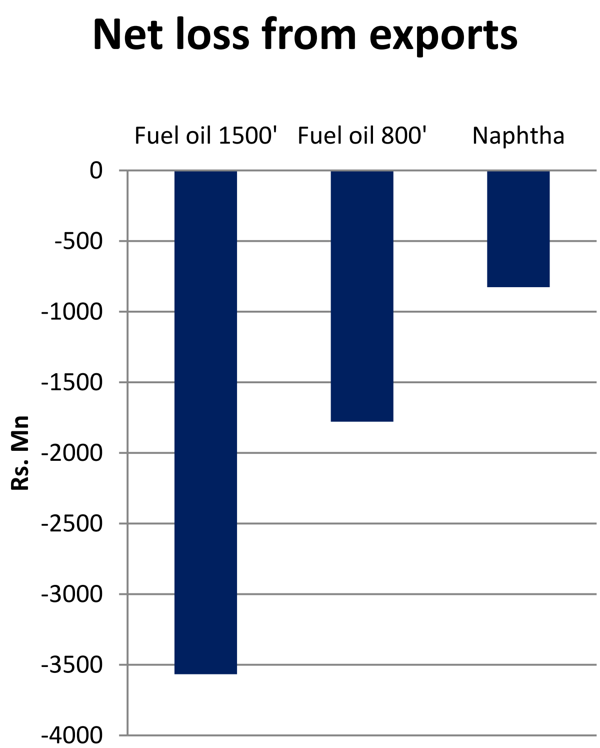




**Bunkering**

Revenue from bunkering is Rs. 1.37 Bn and CPC incurred a gross loss of Rs. 0.5 Bn since the CPC had to sell Furnace oil and Naphtha at reduced prices as the storage facility was insufficient to store excess. However the gross loss has decreased by 61% compared to 2014.

**Exports**

During the year CPC exported Naphtha and Furnace oil and earned an income of Rs. 9.8 Bn. However it faced a gross loss of Rs. 4.77 Bn as the cost of sales is Rs. 14.59 Bn. Drop in the local demand from the power sector for naphtha and furnace oil with heavy rain fall exerted pressure in storing furnace oil and Naphtha. As the CPC does not have enough capacity to store the excess production, those products were exported even below the cost.



# Value Creation to Society

## Value Addition to Economy

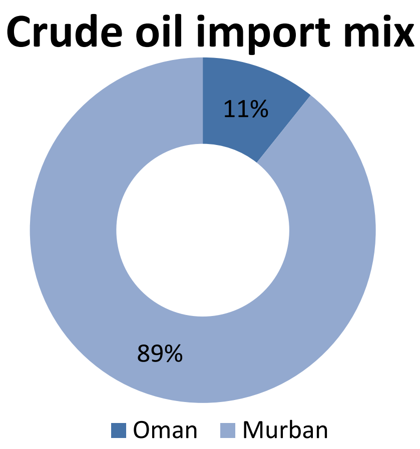
| *Value Added* | *2015 Rs. Mn* | *2014 Rs. Mn* |
|---|---|---|
| **Direct Economic Value Generated** | | |
| Revenue | 376,734 | 525,182 |
| Finance Income | 4,910 | 4,030 |
| Kerosene Subsidy | 3,860 | 2,715 |
| Other Income | 375 | 792 |
| | **385,879** | **532,719** |
| **Economic Value Distributed** | | |
| Payments to suppliers and service providers | 292,307 | 450,011 |
| Payments to employees | 4,530 | 3,727 |
| Payment to lenders | 15,049 | 13,980 |
| Payments to Government | 94,961 | 63,349 |
| | **406,847** | **531,067** |
| **Economic Value Retained** | | |
| Depreciation | 935 | 635 |
| Available-for-sale reserve | 7 | - |
| **Profit retained / (used)** | **(21,896)** | **1,017** |

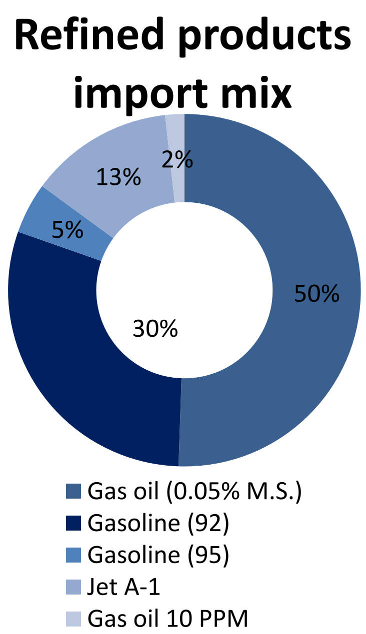
During the financial year 2015 the economic contribution by CPC amounted to Rs. 385,879 Mn and was redistributed among lenders, the government, employees and service providers as shown in the above table.

## 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 and so forth.

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.



Refinery material department ensures that all operating and maintenance materials for refinery operations are available to carry out the refinery operations smoothly. During the year, total value of overseas purchases excluding freight amounted to Rs. 748.23 Mn and value of local purchases amounted to Rs. 259.35 Mn.

| *Petroleum product supplies* | |
|---|---|
| **LPG Supply** | |
| Lanka Laugfs Gas Ltd | *3,158 mt* |
| Litro Gas | *6,498 mt* |
| **Heavy fuel oil** | |
| CEB | *4,573 mt* |
| Asia Power | *4,036 mt* |

CPC continued to get technical assistance from the Consultants Messer. UOP Ltd, as and when it was necessary.

## Value Addition to Our Employees

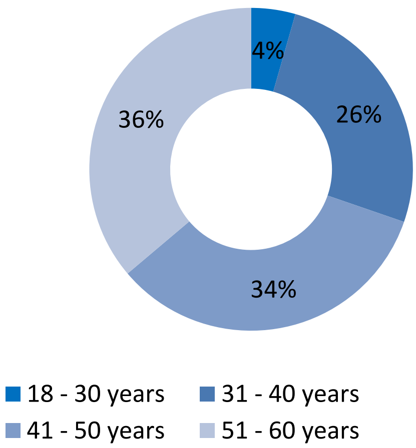
Loyal and committed employees are necessary for the success of any organization. As the leading fuel distributor to the nation employee engagement is essential. Knowing this fact, employees of CPC give their maximum contribution to the success of the Corporation and CPC in return treat them very well.

**Team Profile**

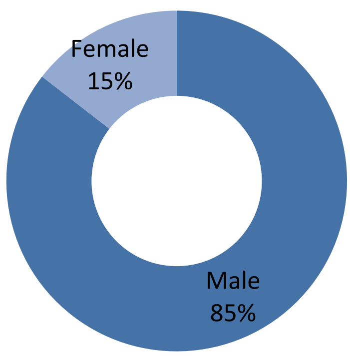
| Age Group | Grade A | | Grade B | | Grade C | | Total | |
|---|---|---|---|---|---|---|---|---|
| | M | F | M | F | M | F | M | F |
| **18 – 30 years** | 6 | 1 | 38 | 2 | 67 | - | 111 | 3 |
| **31 – 40 years** | 42 | 9 | 216 | 78 | 304 | 18 | 562 | 105 |
| **41 – 50 years** | 81 | 29 | 282 | 106 | 355 | 12 | 718 | 147 |
| **51 – 60 years** | 123 | 33 | 368 | 74 | 323 | 12 | 814 | 119 |
| Total | **252** | **72** | **904** | **260** | **1,049** | **42** | **2,205** | **374** |

| | |
|---|---|
| **Total Permanent staff** | *2,579* |
| Contract | *1* |
| Trainee technicians | *81* |
| Trainees (From external academic institutions) | *107* |
| **Staff Strength** | *2,768* |

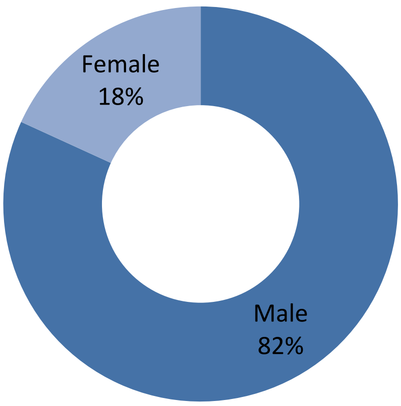
## Employee age analysis



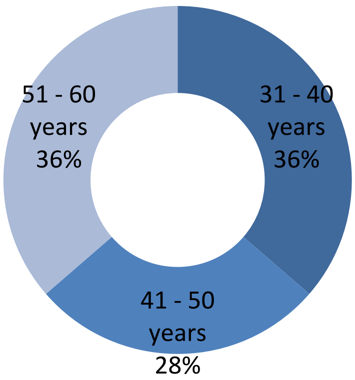

## Employee gender analysis



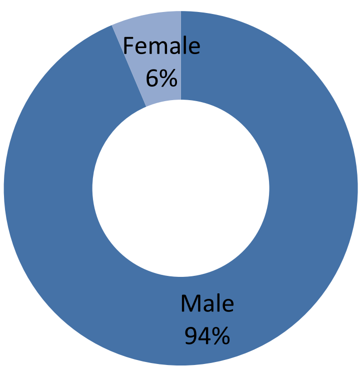
## New recruits by gender



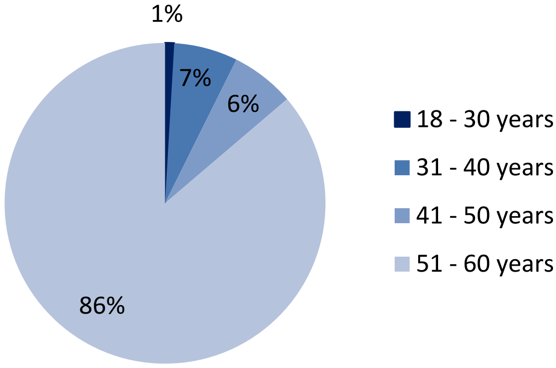

## New recruits by age




## Employee turnover by gender




## Employee turnover by age




**Rewards and Recognition**

CPC's remuneration package is attractive with both financial and non-financial incentives. It has a formal salary structure and does not discriminate with gender, age or ethnicity. Rewards system is linked to attendance and employees were paid several incentives based on their attendance.

CPC always value loyal employees and their contribution to the Corporation is valued every year. Service awards were given to employees with long service periods and the details of the 2015 awards are as follows;

| *Service awards given* | |
|---|---|
| 20 years of service | *242* |
| 30 years of service | *54* |
| 35 years of service | *18* |
| **Total** | *314* |

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 retirement. In addition, the Corporation provides gratuity at retirement according to the Gratuity Act.

**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 job. Furthermore, it has an equal remuneration policy regardless of the 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**

CPC culture always promotes the development of its employees by giving various knowledge additions apart from the experience they gain. CPC provides internal as well as external trainings to its employees and provide financial assistance to follow higher education opportunities, including overseas universities and institutions. Summary of the training provided in 2015 is tabled below;

| Type of Training | A Grade | B Grade | C Grade | Trainees |
|---|---|---|---|---|
| **Foreign trainings** | | | | |
| General Management | 17 | - | - | - |
| Operations related training | 34 | - | - | - |
| Energy conservation | 3 | - | - | - |
| Health and safety | 4 | - | - | - |
| Sports | 8 | | | |
| **Local Trainings** | | | | |
| ISO training | 5 | 2 | - | - |
| Occupational health and safety | 472 | | | |
| Advertising and graphic designing | - | - | 1 | - |
| Orientations | Trainees and new recruits | | | |
| CPC procedures, rules & regulations | - | - | 340 | - |
| Prevention of drugs | 108 | | | |
| Local institutes | 146 | | | |
| Labor law and industrial relations | - | 4 | - | - |
| Operations related training | 33 | 25 | 1 | - |
| Communication and skill development | 13 | 7 | - | - |
| Environment protection training | 6 | 3 | - | - |
| Aviation refresher training | Aviation operations staff | - | - | - |
| **Financial assistance given** | | | | |
| Post graduate degree | 7 | | | - |
| Post graduate diploma | 2 | | | - |
| Diploma | 8 | | | - |
| Certificate level | 19 | | | - |

CPC culture extends to provide scholarships to the children of CPC employees and during the year 23 scholarships were given to such children.

In order to provide a productive and quality service, CPC is directed towards to implement ISO standards and during the year under review, several training programs on productivity and quality improvements were conducted to employees.

**Health & Safety**

CPC's products and operations have high health and safety impacts due to the inherent inflammable nature of the product. Further proper health and safety measures in CPC safeguard the smooth functioning of operations while protecting the 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 were carried out as per check lists to make sure that the equipment are 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 16 to 23 November 2015.

Fire training classes were conducted to employees regularly and monthly fire drills are organized to ensure correct handling, transportation and storage of products and to avoid any health hazards to the society. During the year 472 staff participated to number of health and safety trainings provided locally while 4 employees have participated for training on firefighting held in Australia. With a view to attract the attention of employees for 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 | 2015 | 2014 |
|---|---|---|
| Lost time accidents | 1 | Nil |
| First aid accidents | 10 | 5 |
| Minor fires reported | 08 | Nil |

**Welfare activities**

CPC commenced its operations for the New Year after a religious ceremony

Buddhist society organized several religious activities including preaching of 'Bana'

Eight employees have participated for overseas sport activities and CPC beared Rs. 280,410

478 medical letters of authority were issued

**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. CPC is unionized with seven unions. Industrial relations also extend to external stakeholders such as customers, government, distributors, through quality and on time service delivery. Knowing these facts CPC manages its operations by giving a high priority to manage labor relations.

**Child labor, forced labor or compulsory labor**

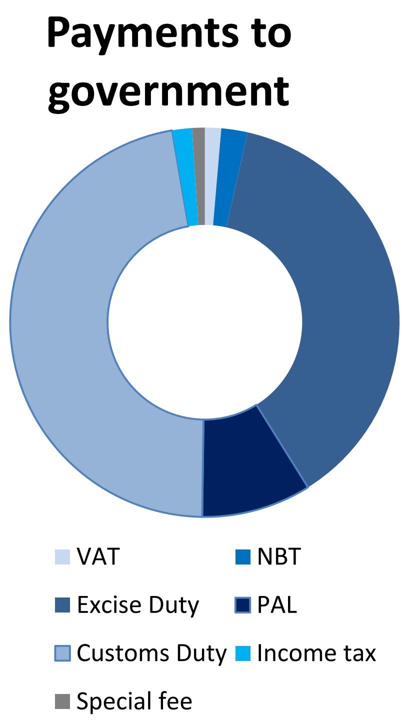
All CPC employees are above the age of 18 years and unions in CPC act as a deterrent to any violation of labor rights. CPC does not promote child labor, forced labor or compulsory labor.

## Value Addition to Communities

CPC believes that, to build confidence among the community and to ensure reputational integrity regulatory compliance is a primary attribute. It exhibits good governance and safeguard long term sustainability.

**Payments to government**

CPC is one of the largest tax payers and during the year it paid Rs. 94.96 Bn, which is 25.21% of the revenue, to the government. In 2014 government taxes paid was Rs. 63.35 Bn and it was only 12% of the revenue amount.




During the year CPC paid Rs. 44.71 Bn as customs duty, which is 281.18% more than the previous year. Government's decision on increasing the customs duty on petrol to Rs. 35 per litre from Rs. 15 per litre is the reason for this surge and this eroded the profit margins of the corporation. Furthermore Excise duty also has increase by 18.13% to Rs. 35.69 Bn. Adding more burdens to the CPC, government has imposed a special fee of Rs. 10 Bn for 10 years ahead and CPC is of the view that it should be set off against the customs duty payable.

Current direct taxes per litre imposed on import of petroleum products with a comparison of sales prices is shown below;

| | Selling Price | Excise Duty | Customs Duty | PAL | NBT | Total | % on sales |
|---|---|---|---|---|---|---|---|
| **Petrol 92** | 117.00 | 27.00 | 35.00 | 2.97 | 0.87 | **65.84** | **56%** |
| **Petrol 95** | 128.00 | 27.00 | 35.00 | 3.16 | 0.98 | **66.14** | **52%** |
| **Auto Diesel** | 95.00 | 3.00 | 9.00 | 3.11 | 0.90 | **16.01** | **17%** |
| **Super Diesel** | 110.00 | 3.00 | 9.00 | 3.18 | 1.04 | **16.22** | **15%** |

Accordingly it is not worthwhile to import 92 and 95 petrol as only 44% and 48% of the sales value is available to cover up operational expenses. Therefore the government's attention is necessary to reduce the taxes imposed considering the necessity of the petroleum products to the general public and the sustainability of CPC.

**Product responsibility**

A program was initiated to visit few randomly selected filling stations from different areas, island wide and carried out safety inspections and audits to find out any hazards or shortcomings in them. Filling stations owned by corporative societies were especially focused in this program as they are the places where attention was needed most. Its main objective was to obtain feedbacks on the violation of procedures, unsafe practices, housekeeping hazard detection and so on. Educating regional managers, area managers and the general workers was also another objective. This program was a success and many problems were detected through it. Further this had created high 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, the most popular agrochemical product Glyphosate was completely banned and CPC also discontinued its sale immediately.

**Product and service labeling**

Correct product and service labeling is crucial for petroleum products to safeguard health and safety. Therefore, labeling can be considered as a social responsibility while ensuring that the correct product is used for the relevant purpose. Adding more, 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 trainings to those interested students for 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 (2013 batch) apprentices .
  Information technology course conducted by NAITA for all NAITA apprentices were completed.
- Fifteen industrial visits were conducted for Sri Lanka Forces, Universities and Technical Colleges

CPC's operations vastly impact the economy, directly as well as indirectly, in Sri Lanka. 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 enhancements 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
- Allow filling stations to provide value added services like super markets, ATMs, restaurants, air filling in filling stations.
- Agro chemicals were provided at low prices with a view to control the exploitation of poor farmers.

**Memberships in associations**

We maintain interactions and memberships with regulatory agencies and established industry institutions.

- Central Bank of Sri Lanka
- Finance Ministry
- The Institute of Chartered Accountants of Sri Lanka
- Department of Inland Revenue
- Ceylon Chamber of Commerce
- Sri Lanka Customs
- Employer's Federation of Ceylon
- The Institute of Engineers of Sri Lanka
- Sri Lanka Institute of Marketing

# Value Creation to the Environment

## Environmental Partnership

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

**Waste Management**

CPC is very much concern about the waste management and air emission. During the year, one mechanical engineer participated for a training program on 'Management of Industrial solid waste, waste water and air emission' and two officers underwent a foreign training on 'Operation and Maintenance of Water, Sewage and Effluent Treatment Plants' expecting them to drill down the knowledge they obtained among colleagues and to implement those mechanisms in the corporation. During 2015 construction of a waste water treatment plant was initiated and is planning to construct a wash bay. Under ISO implementation program the Corporation improved its waste water management system by segregating contaminated and non-contaminated waste.

**Water**

Significant amount of water was taken from the Water Intake during the year while a smaller amount of water was taken from the Water Board.

**Oil Spills**

Ocean loss which was at 0.65% in the previous year 2014 has become 0.385% during the year 2015 due to minimum losses in transit. However this led to increase in shore tank loss. CPC should develop a proper mechanism to minimize oil spills.

**Energy**

Without energy, operations of CPC will be standstill. Refinery operation requires substantial amount of energy accounting for the highest energy consumption in the Corporation. Therefore, every year, loss and efficiency surveys are carried out in order to control the energy consumption.

***Energy consumption of refinery operations***

| | 2015 | 2014 |
|---|---|---|
| Fuel gas consumption | 32,029 MT | 31,325 MT |
| Fuel oil consumption | 43,633 MT | 38,904 MT |
| Specific energy consumption (MMK Cal/MT of Crude) | 0.4755 | 0.4195 |

Energy consumption has an impact on the CPC's cost structure as well as impacting the environment through emission of gas to the environment.

**Environment friendly activities performed**

CPC always attempt to supply environmental friendly petroleum products to the market. Consequently we introduced Lanka Super Diesel which is more efficient and environmental friendly.

**Biodiversity**

Corporation's operations may 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 |
|---|---|
| Introduction of invasive spices, pests and pathogens | No such data recorded |
| Reduction of spices | No such data recorded |
| 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 CPC has not paid any significant fines or non-monetary sanctions, for non-compliance with environmental laws and regulations.

## Future Outlook

It is expected that the global oil prices will get an upward trend after the second quarter of 2016 even though it declined earlier. Since the middle-east countries' economies are expected to stagnate, foreign earnings from those countries are likely to shrink exerting pressure on foreign exchange rates. The global interest rates are estimated to rise which in turn causes Sri Lanka to pay higher interest rates for foreign loans obtained at variable rates. Local government also plans to increase its revenue mainly through taxes.

Cost reflective, transparent fuel pricing mechanism for domestic petroleum products is the oil industry's burning issue. Further we look forward for the government to settle the subsidy element without delay and hope the Government will embark on certain amount of bank borrowings by way of subsidy element receivable. 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 become productive, it is expected to use domestic gas and the import of distillate importation will be limited.

General treasury has charged Rs. 1,000 Mn as a special fee for 2014 and 2015 years and CPC is of the view that it is very unreasonable to charge such a fee and it suggests to set off that fee against the customs duty payable. Adding more, Corporation plans to discuss with the government to reduce on-going customs duty imposed on petrol and ESC charge which is based on turnover. Together with the increase in ESC rate and the chargeability based on turnover the Corporation will have to bear a substantial amount of tax.

CPC expects the Government to issue Treasury bonds for a value of Rs. 75 Bn as the 2015 budget allocated Rs. 100 Bn and plans to utilize such funds for expansion projects and to settle the foreign currency loans. This will enhance the Corporation's profitability. If refinery modification is implemented, corporation has the ability to avoid the loss arose from the export from furnace oil and Naphtha due to lack of storage capacity. For that a policy decision need to be taken for external funding with the 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 hope to capitalize on the government backup as a public enterprise. 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.

**Status of on-going major projects**

1. Bulk bitumen and LPG filling yard is under development
2. Order was placed for compressed air system
3. After completing technical and commercial clarifications, an agreement was signed with the boiler manufacturer to purchase a steam boiler.
4. To replace a pump unit, construction of cable trench for electrical and instrument cables are in progress. Pump unit will be commissioned after laying cables.
5. Construction of an additional product storage tank for Jet A1 at Muthurajawela and linking it with BIA, Katunayake thorough a pipeline.
6. An order was placed for a boiler feed water pump.
7. Procurement procedures are in progress to purchase essential laboratory equipment after reviewing adequacy of oil response equipment and operability of existing equipment.
8. Tender document was prepared to replace water line from refinery to water intake and to repair the river bank by installing a gabion wall.
9. Tenders are called and awarded to upgrade the automation system at Sapugaskanda distribution terminal.
10. Construction of a waste water treatment plant is initiated
11. Quotations were called to construct a wash bay and to concrete the barrel yard.
12. Construction of a heavy Naphtha storage tank is in progress.

**Planned projects**

Further, 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. Upgrade and expand refinery plant and laboratory at Sapugaskanda, improve power generation facilities and reroute Mabima Road
2. Acquiring Hambantota tank farm and oil jetty
3. Introduce Mass flow meters at Tanker offloading points, at the Storage terminal and at the refinery battery limits
4. Establish a STADIS (antistatic additive) injection unit and install a filtration for the aviation fuel storage facility at Kollonnawa
5. Modify the Pipeline / valve at Kollonnawa to operate the fuel receiving from refinery and harbor simultaneously
6. Linking refinery and BIA and Refinery and Muthurajawela through a pipeline to transfer Jet A1
7. Rehabilitate railway track to fertilizer plant at Sapugaskanda and introduce Railway Tank Wagons loading at Sapugaskanda
8. Connect Muthurajawela terminal and Kollonnawa terminal

9. Establish a bulk bitumen imports, discharge, storage and distribution facility at Galle harbor
10. Increase the storage capacities in Sapugaskanda terminal
11. Relaxation of Muthurajawela SPBM technical restriction on vessels allowing import on 60,000 MT tankers and relaxation of crude oil SPBM technical restrictions on vessels allowing berthing capabilities of more vessels having wide range of DWT
12. Rehabilitate crude oil loading / discharging arm at DTB to keep the crude oil discharging option in case discharging of crude oil via SPBM face disruptions
13. 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.

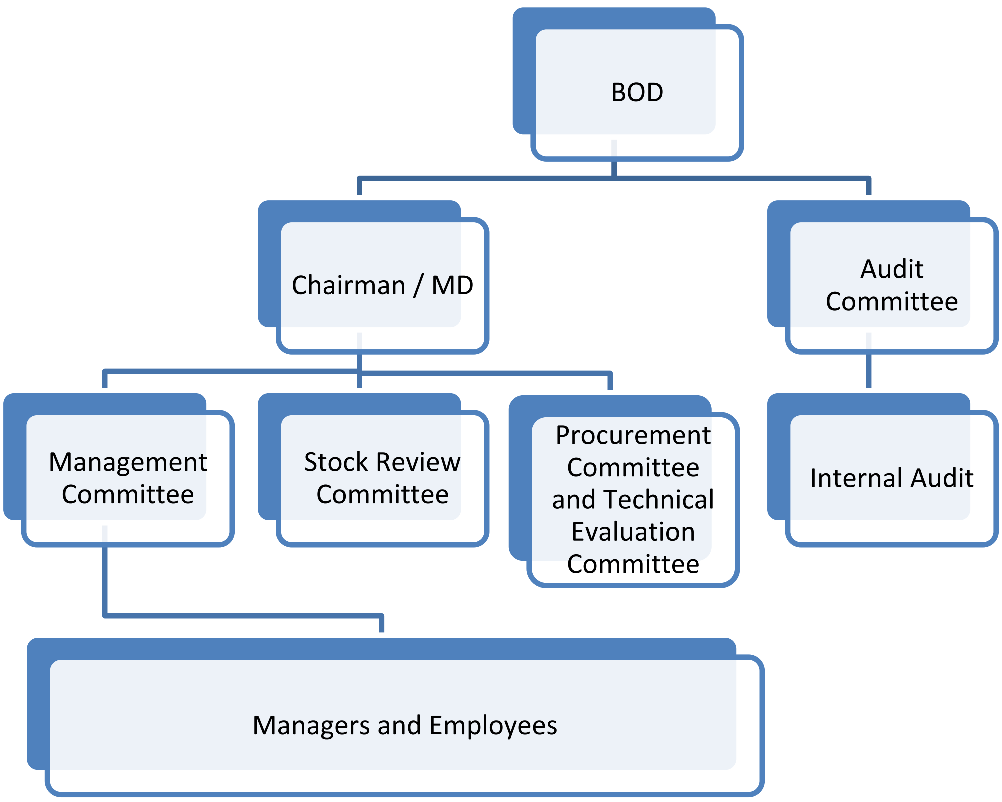
# RISK MANAGEMENT REPORT

Effective risk management system ensures the sustainable development of the Corporation by duly balancing the growth and risk. Knowing that fact, Corporation pays high attention to the risks associated when formulating strategies and when doing day-to-day operations. The effectiveness of the Corporation's risk management framework is facilitated by an effective and comprehensive system of internal controls with a well-defined governance structure.

**Risk Governance**

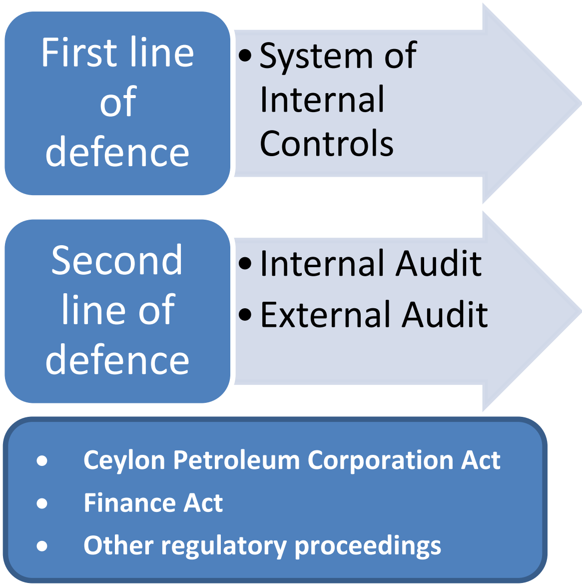
Apex responsibility for the Corporation's risk management lies with Board of Directors and is supported by other governance committees, both at Board and Executive levels. Those committees are operating with clearly defined roles and responsibilities.

**CPC's Governance Structure**



### CPC's approach to Risk Management

CPC's risk management approach is based on two solid lines of defense, which will identify, manage and prevent risk properly.




### System of Internal Controls

Corporation has designed a comprehensive system of internal controls which covers all policies and procedures enabling the corporation to detect, manage and prevent the risks associated. The provisions in the Ceylon Petroleum Corporation Act No. 28 of 1961, Finance Act No. 38 of 1971 and other regulatory proceedings were taken into consideration in designing the internal control system. Those Acts laid a solid foundation in managing the CPC's risk while ensuring continuity in business. At the same time they prevent irregularities and frauds.

### Internal and External Audit

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

### Risks faced by CPC

A brief description of the risks that the Corporation is exposed to and risk management measures taken are given below.

### Economic Risk

Global economic conditions as well as Sri Lanka's economic conditions severely affect the CPC. Changes in the crude oil prices in the global market, exchange rate and the Country's inflation rate are the most significant pressures exerted 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. In order to mitigate adverse implications arising from economic risk, CPC 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. Introduction of a transparent fuel pricing mechanism for domestic petroleum products reflecting the cost is a pressing requirement to make CPC a profitable business.

**Financial Risk**

Financial risk relates to the availability of financial resources for the smooth functioning of the Corporation. CPC ensures that cost-effective funding is available at all times while curtailing the negative impacts arising from market conditions on profitability. The main risk factors exposed are foreign exchange rate and interest rate. However, lack of a workable mechanism to settle US Dollar loans are one of the biggest constrains faced by the Corporation. If the Government can undertake certain amount of bank borrowings by way of subsidy element receivable we would have mitigated the financial risk further down.

**Foreign Exchange Risk**

As one of the major importers to the country, CPC used to purchase US Dollars from the two state owned banks to settle suppliers of crude and refined petroleum products. On the other hand revenue is mainly generated in Sri Lankan Rupees. Therefore, the Corporation is exposed to foreign currency risk. To mitigate this risk, exchange rates quoted by all banks are monitored on a daily basis and Dollars were purchased not at the banks quoted rate but at the market rate after monitoring market behaviors. From this procedure, CPC earned substantial gains. However, if the CPC is given the autonomy to purchase US Dollars at competitive rates from any licensed commercial banks, instead of limiting it to purchase only from two sate owned commercial banks CPC would have minimized its loss.

**Liquidity Risk**

Liquidity risk is the potential loss of earnings arising from the inability to meet the Corporation's obligations in a timely manner as and when they are due. Procedures are in place to ensure that the Corporation maintains adequate liquid levels to meet its contractual obligations. Key aspects of the Corporation's liquidity management framework are as follows;

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

**Interest Rate Risk**

Interest rate risk is the potential loss arising from the Corporation's exposure to assets and liabilities of which the value fluctuates in line with interest rate changes. CPC is exposed to interest rate risk mainly through its borrowings and the corporation's profitability is heavily impacted from interest expense and other financial charges. After having number of discussions, during the year CPC was able to reduce its foreign currency loan interest to 5% from 5.5% in US Dollar terms. CPC is expecting the government to settle the subsidy element without a delay and expects the Government to embark certain amount of bank borrowings by way of subsidy element receivable so that the CPC's exposure to interest rate can be reduced.

### Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk arises from inadequate or ineffective controls over critical activities or the failure of systems and procedures of the Corporation. Petroleum products have now become an essential good to the society and a small disoperation might lead to a hazard. Knowing that fact, CPC pays lots of attention to manage this risk in a structured manner. Operational risk is managed as follows;

- Clearly defined policies and procedures are in place including an operational risk management policy
- On-going assessments are conducted by the Internal Audit Department to identify the failures in the internal control systems.
- Various committees such as Procurement Committee and Tender Evaluation Committee are in function to mitigate the operational risk associated with the corporation.

### Supplier Risk

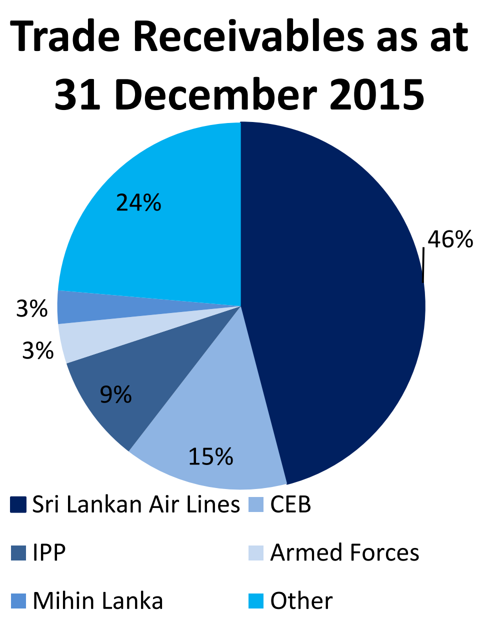
CPC's petroleum products are imported from the international market and supply disruptions, product's defects and products without required technical standards create the supplier risk to the Corporation. The Corporation has established sub committees such as Stock Review Committee, Procurement Committees and Tender Evaluation Committees to ensure the quality and smooth supply of goods and services including petroleum products.

### Credit Risk

Credit risk is the risk arising from financial losses if any of its customers fails to fulfill their contractual obligations to CPC. Credit risk can be broadly divided into two categories, default risk and concentration risk.

Default risk is the potential losses arising from a default of a customer. During the year, CPC managed to reduce its trade receivables by 49.21%.

Concentration risk stems from high lending exposure to a particular customer, sector or product. CPC's receivables are well diversified with number of product categories offered to different sectors. However, more than 50% of the trade receivables as at 31 December 2015 are from state owned establishments exerting pressure to follow up on recovery.



**Labour Risk**

Labour issues can affect the quality of petroleum products and the goodwill of the Corporation. Among other issues are the likelihood of labour related litigations and investing time and resources for recruitments and trainings to build a competent workforce. Through Collective Agreements with the labour unions representing its workers, the Corporation makes every effort to ensure a motivated workforce at all times. These agreements sustain an equitable balance between the interests of employer and employees. Staff welfare and other benefit schemes provided to our employees is the key to maintain enthusiastic and energetic workforce. Additionally, a performance based rewards system and a promotion scheme would make more ambitious workforce.

# CORPORATE GOVERNANCE

Strong corporate governance practices are the heart of a corporation which ensures long-term sustainable development together with stakeholder value creation. Further it is vital to the society as a whole since it plays a pivotal role in the national economy. CPC is committed to practice highest standards of corporate governance through honesty, objectivity, integrity and transparency while being ethical in carrying out operational activities of the corporation.

CPC's corporate governance is backed by the requirements of the Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka and Public Enterprises Guidelines for Good Governance issued by Department of Public Enterprises – Ministry of Finance in 2003. Board of Directors is committed and ensures the adherence to those requirements thereby following strong corporate governance practices to achieve accountability, transparency and integrity.

**Board of Directors**

Board of Directors is the key decision maker of the Corporation for significant matters, specially strategic, financial and reputational matters. As at the year end, the Board of Directors comprises of six members including Chairman / Managing Director appointed by Hon. Minister of Petroleum Resources Development in accordance with the Ceylon Petroleum Corporation Act No. 28 of 1961 and subsequent amendments. One such Director is a representative of the General Treasury appointed in consultation with the Minister of Finance & Planning. All Directors are Non-Executive Directors, except the Chairman / Managing Director.

Subject to reappointment, the Directors have initial tenures not exceeding a period of three years on the Board. In taking decisions, the Board obtains relevant information from corporate management and if required, obtains information 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.

**Responsibilities of the Board**

The Board's main responsibility is to create and deliver sustainable stakeholder value, within a strong corporate governance structure that maintains stakeholder confidence, business integrity while adhering to the statutory requirements. The Board endeavors to exercise effective controls over the Corporation by formulating and implementing policies and ensures their effective implementation. Directors dedicate themselves to the affairs of the Corporation by attending board meetings. The Board makes every effort to ensure due compliance to good governance practices and makes objective assessment of the Corporation's performance and prospects.

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.

**Board Meetings**

Regular Board meetings are held monthly, while special Board Meetings are convened as and when required. Senior Managers also attend meetings on invitations. The Board Meetings are conducted on a formal agenda and Directors are provided with relevant comprehensive background information by Corporate Managements prior to meetings. Twenty five board meetings were held during the year under review.

The board is supported by the audit committee in discharging its duties. The audit committee holds responsibility for specific areas of insight while several executive level sub-committees are also in place.

**The Audit Committee**

Audit committee, which is appointed by the Board of Directors, is responsible to the Board. The Audit Committee Charter is prepared covering the scope of responsibilities, authorities and specific duties stipulated in Treasury Circular issued in relation to conducting Audit Committees in Public Commercial Enterprises. The Audit Committee Report detailing its responsibilities, composition, meetings held and the activities carried out during the year is presented on pages 61 & 62 of this Annual Report.

**Internal Controls**

The Corporation is responsible for maintaining an effective system of internal controls. The system is intended to safeguard the assets of the Corporation and to ensure that proper records are maintained and reliable information is produced. This responsibility covers all types of controls, including financial, operational and compliance controls as well as risk management. However, such a system is designed to manage 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.

**Management Committee**

The Management Committee consists of two Non-Executive Directors and one of them is the Chairman of the Management Committee. The Management Committee sits once a month prior to monthly Board meeting to discuss all matters reported for Board of Directors. The Committee submits its report to the Board meeting for final approval. All Senior Managers, Head of Functions take part in the Management Committee.

**Corporate Management**

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

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

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

**Stock Review Committee**

Stock review committee meets weekly with the participation of CPSTL staff and representatives of CEB and IOC. The stock position is reviewed and the requirements for the next three months are assessed through this committee. Quantities to import and shipments are planned after considering 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, production and holding cost.

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

The National Procurement Agency (NPA) has issued a set of guidelines to purchase products, goods, services and works. 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.

**Relationship with the General Treasury & Central Bank of Sri Lanka**

The Corporation closely associates the Central Bank of Sri Lanka (CBSL) and the General Treasury and obtains their services to manage the Corporation's treasury operations. The Corporation also seeks advice and guidance for major expansion programs and funding.

**Compliance and Transparency**

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.

**Attendance at the Meetings of the Board and Sub-Committees held during the financial year 2015**

| Name of the Director | Directorship status | Board | Audit Committee | Remarks |
|---|---|---|---|---|
| | | No. of Meetings Held | | |
| | | **25** | **4** | |
| J R Wickramasinghe (Former Chairman & MD) | Executive Director | 19 | N/A | Resigned w.e.f. 12.10.2015 |
| W S M C Sirimewan | Non-Executive Director | 18 | 2 | Resigned w.e.f. 12.10.2015 |
| P R Gunawardena | Non-Executive Director | 19 | N/A | Resigned w.e.f. 12.10.2015 |
| A K Senavirathne | Non-Executive Director | 20 | 3 | Resigned w.e.f. 14.10.2015 |
| D D S Wickramaratne | Non-Executive Director | 16 | N/A | Resigned w.e.f. 12.10.2015 |
| M K Samarasinghe | Non-Executive Director | 15 | N/A | Resigned w.e.f. 12.10.2015 |
| A H S Wijesinghe | Non-Executive Director | 21 | 3 | Resigned w.e.f. 01.12.2015 |
| T G Jayasinghe (Chairman & MD) | Executive Director | 6 | N/A | Appointed w.e.f. 12.10.2015 |
| D C S Senevirathne | Non-executive Director | 6 | N/A | Appointed w.e.f. 12.10.2015 |
| M G Jayasena | Non-Executive Director | 6 | N/A | Appointed w.e.f. 12.10.2015 |
| P Galhena | Non-Executive Director | 5 | 2 | Appointed w.e.f. 12.10.2015 |
| R Harischandra | Non-Executive Director | 6 | 1 | Appointed w.e.f. 12.10.2015 |
| K A Vimalenthirarajah | Non-Executive Director | 4 | 1 | Appointed w.e.f. 11.11.2015 |

# REPORT OF THE DIRECTORS

The Board of Directors has pleasure in presenting the Annual Report together with the Audited Financial Statements for the year ended 31 December 2015 of Ceylon Petroleum Corporation, in accordance with Section 32(3) of the Ceylon Petroleum Corporation Act No. 28 of 1961. This report was approved by the Board of Directors.

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

The 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.

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

**Vision, Mission and Corporate Goals**

The Corporation's Vision, Mission and Corporate Goals are provided on page 02 of this annual report. In achieving its vision and mission, all directors and employees conduct their activities in accordance with the highest level of ethical standards and integrity.

**Principal Activities**

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

**Subsidiary Company**

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

**Review of the Year's Performance**

A review of the operations of CPC during the financial year 2015 and the results of those operations are contained in the Chairman's Review on pages 13 to 15 and Performance of the Corporation on pages 21 to 45. These reports form an integral part of the Annual Report.

**Financial Statements of the Corporation and the Group**

The Audited Financial Statements of Ceylon Petroleum Corporation and its group for the year ended 31 December 2015 duly signed by the Acting Deputy General Manager (Finance), Finance Manager and approved by the Board of Directors of the Corporation are given on pages 64 to 94 and form an integral part of the Annual Report.

**Director's Responsibility for Financial Reporting**

The Board of Directors is responsible for the preparation of the Financial Statements of the Group and Corporation, which reflects a true and fair view of the state of affairs of the Corporation and of the Group. The directors are of the view that the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flow, Significant Accounting Policies and Notes thereto appearing on pages 64 to 94 have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards as mandated by the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and the Finance Act No. 38 of 1971.

**Auditors' Report**

Auditor of the Corporation, Auditor General, audited the Corporation's Financial Statements as well as the Consolidated Financial Statements for the year ended 31 December 2015, and the Report of the Auditor General issued thereon is given on pages 95 to 131 as required by the Section 31 of the Ceylon Petroleum Corporation Act No. 28 of 1961.

**Significant Accounting Policies and Changes during the year**

During the year under review, there were no changes in the accounting policies adopted, which were consistent with those adopted in the previous financial year as required by the Sri Lanka Accounting Standard No. 01 on 'Presentation of Financial Statements'. Significant accounting polices together with the notes adopted in preparation of Financial Statements of the Group and the Corporation is given on pages 68 to 94.

**Financial Results**

**Revenue & Profit**

Provided below is a summary of the Financial Results of the Corporation for the year ended 31 December 2015 with comparative figures.

| | 2015<br>Rs. Bn | 2014<br>Rs. Bn |
|---|---|---|
| Revenue | **414.50** | **558.32** |
| **Less : Sales Taxes (Excise duty & NBT)** | (37.76) | (33.14) |
| Net sales Revenue | **376.74** | **525.18** |
| **Cost of Sales excluding CID & PAL** | (283.48) | (472.75) |
| **Less : Import Taxes(CID & PAL)** | (53.64) | (27.20) |
| Gross Profit | **39.62** | **25.23** |
| **Other Operating Income** | 0.37 | 0.79 |
| **Kerosene Subsidy** | 3.86 | 2.71 |
| **Selling & Distribution Expenses** | (13.62) | (11.53) |
| **Administrative Expenses** | (7.43) | (5.15) |
| **Financial Charges** | (15.05) | (13.98) |
| **Finance Income** | 4.91 | 4.03 |
| **Exchange rate variation** | (32.84) | (0.97) |
| Profit / (Loss) before Tax | **(20.18)** | **1.13** |

Details of the segmental loss for 2015 are presented below;

| Segment | 2015 Rs. Bn | Reason for the loss |
|---|---|---|
| **Transport**<br>92 Octane petrol | 26.53 | • Increase in customs duties<br>• Depreciation of LKR against US Dollar<br>• Retail prices are at subsidized rates |
| 95 Octane petrol | 2.79 | |
| **Power Generation**<br>Fuel oil 1500’ | 0.25 | • Decrease in demand<br>• Subsidized price was reduced further by Rs. 10 in January and no revision made thereafter |
| **Industries**<br>Fuel oil 1500’ | 0.26 | |
| Bitumen | 0.34 | • Decrease in demand<br>• High stock holding cost |
| **Domestic**<br>Kerosene | 3.86 | • Subsidized price was revised down further in January and November 2015. |
| **Agro**<br>Agro chemicals | 0.08 | • Glyphosate was completely banned in November 2015.<br>• Retail prices are at reasonable prices with a view to maintain a low production cost in the country’s agriculture production |
| **Exports**<br>Fuel oil 1500’<br>Fuel oil 800’<br>Naphtha | <br>3.57<br>1.78<br>0.83 | • Since the local demand was low CPC was compelled to export at low prices due to lack of storage capacity. |

**Taxation**

The corporation is exempted in paying income taxes on business profit for a period of 5 years commencing from tax year 2011/12. CPC’s other sources of income are liable to Income Tax at 28%.

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

**Property, Plant & Equipment**

The details of Property, Plant & Equipment of the Corporation and their movements are given in Note 12 to the Financial Statements on page 80.

**Contributed Capital**

The total Contributed Capital of the Corporation as at 31 December 2015 was Rs. 28,500 Mn. During the year, General Treasury issued Treasury Bonds amounting to Rs. 25,000 Mn for capital improvements. The details of the Contributed Capital are given in Note 19 to the Financial Statements on page 85.

**Reserves**

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

| | 2015 Rs. Bn | 2014 Rs. Bn |
|---|---|---|
| Capital Reserve | 4.99 | 4.99 |
| Retained Earnings | (262.65) | (240.75) |

Movements of the equity are given in the Statement of Changes in Equity on page 66.

**Directors**

The names of the Directors who comprised the Board of Directors of the Corporation as at 31 December 2015 are given below;

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

**Directors' Meetings**

Details of the directors' meetings which comprises of Board meetings and Audit Committee meetings are presented on pages 51 to 54.

Directors' attendance at the meetings held during the year is given on page 54 of the Annual Report.

**Directors' Remuneration**

Directors' emoluments paid during the year are as follows;

| | 2015 Rs. Mn | 2014 Rs. Mn |
|---|---|---|
| Directors' emoluments | 2.49 | 0.83 |

**Directors' Interest in Contracts**

Directors' interests in contracts with the Corporation, both direct and indirect, are disclosed in Note 31 to the Financial Statements on page 91.

**Risk Management and System of Internal Controls**

The Board of Directors assumes overall responsibility for managing risks. For this purpose, the Board of Directors has instituted an effective and comprehensive system of Internal Controls in the Corporation. Specific steps taken by the Corporation in managing risk are detailed in the Risk Management Report on page 46 to 50.

**Corporate Governance**

**Directors' Declarations**

The Board of Directors declares that-

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

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

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

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

The procedures and practices in conformity with the Corporate Governance rules and regulations are described in the Corporate Governance Report on pages 51 to 54 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 30 of the Financial Statements will not have a material impact on the financial position 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.

**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 32 to the Financial Statements on page 91 has occurred subsequent to the date of the Statement of Financial Position.

**Going Concern**

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

**Appointment of Auditors**

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

**Auditors' Remuneration and Interest in Contracts with the Corporation**

The Auditors were paid Rs. 1 Mn for the year ended 31 December 2015 as audit fees by the Corporation.

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

**Acknowledgement of the Contents of the Report**

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

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

T G Jayasinghe
**Chairman & Managing Director**

D C S Senevirathne
**Director**

Colombo

# AUDIT COMMITTEE REPORT

Audit committee of CPC is appointed by the Board of Directors and is responsible to the Board. The Audit Committee Charter has been prepared covering the scope of responsibilities, authorities and specific duties stipulated in Treasury Circular issued in relation to conduct Audit Committees in Public Commercial Enterprises.

**Key Responsibilities of the Audit Committee**

Audit committee of CPC, which functions as a subcommittee of the Main Board, assists the Main Board in fulfilling its overseeing responsibilities and provides an independent review of the financial reporting and risk management process. Followings are the key responsibilities of the audit committee;

- Review the adequacy, timing and existence of the internal control systems
- Monitor compliances in business operations
- Review the financial statements in order to ensure the adequacy of disclosures in financial reporting system.
- Ensure the consistency of accounting policies adopted and compliance with the financial reporting regulations including Sri Lanka Accounting Standards used to prepare the financial statements.
- Review the risks that the Corporation is exposed to and the actions taken to mitigate the risk and their effectiveness.
- Decide the scope of internal audit process which is established to assess the effectiveness of the financial and operational procedures and controls.
- Review the findings of the internal audit

**Audit Committee Meetings and the composition**

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

Four audit committee meetings were held during the year under review to discuss the duties entrusted to them and the presence of the committee members at the meetings were as follows;

| Date | Strength | Names of the Members |
|---|---|---|
| 02/03/2015 | 3 | Mr. A K Senavirathne (Chairman)<br>Mr. A H S Wijesinghe<br>Mr. W S M C Sirimewan |
| 06/08/2015 | 3 | Mr. A K Senavirathne (Chairman)<br>Mr. A H S Wijesinghe<br>Mr. W S M C Sirimewan |
| 28/10/2015 | 4 | Mr. A K Senavirathne (Chairman)<br>Mr. A H S Wijesinghe<br>Mr. P Galhena<br>Mr. R Harischandra |
| 04/12/2015 | 3 | Mr. K A Vimalenthirarajah (Chairman)<br>Mr. P Galhena<br>Mr. R Harischandra - excused |

The brief profiles of the Audit Committee members are given on page 4 to 6. Their individual and collective knowledge and experience on business acumen, finance, legal and risk management are mingled together when performing their duties.

**Summary of the activities carried out by the Committee during the year**

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

- Discussed the Financial Statements for the year ended 31 December 2014 and the Auditor General's report on Financial Statements.
- Reviewed the adequacy of the internal control system with the management, Auditor General and Internal Auditors.
- Discussed the internal audit reports issued for the first half of the year 2015 and observations thereon.
- Discussed the key strategic issues faced by CPC
- Discussed the issues related to the existing financial delegation mechanism of the Corporation and brought to the notice of the Board of Directors for early revision in accordance with the Good Governance principle.
- Reviewed the Annual internal audit plan for the year 2016.

**Conclusion**

The audit committee is satisfied that the internal control system provide a reasonable assurance that the affairs of the Corporation are managed in accordance with the approved policies of the Corporation and that the Corporation's assets are properly accounted for and adequately safeguarded.

K A Vimalenthirarajah
**Chairman – Audit Committee**

Colombo
15 November 2016

# FINANCIAL STATEMENTS

# Statement of Comprehensive Income

| | | CPC | | GROUP | |
|---|---|---|---|---|---|
| FOR THE YEAR ENDED 31 DECEMBER | *Note* | 2015<br>Rs. Mn | *2014 (Restated)*<br>*Rs. Mn* | 2015<br>Rs. Mn | *2014 (Restated)*<br>*Rs. Mn* |
| Revenue | *2* | 376,734.487 | *525,182.094* | 377,261.652 | *527,168.712* |
| Cost of Sales | *3* | (337,118.644) | *(499,955.539)* | (343,301.815) | *(506,834.181)* |
| **Gross Profit** | | **39,615.843** | ***25,226.555*** | **33,959.837** | ***20,334.531*** |
| Other Operating Income | *4* | 326.391 | *739.652* | 836.644 | *1,197.116* |
| Kerosene Subsidy | | 3,860.000 | *2,715.000* | 3,860.000 | *2,715.000* |
| Income On Investment Property | *5* | 47.590 | *51.823* | 47.590 | *51.823* |
| Selling & Distribution Expenses | | (13,617.902) | *(11,532.812)* | (2,957.522) | *(1,760.156)* |
| Administrative Expenses | | (2,813.565) | *(4,904.127)* | (6,391.546) | *(8,082.450)* |
| **Operating Profit** | *6* | **27,418.357** | **12,296.090** | **29,355.002** | **14,455.864** |
| Exchange Rate Variation | | (32,841.590) | (967.489) | (32,841.590) | (967.489) |
| Finance Income | *7* | 4,910.347 | *4,030.057* | 4,936.157 | *4,058.754* |
| Headging Expenses | *8* | (3,864.375) | - | (3,864.375) | |
| Special Fee | *9* | (750.000) | *(250.000)* | (750.000) | *(250.000)* |
| Finance Expenses | *10* | (15,048.660) | *(13,979.634)* | (15,048.660) | *(13,979.634)* |
| **Profit /(Loss) before tax** | | **(20,175.920)** | ***1,129.025*** | **(18,213.465)** | ***3,317.495*** |
| Tax Expense | *11* | (1,559.263) | - | (1,846.248) | *(275.168)* |
| **Profit/(Loss) for the year** | | **(21,735.183)** | ***1,129.025*** | **(20,059.713)** | ***3,042.327*** |
| **OTHER COMPREHENSIVE INCOME** | | | | | |
| **Items that will not be reclassified to Profit or Loss:** | | | | | |
| Re-measurement gain/(loss) on Retirement Benefit plan | *21* | (167.186) | *(112.498)* | (299.648) | *(152.495)* |
| **Items that are or may be reclassified subsequently to profit or loss:** | | | | - | |
| Net Gain/(loss) on available -for- sale Financial assets | | 6.500 | - | 6.500 | - |
| **Other comprehensive loss for the year** | | (160.686) | *(112.498)* | (293.148) | *(152.495)* |
| **Non Controlling Interest** | | - | - | (514.336) | *(624.435)* |
| **Total comprehensive Profit/(Loss) for the year** | | **(21,895.869)** | **1,016.527** | **(20,867.197)** | **2,265.397** |

The Notes appearing on pages 68 to 94 form an integral part of the Financial Statement.

# Statement of Financial Position

| As at 31.12.2015 | Note | CPC 2015 Rs.Mn. | CPC 2014 (Restated) Rs.Mn. | Group 2015 Rs.Mn. | Group 2014 (Restated) Rs.Mn. |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Non - Current Assets** | | | | | |
| Property, Plant & Equipment | 12 | 13,613.866 | 13,591.470 | 30,267.359 | 30,879.895 |
| Investment Property | 12.5 | 24.558 | 25.362 | 24.558 | 25.362 |
| Intangible Assets | 12.6 | - | - | 17.350 | 47.358 |
| Investment in Subsidiary | 13 | 5,000.000 | 5,000.000 | - | - |
| Non-Current Financial Assets | 14 | 36,849.405 | 10,027.557 | 36,849.405 | 10,027.557 |
| Trade & Other Receivables | 15 | 11,675.654 | 12,047.778 | 11,389.949 | 11,190.663 |
| | | 67,163.483 | 40,692.167 | 78,548.621 | 52,170.835 |
| **Current Assets** | | | | | |
| Inventories | 16 | 41,035.111 | 63,581.753 | 41,363.947 | 63,949.846 |
| Trade & Other Receivables | 15 | 27,128.594 | 43,120.185 | 30,833.435 | 44,457.037 |
| Income Tax Receivable | | - | 962.151 | - | 962.151 |
| Short term Investments | 17 | 12,721.916 | 11,994.697 | 12,721.916 | 11,994.697 |
| Cash and Cash Equivalents | 18 | 51,058.261 | 21,474.788 | 51,806.227 | 23,384.985 |
| | | 131,943.882 | 141,133.573 | 136,725.525 | 144,748.716 |
| **Total Assets** | | **199,107.365** | **181,825.740** | **215,274.145** | **196,919.551** |
| **EQUITY AND LIABILITIES** | | | | | |
| **Capital and Reserves** | | | | | |
| Contributed Capital | 19 | 28,500.000 | 3,500.000 | 28,500.000 | 3,500.000 |
| Capital Reserve | 20 | 4,992.686 | 4,992.686 | 4,992.686 | 4,992.686 |
| Retained Earnings | | (262,645.305) | (240,749.436) | (253,451.479) | (232,584.282) |
| Non Controlling Interest | | - | - | 7,096.913 | 6,582.577 |
| **Total Equity** | | (229,152.619) | (232,256.750) | (212,861.880) | (217,509.019) |
| **Non - Current Liabilities** | | | | | |
| Retirement Benefits Liability | 21 | 861.114 | 663.950 | 2,414.251 | 2,006.254 |
| Deferred Tax | 22 | - | - | 544.864 | 492.982 |
| Loans & Borrowings | 23 | 341.817 | 703.481 | 1,740.668 | 2,590.131 |
| | | 1,202.931 | 1,367.431 | 4,699.783 | 5,089.368 |
| **Current Liabilities** | | | | | |
| Trade and Other Payables | 24 | 159,473.117 | 164,280.022 | 155,356.351 | 160,416.366 |
| Current portion of Loans & Borrowings | 23.1 | 361.664 | 647.369 | 857.619 | 1,135.168 |
| Short term Borrowings | 25 | 267,222.272 | 247,787.669 | 267,222.272 | 247,787.669 |
| | | 427,057.053 | 412,715.059 | 423,436.242 | 409,339.202 |
| **Total Equity and Liabilities** | | **199,107.365** | **181,825.740** | **215,274.145** | **196,919.551** |

The Notes appearing on pages 68 to 94 form an integral part of the Financial Statement.
These Financial Statements give a true and fair view of the state of affairs of Ceylon Petroleum Corporation and the group as at 31st December 2015 and its loss for the year then ended.

R S Suntharalingam
**ACTG. DY. GENERAL MANAGER (FINANCE)**

R T A Dabare
**FINANCE MANAGER**

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

T G Jayasinghe
**CHAIRMAN & MANAGING DIRECTOR**

M.S.S.S.Fernando
**DIRECTOR**

# Statement of Changes in Equity

**CPC**

| | Contributed Capital Rs.Mn. | Capital Reserves Rs.Mn. | Revenue Reserves Rs.Mn. | Total Equity Rs.Mn. |
|---|---|---|---|---|
| **As at 1 Jan 2014** | **3,500.000** | **4,992.686** | **(244,959.429)** | **(236,466.743)** |
| Re-stated Profit for the year | | | 1,129.025 | 1,129.025 |
| Other Comprehensive Income | | | (112.498) | (112.498) |
| Reversal of Deemed Dividend Provision | | | 170.691 | 170.691 |
| Subsidy Received for previous years | | | 3,022.775 | 3,022.775 |
| **As at 31 Dec 2014** | **3,500.000** | **4,992.686** | **(240,749.436)** | **(232,256.750)** |
| Profit for the year | | | (21,735.183) | (21,735.183) |
| Other Comprehensive Income | | | (160.686) | (160.686) |
| Treasury Bond Issued for Capital Improvements | 25,000.000 | | - | 25,000.000 |
| **As at 31 Dec 2015** | **28,500.000** | **4,992.686** | **(262,645.305)** | **(229,152.619)** |

**GROUP**

| | Contributed Capital Rs.Mn. | Capital Reserves Rs.Mn. | Revenue Reserves Rs.Mn. | Sharehodlers Fund Rs.Mn. | Non controlling Interest Rs.Mn. | Total Equity Rs.Mn. |
|---|---|---|---|---|---|---|
| **As at 1 Jan 2014** | **3,500.000** | **4,992.686** | **(238,043.145)** | **(229,550.459)** | **5,958.142** | **(223,592.317)** |
| Re-stated Profit for the year | | | 2,417.892 | 2,417.892 | 624.435 | 3,042.327 |
| Other Comprehensive Income | | | (152.495) | (152.495) | | (152.495) |
| Reversal of Deemed Dividend Provision | | | 170.691 | 170.691 | | 170.691 |
| Subsidy Received for previous years | | | 3,022.775 | 3,022.775 | | 3,022.775 |
| **As at 31 Dec 2014** | **3,500.000** | **4,992.686** | **(232,584.282)** | **(224,091.596)** | **6,582.577** | **(217,509.019)** |
| Profit for the year | | | (20,574.049) | (20,574.049) | 514.336 | (20,059.713) |
| Other Comprehensive Income | | | (293.148) | (293.148) | | (293.148) |
| Treasury Bond Issued for Capital Improvements | 25,000.000 | | - | 25,000.000 | | 25,000.000 |
| **As at 31 Dec 2015** | **28,500.000** | **4,992.686** | **(253,451.479)** | **(219,958.793)** | **7,096.913** | **(212,861.880)** |

The Notes appearing on pages 68 to 94 form an integral part of the Financial Statement

# Statement of Cash Flows

| | | CPC | | Group | |
|---|---|---|---|---|---|
| | | Rs.Mn | Rs.Mn | Rs.Mn | Rs.Mn |
| For the period ended | Note | 31.12.2015 | 31.12.2014 | 31.12.2015 | 31.12.2014 |
| CASH FLOWS FROM OPERATING ACTIVITIES | 27 | 24,947.455 | 12,467.371 | 25,324.955 | 10,880.117 |
| | | | | - | |
| Interest Paid | 10 | (15,048.660) | (13,979.634) | (15,282.220) | (14,384.351) |
| Retiring Gratuity Paid | 21 | (68.623) | (64.187) | (167.892) | (143.028) |
| Income Tax /WHT paid | | (413.710) | (240.607) | (413.710) | (240.607) |
| **Net Cash Generated from Operating activities** | | 9,416.462 | (1,817.057) | 9,461.133 | (3,887.869) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | | |
| Proceeds from Sale of Property, Plant & Equipment | | 36.151 | 16.216 | 36.151 | 21.006 |
| Acquisition of Property, Plant & Equipment | 12 | (972.115) | (1,116.716) | (1,162.087) | (1,325.867) |
| Income from Investment | | 0.004 | 437.501 | 8.316 | - |
| Interest Received | 7 | 4,910.347 | 4,030.057 | 4,936.157 | 4,058.754 |
| Investment in Treasury Bonds | | (27,817.081) | - | (27,817.081) | - |
| Investment in Fixed Deposits | | 274.514 | (5,193.046) | 274.514 | (5,193.046) |
| **Net Cash Used in Investing Activities** | | (23,568.180) | (1,825.988) | (23,724.030) | (2,439.153) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | | |
| Capital Investment | | 25,000.000 | - | 25,000.000 | - |
| New loans obtained/Repayment of Loans | | 16,048.986 | 28,745.610 | 14,997.932 | 28,257.810 |
| **Net Cash From/(Used in) Financing Activities** | | 41,048.986 | 28,745.610 | 39,997.932 | 28,257.810 |
| **Net Increase/(Decrease) in Cash & Cash Equivalents** | | 26,897.268 | 25,102.563 | 25,735.035 | 21,930.788 |
| Cash & Cash Equivalents at Beginning of the Year | | 17,803.174 | (7,299.390) | 19,713.372 | (2,217.415) |
| **Cash & Cash Equivalents at End of the Year** | 18 | **44,700.441** | **17,803.174** | **45,448.407** | **19,713.372** |

The Notes appearing on pages 68 to 94 form an integral part of the Financial Statement.

# Notes to the Financial Statements

## 1.1 CORPORATE INFORMATION

### General

Ceylon Petroleum 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

The principal activities of the Group are refining, selling & distributing, Import & Export of Petroleum Products in Sri Lanka.

### Parent Entity and Ultimate Parent Entity & Subsidiary Company

The Corporation is under the purview of the Ministry of Petroleum Industries. In the opinion of the Directors, the Corporation's ultimate parent undertaking and controlling party is the Government of Sri Lanka. 2/3 shares of Ceylon Petroleum Storage Terminals Ltd. (CPSTL) are owned by CPC.

### Date of Authorization for Issue

The Financial Statements of Ceylon Petroleum Corporation and its group for the year ended 31 December 2015 were authorized for issue in accordance with a Resolution of the Board of Directors on 07 September 2016.

### Statement of Compliance

The Financial Statements of Ceylon Petroleum Corporation have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs / LKASs) issued by the Institute of Chartered Accountants of Sri Lanka and the provisions of the Finance Act No. 38 of 1971 and subsequent amendments thereto.

## 1.2. BASIS OF PREPARATION

The Financial Statements have been prepared on an accrual basis and under the historical cost basis except for Financial Instruments (Quoted Equity Investments & Investment in Treasury Bonds) that have been measured at fair value.

### Presentation & functional currency

The Financial Statements are presented in Sri Lankan Rupees and all values are rounded to the nearest Rupees million except where otherwise indicated.

### Basis of Consolidation

The CPC'S Financial Statements comprise the consolidation of the financial statements of the Ceylon Petroleum Storage Terminal Limited (CPSTL) which is a subsidiary of the CPC as CPC owns 2/3rd of shares of CPSTL. The group financial statements comprise consolidation of CPC's financial statements with that of CPSTL.

### 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 Corporation and may have an impact on the future financial statements.

a) SLFRS 9 - Financial Instruments: Classification and Measurement

SLFRS 9, as issued reflects the first phase of work on replacement of LKAS 39 and applies to classification and measurement of financial assets and liabilities. The Corporation will quantify the effect in due course.

This standard was originally effective for annual periods commencing on or after 01 January 2018. However effective date has been deferred subsequently.

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.

b) SLFRS 15- Revenue from Contracts with Customers

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

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

## 1.3 ACCOUNTING POLICIES

**Changes in Accounting Policies**

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

**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 has made a loss of Rs 21,896 Million and a negative equity position of Rs 229,153 Million as per the financial statements prepared for the year ended 31$^{st}$ December, 2015.

**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.

**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. It also requires management to exercise its judgment in the process of applying the Corporation's accounting policies. The areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed below:

**Pension obligation (gratuity)**

The present value of the pension obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. These assumptions used in determining the cost of pension including the discount rate. Any change in these assumptions will impact the carrying amount of pension 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 pension 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 pension obligation are based on current market conditions.

**Impairment of available-for-sale equity instruments**

The Corporation follows the guidance of LKAS 39 to determine when an available-for-sale equity instrument is impaired. This determination requires significant judgment. In making this judgment, the management evaluates among other factors, the duration and extent to which the fair value of an investment is less than its cost and the financial health of and short term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

## 1.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 1.4.1 Revenue Recognition

Revenue is the gross inflow of economic benefits during the period arising in the course of ordinary activities of an entity when those inflows result in equity, other than increases relating to contribution from equity participants.
Revenue is measured at the fair value of consideration received or receivable net of trade discounts and sales taxes. The following specific criteria are used for the purpose of recognition of revenue.

**Sale of Goods**
Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch of the goods.

**Interest Income & Expenses**
Interest expenses and income are recognized on accrual basis.

**Dividends**
Dividend Income is recognized when the shareholders' right to receive the payment is established.

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

**Profit / (Loss) from Sale of Property, Plant & Equipment**
Profit / (loss) arising from sale of property, plant & equipment is recognized in the period in which the sale occurs and is classified as other income.

**Gains or Losses arising from Investment Securities**

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

**Kerosene Subsidy**

As per the section 17 of Finance Act No 38 of 1971 and the letter Ref 77IP/1/83(1) T issued by the Secretary to the Treasury CPC is eligible for Subsidy on Sales of Kerosene below its cost. Subsidy is recognized on an accrual basis.

**Other Income**

Other income is recognized on an accrual basis

**1.4.2 Expenditure recognition**

Expenditure is recognized in the Income Statement on the basis of direct association between the cost incurred and the earning of specific items of income.

**Operating Expenses**

All the expenses payable are recognized on accrual basis in the Income Statement to the period to which they relate.

**Taxation**

**Current Tax**

Tax expenses for the period comprise the current and deferred 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. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

The provision for income tax is based on the elements of income and expenditure as reported in the Financial Statements and computed in accordance with the provisions of the Inland Revenue Act No. 10 of 2006 and the amendments thereto.

**Deferred Taxation**

Deferred income tax is provided, using the liability method, on temporary differences at the balance sheet 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 balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

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

**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 and receivable and payable that are stated with the amounts of sales tax included. The amount of Sales tax recoverable and payable in respect of taxation authorities is included as a part of receivable and payables in the Balance Sheet.

**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 until such time as the assets are substantially ready for their intended use or sale. All other borrowings costs are expensed in the period they occur.

**1.4.3. Foreign Currency Transactions**

The Financial Statements are presented in Sri Lanka Rupees, which is the Corporation's functional and presentation currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at the functional currency rate of exchange ruling at the balance sheet 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.

**1.4.4. Property, Plant & Equipment**

Property, plant and equipment are stated at cost, excluding the costs of day to day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of the plant and equipment when that cost is incurred, if the recognition criteria are met. Land and buildings are measured at cost less depreciation on buildings. The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

**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 or valuation together with any incidental expenses thereon.

The cost of self-constructed assets included the cost of materials and direct labour 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.

**Cost Model**

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

**Subsequent Costs**

The cost of replacing part of an item of property, plant & equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow into the CPC 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 or disposal. 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**

CPC provides depreciation on straight-line basis over the periods appropriate to the estimated useful lives of the different types of assets.

Provisioning for depreciation of property, plant & equipment is made on pro-rata basis. The depreciation is calculated on a straight-line basis over the useful life of the assets.

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

**Capital Work in Progress**

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

**Impairment of non-financial assets**

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the assets 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 the impairment at each reporting date.

### 1.4.5. Investments

**Investment in Subsidiaries**

Investments in Subsidiaries are accounted under the cost method of accounting in CPC's Financial Statements in accordance with the Sri Lanka Accounting Standard on Consolidated and Separate Financial Statements.

Accordingly, investments in Subsidiaries are stated in the CPC's Balance Sheet at cost, less impairment losses, if any.

**Investment Properties**

**Basis of Recognition**

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

**Measurement**

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

**Depreciation**

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

**De-recognition**

Investment properties are derecognized when disposed of, or permanently withdrawn from use because no future economic benefits are expected. Transfers are made to and from investment property only when there is a change in use.

### 1.4.6. Inventories

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

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

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

**1.4.7. Trade and Other Receivables**

Trade receivables are amounts due from customers for selling fuel. Trade receivable are recognized initially at fair value and subsequently measured at amortized cost using effective interest method. Other receivables and dues from Related Parties are recognized at cost less provision for impairment.

**1.4.8. Cash and Cash Equivalents**

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

**1.4.9. Provisions & Liabilities**

**Provisions**

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

**Provision of Gratuity**

A provision is made in the financial statement for retirement gratuities from the first year of service for all employees. The liability recognized in the balance sheet in respect of gratuity is the present value of the obligation at the end of the reporting period. CPC has calculated the retirement benefits costs using the projected unit credit method as recommended in LKAS -19.

The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of government bonds, in the absence of a deep market for corporate bonds in Sri Lanka.

Actuarial gains / losses arising from experienced adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise, past service costs are recognized immediately in the comprehensive income statement.

**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.

**1.4.10. Capital Reserve**

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

**1.4.11. Trade payables**

Trade payables are obligations to pay the suppliers of the Corporation in the ordinary course of the business. Payables are recognized initially at fair value and subsequently measured at amortized cost.

**1.4.12. Financial Instruments**

Financial assets and liabilities are recognized when the Corporation becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Corporation has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

At initial recognition, the Corporation classifies its financial instruments in the following categories:

**(i) Available-for-sale investments**

Available for sales investments are non-derivatives that are either designated in this category or not classified in any of the other category. The Corporation's available for sale assets comprise investments in equity securities, (both listed and non-listed) other than those qualifying as cash equivalents. Fair values for quoted equity investment are determined directly by reference to the public price quoted in the active market.

**(ii) Loans and receivable**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Corporation's loans and receivables comprise trade receivables, staff loans and cash equivalents, and are included in both current and non-current asset. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

**(iii) Held to Maturity Investment**

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

After initial measurements held to maturity are measured at amortized cost using effective interest method less any impairment.

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

**(iv) Financial liabilities at amortized cost**

Financial liabilities at amortized cost include trade payables, bank debt and long term debt. Trade payables are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payable to fair value.

**Impairment of financial assets**

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

(i) significant financial difficulty of the obligor;
(ii) delinquencies in interest of principle payment; and
(iii) It becomes probable that the borrower will enter bankruptcy or other financial reorganization.

For equity securities, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If such evidence exists, the Corporation recognizes an impairment loss, as follows:

(i) financial assets carried at amortized cost : The loss is the difference between the amortized cost of the loan or receivables and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.
(ii) Available for sale financial asset: The impairment loss is a difference between the original cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the statement of comprehensive income. This amount represents the loss in accumulated other comprehensive income that is re-classified to net income.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. Impairment losses on available-for-sale equity instruments are not reversed.

**1.5 CONTINGENT LIABILITIES, LITIGATION & COMMITMENTS**

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

## 2. REVENUE

| | CPC | | Group | |
|---|---|---|---|---|
| | 2015 Rs. Mn | 2014 Rs. Mn | 2015 Rs. Mn | 2014 Rs. Mn |
| Net Sale Revenue from Petroleume Products | 376,734.487 | 525,182.094 | 376,281.320 | 525,182.094 |
| Terminal Charge & Other Sales Revenue | - | - | 980.332 | 1,986.618 |
| | **376,734.487** | **525,182.094** | **377,261.652** | **527,168.712** |

## 3. COST OF SALES

| | 2015 Rs. Mn | 2014 Rs. Mn | 2015 Rs. Mn | 2014 Rs. Mn |
|---|---|---|---|---|
| Cost of Sales | 336,479.470 | 499,155.298 | 336,479.470 | 499,155.311 |
| Operation Loss/(Gain) | 639.174 | 800.241 | 639.174 | 800.228 |
| Direct expenses & Other | - | - | 6,183.171 | 6,878.642 |
| Total Cost of Sales | **337,118.644** | **499,955.539** | **343,301.815** | **506,834.181** |

The Cost of Sales includes the Production cost and Import DES cost, Custom Duty, PAL, LC Opening & acceptance charges, Suppliers' Interest, Port charge, Inspection charges, Transportation, etc. incurred on Import of Crude & Petroleume Products .

## 4. OTHER OPERATING INCOME

| | CPC | | Group | |
|---|---|---|---|---|
| | 2015 Rs. Mn | 2014 Rs. Mn | 2015 Rs. Mn | 2014 Rs. Mn |
| Staff Loan Interest | 173.181 | 145.061 | 530.950 | 379.285 |
| Rental Income | 53.938 | 50.009 | 56.030 | 45.636 |
| Profit on Sales of Filling Station equipment | 16.642 | 25.940 | 16.642 | 30.730 |
| Dividend Income | 0.004 | 437.501 | 0.004 | 437.500 |
| Sundry Income | 82.626 | 81.141 | 233.018 | 303.965 |
| | **326.391** | **739.652** | **836.644** | **1,197.116** |

Sundry income includes profit on sales of Fixed Assets,Sales Scraps, Equipment Rental Income,Fees for registration of Suppliers,encashment of Bonds,fines etc.

| | | | | |
|---|---|---|---|---|
| **5. INCOME ON INVESTMENT PROPERTY** | **47.590** | **51.823** | **47.590** | **51.823** |

Income on investment property consists of rent received from property located at Flower Road & Filling Stations given on rent.

## 6.OPERATING PROFIT

Operating Profit stated after charging the following expenses

| Expenses by Nature | CPC 2015 Rs. Mn | CPC 2014 Rs. Mn |
|---|---|---|
| Directors' emoluments | 2.487 | 0.832 |
| Auditors' remuneration | 1.000 | 1.000 |
| Depreciation(Note 12) | 758.605 | 494.584 |
| Staff Benefits | 2,239.969 | 1,909.652 |
| Rent & Rates | 52.558 | 81.019 |
| Cost of Sales | 336,479.470 | 499,155.298 |
| Product Variation | 639.174 | 800.241 |
| Repair & Maintenance | 177.247 | 377.378 |
| Transport | 2,623.193 | 1,993.624 |
| Terminal Charge | 8,865.130 | 7,699.539 |
| Advertising Expenses | 30.057 | 233.823 |
| Legal charge & Other Professional fee | 67.119 | 70.168 |
| Disallowed VAT | 1,280.392 | 2,741.436 |
| Bad Debt/Write-off | 8.405 | 3.855 |
| Others | 325.305 | 829.989 |
| **Total -Cost of Sales, Selling & Distribution and Administrative** | **353,550.111** | **516,392.438** |

| 7. FINANCE INCOME | CPC | | Group | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | Rs. Mn | Rs. Mn | Rs. Mn | Rs. Mn |
| Interest Income onTreasury Bill, Fixed Deposits and Call Deposit | 2,782.123 | 1,222.395 | 2,807.933 | 1,251.092 |
| Interest Income on R.F.C. A/C | 1.045 | 1.801 | 1.045 | 1.801 |
| Interest Income on Credit invoice & Overdue trade debts | 42.664 | 115.698 | 42.664 | 115.698 |
| Interest Income on CEB/IPP/Aviation debtors | 1,105.732 | 1,961.930 | 1,105.732 | 1,961.930 |
| Interest Income on Treasury Bonds | 978.783 | 728.233 | 978.783 | 728.233 |
| | **4,910.347** | **4,030.057** | **4,936.157** | **4,058.754** |

**8. HEDGING EXPENSES**

The Deutsche Bank instituted proceedings against Sri Lanka before the International Centre for Settlement of International Dispute. As per the the Cabinet decision dated 18 November 2015 relating to this, it had given the approval to Corporation to enter in to the said settlement and make a payment of US$26,562,927 equivalant to Rs. 3,864.375Mn to the Deustsche Bank in the year 2016

| 9. SPECIAL FEE TO THE TREASURY | | | | |
|---|---|---|---|---|
| General Treasury has charged a Special fee effective from year 2014 to 2024 | **750.000** | **250.000** | **750.000** | **250.000** |

| 10. FINANCE EXPENSES | 2015 | 2014 | 2015 | 2014 |
|---|---|---|---|---|
| | Rs. Mn | Rs. Mn | Rs. Mn | Rs. Mn |
| Interest on Long Term Loans | 61.147 | 71.782 | 61.147 | 71.782 |
| Interest on Bank Overdrafts | - | 30.346 | - | 30.346 |
| Interest on Foreign Currency Bank Loans | 14,975.672 | 13,156.730 | 14,975.672 | 13,156.730 |
| Loss on Treasury Bond | - | 702.717 | - | 702.717 |
| Other Finance Cost | 11.841 | 18.059 | 11.841 | 18.059 |
| | **15,048.660** | **13,979.634** | **15,048.660** | **13,979.634** |

**11. INCOME TAX**

The Corporation is exempted in paying income taxes on business profit for a period of 05 years, commencing from Tax year 2011/2012.Though CPC is exempted on business profit,CPC is liable to pay Income Tax @ 28% on Other sources of income

Accordingly Tax liabilities for the Tax years commencing from 2011/2012 to 2012/2013 were finalised by Department of Inland Revenue and same basis applied for the years 2013/2014 to 2015/2016 .

| | CPC | | Group | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | Rs. Mn | Rs. Mn | Rs. Mn | Rs. Mn |
| | Rs.Mn. | | Rs.Mn. | |
| Charge For the year | 634.384 | | 921.369 | 275.168 |
| Under provision of previous years | 924.879 | | 924.879 | - |
| Total | **1,559.263** | - | **1,846.248** | 275.168 |

## 12. PROPERTY, PLANT & EQUIPMENT

### 12.1 Gross carrying Amounts

| Cost | Land & Buildings | Vested Property | Plant, Mach & Equip | SPM Facility | Motor Vehicles | Furn/Fittings Off. Equip & Other Assets | CPC Total | Group Total |
|---|---|---|---|---|---|---|---|---|
| | Rs.Mn | Rs.Mn | Rs.Mn | Rs.Mn | Rs.Mn | Rs.Mn | Rs.Mn | Rs.Mn |
| Bal as at 01/01/2015 | 4,318.419 | 1.016 | 8,548.810 | 2,142.422 | 514.651 | 2,151.987 | 17,677.305 | 45,015.329 |
| Additions | 142.258 | | 213.668 | | 355.998 | 25.247 | 737.171 | 853.153 |
| Disposals | (0.005) | | (15.134) | | (18.859) | (13.344) | (47.342) | (59.926) |
| **Bal as at 31/12/2015** | **4,460.672** | **1.016** | **8,747.344** | **2,142.422** | **851.790** | **2,163.890** | **18,367.134** | **45,808.556** |

### 12.2 Depreciation

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Bal as at 01/01/2015 | 472.499 | 0.397 | 3,798.963 | 1,290.634 | 281.260 | 1,501.459 | 7,345.212 | 17,452.179 |
| Charge for the Year | 138.976 | | 626.620 | | 76.393 | 91.790 | 933.779 | 1,758.683 |
| Disposals | | | (12.449) | | (18.859) | (0.095) | (31.403) | (43.987) |
| Bal as at 31/12/2015 | 611.475 | 0.397 | 4,413.134 | 1,290.634 | 338.794 | 1,593.154 | 8,247.588 | 19,166.875 |
| **Net Book Value as at 31.12.2015** | **3,849.197** | **0.619** | **4,334.210** | **851.788** | **512.996** | **570.736** | **10,119.546** | **26,641.681** |
| Cost as at 31.12.2014 | 4,318.419 | 1.016 | 8,548.810 | 2,142.422 | 514.651 | 2,151.987 | 17,677.305 | 45,015.329 |
| Acc.Dep as at 31.12.2014 | 472.499 | 0.397 | 3,798.963 | 1,290.634 | 281.260 | 1,501.459 | 7,345.212 | 17,452.179 |
| **Net Book Value as at 31.12.2014** | **3,845.920** | **0.619** | **4,749.847** | **851.788** | **233.391** | **650.528** | **10,332.093** | **27,563.150** |

| | CPC | | Group | |
|---|---|---|---|---|
| **12.3 Assets and Capital Project in Progress** | 31st Dec 2015 Rs.Mn | 31st Dec 2014 Rs.Mn | 31st Dec 2015 Rs.Mn | 31st Dec 2014 Rs.Mn |
| Refinery Expansion projet(SOREM) | 837.034 | 837.628 | 837.034 | 837.628 |
| Buildings | 84.870 | 126.275 | 84.870 | 126.275 |
| Plant & Machinery | 2,255.266 | 2,119.661 | 2,255.266 | 2,119.661 |
| Storage Facility | 128.188 | 70.024 | 128.188 | 70.024 |
| Re-structuring of Filling Stations | 4.042 | 3.736 | 4.042 | 3.736 |
| Others | 184.920 | 102.053 | 316.278 | 159.421 |
| | **3,494.320** | **3,259.377** | **3,625.678** | **3,316.745** |

### 12.4 Net Book Values

| | | | | |
|---|---|---|---|---|
| Property Plant & Equipment | 10,119.546 | 10,332.093 | 26,641.681 | 27,563.150 |
| Assets & Capital Projects in Progress | 3,494.320 | 3,259.377 | 3,625.678 | 3,316.745 |
| **Total Carrying Amount of Property , Plant & Equipments** | **13,613.866** | **13,591.470** | **30,267.359** | **30,879.895** |

| **12.5 INVESTMENT PROPERTY** | 31st Dec 2015 Rs.Mn | 31st Dec 2014 Rs.Mn | 31st Dec 2015 Rs.Mn | 31st Dec 2014 Rs.Mn |
|---|---|---|---|---|
| **Cost** | | | | |
| As at beginning of the year | 33.570 | 33.570 | 33.570 | 33.570 |
| Add: Additions | | | - | |
| At the end of the year | 33.570 | 33.570 | 33.570 | 33.570 |
| **Depreciation** | | | | |
| As at beginning of the year | 8.208 | 7.404 | 8.208 | 7.404 |
| Add: Charge for the year | 0.804 | 0.804 | 0.804 | 0.804 |
| At the end of the year | 9.012 | 8.208 | 9.012 | 8.208 |
| **Net Book Value** | **24.558** | **25.362** | **24.558** | **25.362** |

valuation of investment property is currently being carried out

| 12.6 INTANGIBLE ASSETS - GROUP | ERP System Rs.Mn | SAP ERP user License Rs.Mn | Automation system Rs.Mn | Total Rs.Mn |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance as at 01/01/2015 | 412.496 | 9.380 | 37.793 | 459.669 |
| Additions | - | - | - | - |
| Disposals | - | - | - | - |
| **Balance as at 31/12/2015** | 412.496 | 9.380 | 37.793 | 459.669 |
| **Accumulated amortisation** | | | | |
| Balance as at 01/01/2015 | 391.037 | 4.234 | 17.040 | 412.311 |
| Charge for the Year | **20.419** | **0.930** | 8.659 | 30.008 |
| Disposals | - | - | - | - |
| **Balance as at 31/12/2015** | 411.456 | 5.164 | 25.699 | 442.319 |
| **Carrying amount as at 31.12.2015** | **1.040** | **4.216** | **12.094** | **17.350** |
| **Carrying amount as at 31.12.2014** | 21.459 | 5.146 | 20.753 | 47.358 |

| **12.7 The useful lives of the assets is estimated as follows** | **CPC** **31st Dec 2015** | **31st Dec 2014** |
|---|---|---|
| Buildings | 40 Years | 40 Years |
| New Head Office building | 50 Years | 50 Years |
| Refinery Tanks & Pipelines | 40 Years | 40 Years |
| Refinery Plant & Machinery | 10 Years | 10 Years |
| Other Location Tanks | 40 or 20 Years | 40 or 20 Years |
| Other Locations Pipelines | 10 or 5 Years | 10 or 5 Years |
| Plant & Machinery | 10 or 5 Years | 10 or 5 Years |
| Bowsers & Tank Lorries | 5Years | 5Years |
| Vans & Coaches | 4Years | 4Years |
| Furniture/Fittings & Office Equipments up to 31.12.1999 | 3 Years | 3 Years |
| SPM Facility - Tank Farm | 40 Years | 40 Years |
| Pipelines | 20Years | 20Years |
| Buoy | 10 years | 10 years |
| Aviation facility Mattala - Fuel Hydrant | 40 Years | 40 Years |
| Fuel hydrant System | 40 Years | 40 Years |
| Tanks | 40 Years | 40 Years |
| Structure & Buildings | 40 Years | 40 Years |
| Pipelines | 40 Years | 40 Years |
| Internal Road network & Fences | 20 years | 20 years |
| Gantries & Pumps | 10 years | 10 years |
| Metering& Electrical System | 10 years | 10 years |
| Firefighting system | 10 years | 10 years |
| Other Assets | 08 years | 08 years |

| 13.INVESTMENT IN SUBSIDIARIES | CPC | | Group | |
|---|---|---|---|---|
| | 31st Dec 2015 | 31st Dec 2014 | 31st Dec 2015 | 31st Dec 2014 |
| | Rs.Mn | Rs.Mn | Rs.Mn | Rs.Mn |
| **Investment in Subsidiary Company(Unquoted)** | | | | |
| Ceylon Petroleum Storage Terminals Ltd. | 5,000.000 | 5,000.000 | - | - |
| | **5,000.000** | **5,000.000** | **-** | **-** |

| 14. NON CURRENT FINANCIAL ASSETS | | CPC | | Group | |
|---|---|---|---|---|---|
| | | 31st Dec 2015 | 31st Dec 2014 | 31st Dec 2015 | 31st Dec 2014 |
| | Note | Rs.Mn | Rs.Mn | Rs.Mn | Rs.Mn |
| Quoted equity investments | 14.1 | 39.500 | 33.000 | 39.500 | 33.000 |
| Unquoted equity investments | 14.2 | 5.626 | 5.626 | 5.626 | 5.626 |
| Non equity investments | 14.3 | 36,804.279 | 9,988.931 | 36,804.279 | 9,988.931 |
| | | **36,849.405** | **10,027.557** | **36,849.405** | **10,027.557** |

| 14.1.Quoted equity investments | CPC | | Group | |
|---|---|---|---|---|
| | 31st Dec 2015 | 31st Dec 2014 | 31st Dec 2015 | 31st Dec 2014 |
| | Rs.Mn | Rs.Mn | Rs.Mn | Rs.Mn |
| Lanka Cement Ltd. | | | | |
| 5,000,000 Ordinary Shares of Rs.10/= each fully paid | 33.000 | 33.000 | 33.000 | 33.000 |
| Fair value transfer to equity | 6.500 | - | 6.500 | - |
| | **39.500** | **33.000** | **39.500** | **33.000** |

| 14.2.Unquoted equity investments | CPC | | Group | |
|---|---|---|---|---|
| | 31st Dec 2015 | 31st Dec 2014 | 31st Dec 2015 | 31st Dec 2014 |
| | Rs.Mn | Rs.Mn | Rs.Mn | Rs.Mn |
| **Associated News Papers of Ceylon Ltd.** | | | | |
| 61,206 Ordinary Shares of Rs.10/= each | | | | |
| fully paid. | 0.539 | 0.539 | 0.539 | 0.539 |
| **Lanka Leyland Ltd.** | | | - | |
| 100 Ordinary Shares of 10/= each | | | - | |
| fully paid. | 0.001 | 0.001 | 0.001 | 0.001 |
| **International Cooperative Petroleum association** | | | - | |
| 5,499 Shares of Us $ 100/= each fully paid | | | - | |
| Incorporated in USA | 5.086 | 5.086 | 5.086 | 5.086 |
| | **5.626** | **5.626** | **5.626** | **5.626** |

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

| **14.3.Non equity investments** | | | | |
|---|---|---|---|---|
| Investment in Fixed Deposits | 5.000 | 5.000 | 5.000 | 5.000 |
| Investment in Treasury Bonds | 36,799.279 | 9,983.931 | 36,799.279 | 9,983.931 |
| | **36,804.279** | **9,988.931** | **36,804.279** | **9,988.931** |

**15 . TRADE & OTHER RECEIVABLE**

**CPC**

| | 31st Dec 2015 Current Rs.Mn | 31st Dec 2015 Non-Current Rs.Mn | 31st Dec 2014 Current Rs.Mn | 31st Dec 2014 Non-Current Rs.Mn |
|---|---|---|---|---|
| Trade Receivables | 18,734.681 | | 36,879.360 | |
| Other Receivables | 5,128.789 | 8,254.993 | 2,795.620 | 9,827.130 |
| Deposits | 21.700 | 719.374 | 24.818 | 82.448 |
| Advance | 2,924.956 | | 3,091.563 | |
| Prepayments | 269.424 | | 278.562 | |
| Loans & Advances to Employees | 49.044 | 2,701.287 | 50.262 | 2,138.200 |
| | **27,128.594** | **11,675.654** | **43,120.185** | **12,047.778** |

**Group**

| | 31st Dec 2015 Current Rs.Mn | 31st Dec 2015 Non-Current Rs.Mn | 31st Dec 2014 Current Rs.Mn | 31st Dec 2014 Non-Current Rs.Mn |
|---|---|---|---|---|
| Trade Receivables | 18,539.258 | - | 34,443.092 | - |
| Other Receivables | 5,542.795 | 7,969.288 | 4,241.119 | 9,000.520 |
| Deposits | 229.147 | 719.374 | 223.750 | 51.940 |
| Advance | 2,924.956 | - | 3,091.563 | |
| Prepayments | 1,063.985 | - | 278.562 | |
| Loans & Advances to Employees | 2,533.294 | 2,701.287 | 2,178.951 | 2,138.203 |
| | **30,833.435** | **11,389.949** | **44,457.037** | **11,190.663** |

The fair values of staff loans (except for distress loans) are initially recognized at fair value by discounting the cash flows using the market based interest rate 10%.p.a.
As at 31 December 2015, trade receivable of Rs. 52.099 Mn. was impaired.The amount of the impairment provision was Rs. 8.219Mn as at 31 Dec 2015.
The ageing of these trade receivables is as follows.

| | 2015 Rs.Mn | 2014 Rs.Mn |
|---|---|---|
| 2 to 3 years | 8.654 | 4.635 |
| 4 to 5 years | 4.837 | 2.118 |
| Over 5 years | 38.608 | 38.519 |
| | **52.099** | **45.272** |

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

| | 31st Dec 2015 Rs.Mn | 31st Dec 2014 Rs.Mn |
|---|---|---|
| Balance as at 1st January | 45.272 | 42.491 |
| Less: Amount Recovered | (1.391) | (0.426) |
| Less: Amount write off | (0.001) | (0.027) |
| Add: Provision for the year | 8.219 | 3.234 |
| Balance as at 31st December | **52.099** | **45.272** |

## 15(A) Financial instrument by category

| Assets as per financial position | CPC 31st Dec 2015 Rs.Mn | CPC 31st Dec 2014 Rs.Mn | Group 31st Dec 2015 Rs.Mn | Group 31st Dec 2014 Rs.Mn |
|---|---|---|---|---|
| Trade and other receivables | 38,804.249 | 55,167.964 | 40,964.724 | 55,647.700 |
| Available for sale investments (Quoted & Un quoted Shares) | 45.126 | 38.626 | 45.126 | 38.626 |
| Investments in fixed deposits | 7,720.073 | 11,321.688 | 7,720.073 | 11,321.688 |
| Investment in savings | 4,000.109 | 678.009 | 4,000.109 | 678.009 |
| Investments in treasury bonds | 37,806.012 | 9,983.931 | 37,806.012 | 9,983.931 |
| Cash in hand and at bank | 51,058.261 | 21,474.788 | 51,778.060 | 21,474.788 |
| **TOTAL** | **139,433.830** | **98,665.006** | **142,314.104** | **99,144.742** |

| Liabilities as per Financial Position | 31st Dec 2015 Rs.Mn | 31st Dec 2014 Rs.Mn | 31st Dec 2015 Rs.Mn | 31st Dec 2014 Rs.Mn |
|---|---|---|---|---|
| Borrowings | 267,583.936 | 248,435.037 | 269,759.291 | 248,435.037 |
| Trade and other payables excluding non financial liabilities | 159,473.117 | 164,280.022 | 161,064.507 | 164,280.022 |
| **TOTAL** | **427,057.053** | **412,715.059** | **430,823.798** | **412,715.059** |

## 16 . INVENTORIES

| | 31st Dec 2015 Rs.Mn | 31st Dec 2014 Rs.Mn | 31st Dec 2015 Rs.Mn | 31st Dec 2014 Rs.Mn |
|---|---|---|---|---|
| Crude Oil | 12,336.721 | 16,731.368 | 12,336.721 | 16,731.368 |
| Other Raw material | 870.473 | 934.465 | 870.473 | 934.465 |
| Finished Products | 25,493.467 | 43,527.759 | 25,493.466 | 43,527.759 |
| Other Materials & Supplies | 2,732.211 | 2,768.295 | 3,061.048 | 3,334.592 |
| **Less**: Provision for slow- moving Items | (397.761) | (380.134) | (397.761) | (578.338) |
| | **41,035.111** | **63,581.753** | **41,363.947** | **63,949.846** |

## 17.SHORT TERM INVESTMENTS

| | CPC 31st Dec 2015 Rs.Mn | CPC 31st Dec 2014 Rs.Mn | Group 31st Dec 2015 Rs.Mn | Group 31st Dec 2014 Rs.Mn |
|---|---|---|---|---|
| | | | - | |
| Bank Deposits | 11,720.182 | 11,994.697 | 11,720.182 | 11,994.697 |
| Government Bonds | 1,001.734 | - | 1,001.734 | - |
| | **12,721.916** | **11,994.697** | **12,721.916** | **11,994.697** |

## 18. CASH AND CASH EQUIVALENTS

| | CPC 31st Dec 2015 Rs.Mn | CPC 31st Dec 2014 Rs.Mn | Group 31st Dec 2015 Rs.Mn | Group 31st Dec 2014 Rs.Mn |
|---|---|---|---|---|
| **Components of Cash and Cash Equivalents** | | | | |
| Cash at Bank and Cash in Hand | 51,058.261 | 21,474.788 | 51,806.227 | 23,384.985 |

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

| | 31st Dec 2015 Rs.Mn | 31st Dec 2014 Rs.Mn | 31st Dec 2015 Rs.Mn | 31st Dec 2014 Rs.Mn |
|---|---|---|---|---|
| Cash and cash equivalents | 51,058.261 | 21,474.788 | 51,806.227 | 23,384.985 |
| Bank overdrafts (Note 25) | (2,738.249) | - | (2,738.249) | - |
| | **48,320.012** | **21,474.788** | **49,067.978** | **23,384.985** |
| Add/Less: Adjustment for foreign currency translation | (3,619.571) | (3,671.614) | (3,619.571) | (3,671.613) |
| | 44,700.441 | 17,803.174 | 45,448.407 | 19,713.372 |

## 19. CONTRIBUTED CAPITAL

| | 31st Dec 2015 Rs.Mn | 31st Dec 2014 Rs.Mn |
|---|---|---|
| Initial Contribution in Pursuance of Section 23 of Act No 28 of 1961 | 10.000 | 10.000 |
| Voted by Appropriation Act no 23 of 1964 | 4.000 | 4.000 |
| Voted by Appropriation Act no 15 of 1967 | 20.000 | 20.000 |
| Contribution to Capital in 1976 | 60.000 | 60.000 |
| Contribution to Capital in 1979 | 13.110 | 13.110 |
| Contribution to Capital in 1980 | 10.710 | 10.710 |
| **Total Contributed by Govt.of Sri Lanka** | **117.820** | **117.820** |
| Transferred from General Reserve in 1987 | 750.000 | 750.000 |
| Transferred from Retained Profits in 1987 | 132.180 | 132.180 |
| 1/3 rd of CPSTL Company Shares held by the General Treasury was transferred | 2,500.00 | 2,500.00 |
| Treasury Bond Issued for Capital Improvements by General Treasury-2015 | 25,000.00 | - |
| | **28,500.00** | **3,500.00** |

No authorized capital has been fixed by the Parliament.

## 20. CAPITAL RESERVE

| | CPC | | Group | |
|---|---|---|---|---|
| | 31st Dec 2015 Rs.Mn | 31st Dec 2014 Rs.Mn | 31st Dec 2015 Rs.Mn | 31st Dec 2014 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.

## 21. RETIREMENT BENEFITS OBLIGATION

| | CPC | | Group | |
|---|---|---|---|---|
| | 31st Dec 2015 Rs.Mn | 31st Dec 2014 Rs.Mn | 31st Dec 2015 Rs.Mn | 31st Dec 2014 Rs.Mn |
| Balance as at 01st January | 648.362 | 522.521 | 1,990.666 | 1,739.542 |
| Less: Payments made during the year | (68.623) | (64.187) | (167.891) | (143.028) |
| | 579.739 | 458.334 | 1,822.775 | 1,596.514 |
| Add: Current service cost | 40.628 | 31.697 | 129.441 | 110.633 |
| Interest cost | 57.973 | 45.833 | 146.798 | 131.024 |
| Acturial (gain)/loss | 167.186 | 112.498 | 299.648 | 152.495 |
| | 845.526 | 648.362 | 2,398.663 | 1,990.666 |
| Add: Benefit China Bay /LLL/NYLON/CPSTL Employees | 15.588 | 15.588 | 15.588 | 15.588 |
| **Balance as at 31 st December** | **861.114** | **663.950** | **2,414.251** | **2,006.254** |
| **The amounts recognized in the statement of comprehensive income statement as follows.** | | | | |
| Current service cost | 40.628 | 31.697 | 129.441 | 110.633 |
| Interest cost | 57.973 | 45.833 | 146.799 | 131.024 |
| **Total, included in staff costs** | **98.601** | **77.530** | **276.240** | **241.657** |

**The principal acturial assumptions were as follows :**

| | | |
|---|---|---|
| Expected Salary increment | 1% | 1% |
| Expected Staff turnover | 3.8% | 4% |
| Interest /Discount Rate | 10% | 10.0% |
| No. of employees | 2,579 | 2,662 |

## 22. DEFERRED TAX

| | Group 31st Dec 2015 Rs.Mn | Group 31st Dec 2014 Rs.Mn |
|---|---|---|
| Balance at the beginning of the period | 492.982 | 394.660 |
| Under /(Over) provision | - | 5.566 |
| Origination and reversal of temporary difference | 51.882 | 92.756 |
| **Balance at the end of period** | **544.864** | **492.982** |
| | | |
| Defferred tax assets | (315.773) | (348.276) |
| Deferred tax | 860.637 | 841.258 |
| **Net deferred tax liability** | **544.864** | **492.982** |

### 22.1 Recognized deferred tax assets and liabilitites

| | 31 st Dec 2015 Rs.Mn | | 31 st Dec 2014 Rs.Mn | |
|---|---|---|---|---|
| | Temporary difference | Deferred tax Liability/(Asset) | Temporary difference | Deferred tax Liability/(Asset) |
| **Deferred tax Liability** | | | | |
| Property, Plant & Equipment | 8,606.367 | 860.637 | 8,412.583 | 841.258 |
| | | | | |
| **Deferred tax Assets** | | | | |
| Inventories | (195.546) | (19.554) | (198.204) | (19.820) |
| Provisions | (172.058) | (17.206) | (141.941) | (14.194) |
| Employee benefit plan | (1,553.136) | (155.314) | (1,342.304) | (134.231) |
| Tax loss | (1,236.988) | (123.699) | (1,800.311) | (180.031) |
| | 5,448.639 | 544.864 | 4,929.823 | 492.982 |

## 23. LOANS & BORROWINGS

| | CPC 31st Dec 2015 Rs.Mn | CPC 31st Dec 2014 Rs.Mn | Group 31st Dec 2015 Rs.Mn | Group 31st Dec 2014 Rs.Mn |
|---|---|---|---|---|
| **L.T. Loans not assigned to CPSTL** | | | | |
| Treasury (A.D.B) Loan | 341.817 | 417.776 | 341.817 | 417.776 |
| **L.T. Loans assigned to CPSTL** | | | - | |
| Treasury (Exim Bank) Loan | - | 285.705 | - | 285.705 |
| **Peoples Bank** | | | 1,398.851 | 1,886.650 |
| | **341.817** | **703.481** | **1,740.668** | **2,590.131** |

### 23.1. CURRENT PORTION OF LOANS & BORROWINGS

| | CPC 31st Dec 2015 Rs.Mn | CPC 31st Dec 2014 Rs.Mn | Group 31st Dec 2015 Rs.Mn | Group 31st Dec 2014 Rs.Mn |
|---|---|---|---|---|
| **L.T. Loans not assigned to CPSTL** | | | | |
| Treasury (A.D.B) Loan | 75.959 | 75.959 | 75.959 | 75.959 |
| **L.T. Loans assigned to CPSTL** | | | | |
| Treasury (Exim Bank) Loan | 285.705 | 571.410 | 285.705 | 571.410 |
| **Others** | - | - | 495.955 | 487.799 |
| | **361.664** | **647.369** | **857.619** | **1,135.168** |

**Loans Repayable within five years from 31st Deecmber is as follows.**

| | 31st Dec 2015 Rs.Mn | 31st Dec 2014 Rs.Mn |
|---|---|---|
| Amount due within 1-2 years | 151.916 | 437.621 |
| Amount due within 3-5 years | 189.901 | 227.880 |
| Amount due after 5 years | - | 37.980 |
| | **341.817** | **703.481** |

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

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

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

## 24. TRADE & OTHER PAYABLES

| | CPC 31st Dec 2015 Rs.Mn | CPC 31st Dec 2014 Rs.Mn | Group 31st Dec 2015 Rs.Mn | Group 31st Dec 2014 Rs.Mn |
|---|---|---|---|---|
| Foreign Bills Payable | 121,662.975 | 143,445.126 | 122,751.071 | 143,445.126 |
| Other Creditors | | | - | |
| - Amount due to Inland Revenue & Custom Dept. | 3,401.847 | 824.289 | 3,697.670 | 1,031.396 |
| - Accrued Expenses | 4,627.177 | 1,019.542 | 4,986.039 | 1,799.208 |
| - Refundable Deposits & Others | 23,952.442 | 13,385.316 | 23,921.571 | 13,673.507 |
| - Amount due to Related Parties | 5,828.676 | 5,605.749 | - | 467.129 |
| | **159,473.117** | **164,280.022** | **155,356.351** | **160,416.366** |

## 25. SHORT TERM BORROWINGS

| | 31st Dec 2015 Rs.Mn | 31st Dec 2014 Rs.Mn | 31st Dec 2015 Rs.Mn | 31st Dec 2014 Rs.Mn |
|---|---|---|---|---|
| Bank & Other loans | | | | |
| - Wholly Repayable within one year | 264,484.023 | 247,787.669 | 264,484.023 | 247,787.669 |
| - Bank Overdrafts | 2,738.249 | - | 2,738.249 | - |
| | **267,222.272** | **247,787.669** | **267,222.272** | **247,787.669** |

Borrowings are guaranted by Treasury indeminity for US$ 1,550 Mn 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 @ 5.5% p.a.

## 26. EMPLOYEES

### 26.1 Staff Cost

| | CPC 31st Dec 2015 Rs.Mn | CPC 31st Dec 2014 Rs.Mn | Group 31st Dec 2015 Rs.Mn | Group 31st Dec 2014 Rs.Mn |
|---|---|---|---|---|
| Salaries & Wages | 3,905.211 | 3,230.897 | 8,557.779 | 6,967.350 |
| Defined Contribution Plan | 358.952 | 299.893 | 772.247 | 636.716 |
| Defined benefit Plan (Note 21 ) | 265.787 | 196.440 | 443.425 | 360.566 |
| | **4,529.950** | **3,727.230** | **9,773.451** | **7,964.632** |

| | | |
|---|---|---|
| **26.2 No. of Employees** | | |
| Administration & Marketing | 1,140 | 1,254 |
| Manufacturing | 1,020 | 976 |
| Security | 419 | 432 |
| | **2,579** | **2,662** |
| **26.3 Contract & Casual Employees** | 2 | 6 |

## 27. CASH GENERATED FROM OPERATIONS

| | CPC 31st Dec 2015 Rs.Mn | CPC 31st Dec 2014 Rs.Mn | Group 31st Dec 2015 Rs.Mn | Group 31st Dec 2014 Rs.Mn |
|---|---|---|---|---|
| Profit/(Loss) before tax from continuing operations | **(20,336.606)** | **1,016.527** | **(18,506.614)** | **3,451.322** |
| **Adjustment for :** | | | - | |
| Depreciation | 934.582 | 635.058 | 1,759.486 | 1,528.837 |
| Amortisation | - | - | 30.008 | 91.935 |
| Foreign Currency Translation | 52.04 | 1,396.794 | 52.042 | 1,396.794 |
| Investment Income | (0.004) | (437.501) | (0.004) | |
| Interest Received | (4,910.347) | (4,030.057) | (4,936.157) | (3,985.931) |
| Adjusment to Market Value( Quoted Share) | (6.500) | - | (6.500) | - |
| Interest Expenses | 15,048.660 | 13,979.634 | 15,282.220 | 14,384.351 |
| Interest on Gratuity | - | - | 88.825 | 85.191 |
| Provision for Retirement Obligation | 265.787 | 190.028 | 487.063 | 268.963 |
| Provision for impairments | | | 36.045 | 3.436 |
| (Profit)/Loss on Sale of Property, Plant & Equipment | (20.212) | (14.580) | (28.524) | (19.370) |
| **Operating Profit/(Loss) before Working Capital changes** | **(8,972.596)** | **12,735.903** | **(5,742.109)** | **17,409.136** |
| **Changes in Working Capital** | | | | |
| (Increase)/ Decrease in Inventories | 22,546.642 | 1,454.541 | 22,585.899 | 1,482.688 |
| (Increase)/ Decrease in Trade and Other Receivable | 16,363.714 | 28,266.383 | 13,428.784 | 29,178.363 |
| Increase/ (Decrease) In Trade and Other Payables | (4,990.306) | (29,989.456) | (4,947.618) | (37,190.070) |
| **Cash Generated from/ (Used in) operating activities** | **24,947.455** | **12,467.371** | **25,324.955** | **10,880.117** |

**28. EXPLANATION ON RESTATEMENT OF FINANCIAL STATEMENTS**

1. Non Accounting of Rs. 72.823 Mn for Notional Tax on Treasury bond Interest Income.
2. Re-measurement of Staff loans recorded as Staff Loan Interest amounting to Rs. 359.146 Mn in the year 2014.
3. Correction of overstated Fuel oil closing stock by Rs.188.313 Mn as at 31st December 2014.
4. Reversal of over depreciation amounting to Rs.0.002 Mn.
5. Correction of classification error for .Special fee paid to General Treasury in the year 2014

These errors has been corrected retrospectively in accordance with LKAS 8 Changes in Accounting policies, Changes in Accounting Estimates and Errors

**28.1 . Reconciliation of Share Holders Equity**

| | 31.12.2014 |
|---|---|
| | Rs. Mn. |
| Balance Reported as per the previous Financial Statements | (231,532.116) |
| Adjustment for Notional Tax Credit | 72.823 |
| Adjustment of Staff Loan Interest Income | (359.146) |
| Adjustment for Cost of Sales | (188.313) |
| Adjustment for Special fee | (250.000) |
| Adjustment of Depreciation | 0.002 |
| | **(232,256.750)** |

| | |
|---|---|
| **Property, Plant & Equipment** | |
| Balance reported as per the previous financial statements | 13,591.468 |
| Adjustment of Depreciation | 0.002 |
| | **13,591.470** |

| | |
|---|---|
| **Non Current -Trade & Other Receivables** | |
| Balance reported as per the previous financial statements | 3,406.924 |
| Adjustment of Staff Loan Interest Income | (359.146) |
| Special fee classification under non current Receivables | 9,000.000 |
| | **12,047.778** |

| | |
|---|---|
| **Inventories** | |
| Balance reported as per the previous financial statements | 63,770.066 |
| Adjustment for F Oil 3500 Stock | (188.313) |
| | **63,581.753** |

| | |
|---|---|
| **Current -Trade & Other Receivables** | |
| Balance reported as per the previous financial statements | 52,370.185 |
| Special fee classification under non current Receivables | (9,000.000) |
| Adjustment for Special fee | (250.000) |
| | **43,120.185** |

| | |
|---|---|
| **Income Tax Receivable** | |
| Balance reported as per the previous financial statements | 889.328 |
| Adjustment of Notional Credit on Treasury Bill interest income in 2014 | 72.823 |
| | **962.151** |

**28.2 .Reconciliation of Comprehensive Income**

| | Previously reported balance | Adjustment | Restated balance |
|---|---|---|---|
| | *Rs.Mn.* | *Rs.Mn.* | *Rs.Mn.* |
| Revenue | 525,182.094 | - | 525,182.094 |
| Cost of Sales | (499,767.226) | (188.313) | (499,955.539) |
| **Gross Profit** | 25,414.868 | | **25,226.555** |
| Other Operating Income | 1,098.798 | (359.146) | 739.652 |
| Kerosene Subsidy | 2,715.000 | - | 2,715.000 |
| Income On Investment Property | 51.823 | | 51.823 |
| Selling & Distribution Expenses | (11,532.812) | | (11,532.812) |
| Administrative Expenses | (4,922.189) | 18.062 | (4,904.127) |
| **Operating Profit** | 12,825.488 | (529.397) | **12,296.091** |
| Finance Income | 3,957.234 | 72.823 | 4,030.057 |
| Exchange Rate variation | (967.489) | | (967.489) |
| Finance Expense | (13,961.574) | (18.060) | (13,979.634) |
| Special Fee | - | (250.000) | (250.000) |
| **Profit /(Loss) before tax** | **1,853.659** | **(724.634)** | **1,129.025** |
| **OTHER COMPREHENSIVE INCOME** | | | |
| Re-measurement gain/(loss) on Retirement Benefit plan | (112.498) | | (112.498) |
| **Other comprehensive loss for the year** | (112.498) | - | (112.498) |
| **Total comprehensive Profit/(Loss) for the year** | **1,741.161** | **(724.634)** | **1,016.528** |

**28.3 . Reconciliation of Cash Flow Statement**

There are no material differences between the Company's statement of cash flows previously presented and the statement of cash flows presented after error correction, except the changes in below figures.
However there is no net effect on the cash flow due to the change.

| | Previously reported balance | Adjustment | Restated balance |
|---|---|---|---|
| Total Comprehensive Income | 1,741.161 | (724.634) | 1,016.527 |
| Depreciation charged | 635.060 | (0.002) | 635.058 |
| Trade and Other Receivable | 27,657.237 | 609.146 | 28,266.383 |
| Changes in Inventories | 1,266.228 | 188.313 | 1,454.541 |
| Income Tax paid | (167.784) | (72.823) | (240.607) |
| | **31,131.902** | **(0.000)** | **31,131.902** |

## 29. CHANGES IN COMPARATIVE INFORMATION

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

| Item | Rs.Mn. | Reclassification | Previously Classified |
|---|---|---|---|
| Exchange Rate Variation | 967.489 | Face of Comprehensive Income Statement | Cost of Sales |
| Bank commission | 18.060 | Finance Expenses | Administrative expenses |
| Investment in Treasury Bonds | 9,983.931 | Non Current Financial Assets | Trade & Other Receivables |

## 30. CONTINGENT LIABILITIES, COMMITMENTS & LITIGATIONS

### CONTINGENT LIABILITIES

The contingent liability of the CPC as at 31st December 2015 relates to following;

Claims for Demurrages exist on 31st December 2015 for the shipments is given below

| Year | USD |
|---|---|
| 2011 | 700,739.30 |
| 2012 | 1,015,752.40 |
| 2013 | 805,362.80 |
| 2014 | 3,633,146.64 |
| 2015 | 996,604.41 |

However, materiality of liabilities would be determined subsequent negotiations /Arbitration process taken place after the balance sheet date.

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

### COMMITMENTS

The material commitments of the CPC as at 31st December 2015 relates to following;

**Commitments to the Banks**

The Corporation established Letter of Credits (L/C) valuing Rs.2,509 Mn and Rs,2,126 Mn. (USD17.139 &USD 14.520) at Bank of Ceylon and People's Bank respectively in relation to imports of crude & refined products during the year for which procurement will be made subsequent to the year end.

**Pending Litigations as at the reporting date**

There were 244 unsettle Legal cases as at 31st December 2015 noted below.

| Type of Legal Cases | No of Cases | |
|---|---|---|
| | CPC | Group |
| Labour Tribunal Cases | 01 | 02 |
| Magistrate's Court Cases | 02 | 05 |
| District Court Cases | 110 | 121 |
| High Court Cases | 16 | 21 |
| Court of Appeal Cases | 10 | 14 |
| Supreme Court Cases | 13 | 13 |
| Human Rights Commission | 28 | 28 |
| Department of Labour | 29 | 40 |

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

## 31. DIRECTORS' INTEREST IN CONTRACTS & RELATED PARTY TRANSACTION WITH THE CORPORATION

The Directors' fees are paid in terms of the provisions in the Public Enterprises Circular No. PED 03/2015 dated 17.06.2015.

CPSTL is a company which engages in storage and distribution of liquid petroleum products within Sri Lanka. No Director has direct or indirect interest in the contracts with the CPC & CPSTL except for the CPC has appointed Mr.T.G.Jayasinghe, Chairman/Managing Director to the Board of CPSTL of which CPC has two third of share interest and Mr D.C.S. Senevirathne, Chairman/Managing Director of CPSTL has been appointed as a Director of CPC.

Following Transactions were carried out with CPSTL

| **Transactions** | **2015 Rs.Mn.** | **2014 Rs.Mn.** |
|---|---|---|
| **Services** | | |
| Terminal charge | 8,865.130 | 7,688.365 |
| Transport charge | 1,795.249 | 2,084.291 |
| Rental charge | 6.980 | 20.937 |
| | **10,667.359** | **9,793.593** |
| **Sales** | | |
| Fuel | 448.212 | 602.427 |
| Other Services | 0.052 | 0.157 |
| Bunkering operations | 51.507 | 3,239.410 |
| | **499.771** | **3,841.994** |
| **Settlement of Loan assigned to CPSTL** | | |
| **Loan Installment** | 571.409 | 571.409 |

| **Balance Outstanding** | **2015 Rs.Mn.** | **2014 Rs.Mn.** |
|---|---|---|
| **Receivable** | | |
| Loans | 285.705 | 857.114 |
| Bunkering sales & other receivable | 209.898 | 1,307.307 |
| | **495.603** | **2,164.421** |
| **Payable** | **5,828.676** | **4,102.852** |

## 32. 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.

## 33. FINANCIAL RISK FACTORS

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

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

**(a) Market risk**

**(i) Foreign exchange risk**

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

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

**(ii) Interest rate risk**

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

**(b) Credit risk**

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

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

**(c) Liquidity risk**

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

Surplus cash held over and above balance required for working capital management is invested in interest yielding financial instruments such as savings accounts and short term repo investments/ time deposits. At the reporting date, the Corporation held repo investment of Rs. 35,932 Mn and other liquid assets (time deposits) of Rs.13,717Mn. 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 balance sheet date to contractual maturity date.

| **December 2015 (Figures in LKR Million)** | | | | | |
|---|---|---|---|---|---|
| | Less than 3 months | 3 months to 12 months | 1 – 2 years | 3-5 Years | Over 5 years |
| Bank borrowings | 116,299 | 151,285 | | | |
| Long term debt | | | 152 | 190 | - |
| | 116,299 | 151,285 | 152 | 190 | - |

**(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.

**34. CAPITAL MANAGEMENT**

Primary objective of the capital management is to ensure for Safeguard Corporation's ability to ensure going concern status in order to provide returns for equity share holders and benefits to other stake holders. The Corporation & Its group had sustained a Loss of Rs. 20,867 Mn (without tax adjustments) for the current year and had a negative net asset position of Rs. 212,862 Mn. as at end of the year 2015 due to accumulated losses for last five years. The external auditors have mentioned that the corporation's ability to continue as going concern without the financial assistance from the government of Sri Lanka and other financial institutions was doubt full.

The heavy losses incurred by the Corporation are largely depend on the sale of Petrol at highly subsidized rates as retail price is determined by the government. To cover up such losses as per the sec. 17 0f Finance Act No. 38 of 1971, the Corporation is entitled to receive subsidy by the government. If the subsidies are received for Corporation's negative net asset position could be overcome.

# AUDITOR GENERAL'S REPORT

විගණකාධිපති දෙපාර්තමේන්තුව
கணக்காய்வாளர் தலைமை அதிபதி திணைக்களம்
**AUDITOR GENERAL'S DEPARTMENT**

මගේ අංකය / எனது இல. / My No. } POE/A/CPC/1/15/01 මබේ අංකය / உமது இல. / Your No. } දිනය / திகதி / Date } 09 December 2016

The Chairman
Ceylon Petroleum Corporation

**Report of the Auditor General on the Financial Statements of the Ceylon Petroleum Corporation (CPC) and the Consolidated Financial Statements of the Corporation and its Subsidiary for the year ended 31 December 2015 in terms of Section 14(2)(c) of the Finance Act, No. 38 of 1971**

---

The audit of financial statements of the Ceylon Petroleum Corporation (CPC) and the consolidated financial statements of the Corporation and its Subsidiary for the year ended 31 December 2015 comprising the statements of financial position as at 31 December 2015 and the statements of comprehensive income, statements of changes in equity and cash flow statements for the year then ended and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act, No. 38 of 1971 and Section 31 of the Ceylon Petroleum Corporation Act, No. 28 of 1961. My comments and observations which I consider should be published with the Annual Report of the Corporation in terms of Section 14(2)(c) of the Finance Act appear in this report. The financial statements of the Subsidiary were audited by a firm of Chartered Accountants in public practice appointed by the Board of Directors of the respective Subsidiary. A detailed report in terms of Section 13(7)(a) of the Finance Act will be issued in due course.

**1.2 Management's Responsibility for the Financial Statements**

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

**1.3 Auditor's Responsibility**

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgments, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

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

### 1.4 Basis for Qualified Opinion

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

## 2 Financial Statements

### 2.1 Qualified Opinion

**(a) Qualified Opinion – Corporation**

In my opinion, except for the effects of the matters described in paragraph 2.2.2 of this report, the financial statements give a true and fair view of the financial position of the Ceylon Petroleum Corporation as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

**(b) Qualified Opinion – Group**

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the consolidated financial statements give a true and fair view of the financial position of the Ceylon Petroleum Corporation and its Subsidiary as at 31 December 2015 and their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

## 2.2 Comments on Financial Statements

### 2.2.1 Group Financial Statements

The following observations are made.

(a) The Corporation had prepared the consolidated financial statements for the year 2015 based on draft financial statements of the Ceylon Petroleum Storage Terminal Ltd (CPSTL), the Subsidiary of the Corporation having two third interests, which had not been authorized by the Board for issue, and accordingly, it leads to serious doubtfulness about the credibility of the financial information.

(b) The auditors of the Ceylon Petroleum Storage Terminal Ltd (CPSTL) had expressed a qualified opinion on the financial statements for the year under review based on the following matters.

(i) The audited financial statements of the Ceylon Petroleum Corporation Thrift Society Limited (a welfare society functioning under the CPSTL) for the year ended 31 December 2015 had not been received. However, as per the audited financial statements for the year ended 31 December 2014, the Company had recorded total assets and total liabilities as Rs.1,390,983,174 and Rs.2,126,559,556 respectively. Further, the Company had recorded a negative unrestricted reserve balance of Rs. 1,410,978,763 which had contributed to the negative accumulated reserves of Rs. 735,576,382. However, the Company had stated that the activities would not be affected by the above negative reserve position, and the Company was able to continue its activities for the foreseeable future.

(ii) Further, the shortfall of funds attributable to the companies, Ceylon Petroleum Corporation and the CPSTL could not be determined due to non-availability of the said information in the financial statements of the Thrift Society Ltd. Moreover, provision for the shortfall of funds attributable to members of the CPSTL had not been shown in the financial statements of the Company, as the Board of the CPSTL had decided to take over this liability of the Society from the books of accounts of the CPSTL.

(iii) Based on the confirmation received, the amount due from related parties was disputed by Rs. 336 million for which an allowance for impairment had been made in the financial statements for only Rs. 164 million.

### 2.2.2 Financial Statements of the Corporation

#### 2.2.2.1 Going Concern of the Corporation

Attention is drawn to the matter that the operations of the Corporation had resulted a pre-tax net loss of Rs. 20,176 million and a total comprehensive net loss of Rs. 21,896 million for the year 2015, and had a negative net assets position of Rs. 229,153 million at the end of the year under review. Further, the negative impact of exchange rate variation for the year under review, and also, the negative impact of heavy losses incurred by the Corporation due to Hedging transactions taken place in 2012 had caused to increase the net losses for previous years. Even though the financial performance of the Corporation had improved during the previous year, the heavy loss occurred during the year under review had resulted to further erosion of the 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.

#### 2.2.2.2 Compliance with Sri Lanka Accounting Standards (LKAS)

The following observations are made.

**(a) LKAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors**

(i) Tax payable on other income of the Corporation for the years of assessment 2011/2012 to 2014/2015 amounting to Rs. 925 million had been recognized as expenditure for the year under review, instead of correcting that error retrospectively. As a result, the tax expenses for the year under review had been overstated by similar amount.

(ii) Errors relevant to the Employee Provident Fund (EPF) and Employee Trust Fund (ETF) amounting to Rs. 26,026,697 and Rs. 2,943,012 respectively, occurred during the year 2010 and revealed in the year 2015, had been adjusted during the year under review in contrary to the provisions in the Standard, and as a result, EPF and ETF expenses had been understated by similar amounts. Further, documentary evidence relating to those adjustments were not made available for audit.

**(b) LKAS 12 – Income Tax**

(i) The Corporation should have recognized deferred tax assets/liabilities for all temporary differences except for the incidents prescribed in the Standards. However, the Corporation had not recognized the deferred tax assets/liabilities in the financial statements.

(ii) The Corporation had recognized a sum of Rs. 1,559 million as tax expense during the year under review without explaining the relationship between tax expenses and accounting profits in accordance with the requirements of the Standard.

**(c) LKAS 19 – Employee Benefits**

According to the accounting policy No. 1.3 referred in the financial statements, the Corporation had computed the retirement benefit costs by applying the Projected Unit Credit Method using the software issued by the Institute of Chartered Accountants of Sri Lanka, which was permitted to use only for Small and Medium-sized Enterprises (SMEs). Accordingly, the requirement of provision for gratuity in terms of the Standard had not been followed.

**(d) LKAS 24 – Related Party Disclosures**

(i) Key management personnel compensations had not been properly disclosed in the financial statements.

(ii) The nature of the related party and the information about the transactions with regard to the income on investment property rented out to the line Ministry had not been properly disclosed in the financial statements.

**(e) LKAS 32 – Financial Instruments: Presentation**

(i) As per the request made by the Ministry of Finance, a sum of Rs. 10,000 million had been paid to the General Treasury on 31 December 2014 as a special fee, and out of which amounting to Rs. 250 million and Rs. 750 million had been charged as expenditure for the years 2014 and 2015 respectively and the outstanding balance of Rs. 9,000 million had been deferred for the period from 2016 to 2024. However, as per the financial statements, the said balance had been included in trade and other receivables and categorized as financial instruments as at 31 December 2015 in contrary to the Standard. Accordingly, trade and other receivables had been overstated by Rs. 9,000 million whereas the prepayments under non-current assets and current assets as at 31 December 2015 had been understated by Rs. 8,000 million and Rs. 1,000 million respectively.

(ii) Further, prepayments amounting to Rs. 269.4 million included in the trade and other receivables under the current assets as at 31 December 2015 had been categorized as financial instruments in contrary to the Standard.

**(f) LKAS 37 – Provisions, Contingent Liabilities and Contingent Assets**

The **Commercial Bank** had filed a case against the Corporation at the Commercial High Court, Colombo claiming US$ 8,648,300 relating to the hedging transactions. However, required disclosures relating to the hedging transactions had not been made in the financial statements.

(g) **LKAS 40 – Investment Property**

The Corporation had recognized the investment property at cost. However, the following details, which should have been disclosed when the Corporation could not determine the fair value of the investment property reliably, had not been disclosed as notes to the financial statements in accordance with the Standard.

- A description of the investment property,
- An explanation of why fair value could not be determined reliably, and
- If possible, the range of estimates within which fair value is highly likely to lie.

**2.2.2.3 Accounting Deficiencies**

The following observations are made.

(a) The interest income on Treasury Bonds, calculated at coupon rates, amounting to Rs.264.3 million receivable for the year 2014 had been debited to the other receivable account and credited to the interest income account instead of crediting to the Investment in Treasury Bonds account under Non-current Financial Assets. In the meantime, the interest calculated based on effective interest rate of return (EIRR) on Treasury Bonds amounting to Rs. 214.4 million had been credited to the interest income account and debited it to the Investment in Treasury Bonds account. Accordingly, Investment in Treasury Bonds account had been overstated by Rs. 264.3 million. Further, the Corporation had grossed up that interest income by adding notional tax credit amounting to Rs. 29.4 million and recognized as income for the year 2014. As a result, interest income had been overstated by Rs. 293.7 million and the income tax provision account had been understated by Rs. 29.4 million. Moreover, those errors had not been rectified during the year 2015 as well. Therefore, the revenue reserve had been overstated by Rs. 293.7 million; while the investment receivable account had been overstated by Rs. 264.3 million and the income tax provision account had been understated by Rs. 29.4 million in the year under review.

(b) Rental income from sales booths established at Corporate Owned Dealer Operated (CODO) outlets had been recognized on cash basis and accordingly, the rental income of the year 2014 amounting to Rs. 6.1 million received during the year 2015 had been recognized as income for the year 2015. As a result, the amount receivable for the year 2015 had not been recognized as income for the year under review.

(c) According to the information made available, it was observed that the interest income on fixed deposits relating to the year under review and some previous years amounting to Rs. 622 million had been accounted for in the financial statements as interest income for the year under review. Following observations are made in this connection.

(i) According to the ledger accounts, a fixed deposit amounting to US $ 7.5 million had been maintained at the Bank of Ceylon since 22 August 2013 by the Corporation. However, interest income had been calculated only for 70 days in the year 2015 and recognized in the accrued interest income. The information relating to the interest income for the previous periods was not made available to audit. Accordingly, completeness and accuracy of the interest income were not ensured in audit.

(ii) The Corporation had invested a sum of Rs. 1,102,676,727 in fixed deposits (FD) at the Bank of Ceylon on 24 September 2013 with the consent of reinvesting the interest thereon in the same FD account until such time that it would be withdrawn. Accordingly, a sum of Rs. 98,241,638 had been reinvested and accounted for as fixed deposit up to 24 December 2014. However, despite the non-reinvesting the interest relevant to the period up to withdrawal of the FD in the year 2015, a sum of Rs. 1,245,202,499 had been withdrawn from the FD account on 25 September 2015, and accordingly, a sum of Rs. 44,284,133 had been over withdrawn from the fixed deposit account. As a result, both fixed deposit account and the interest income had been understated by Rs. 44,284,133 for the year under review.

(iii) An interest income of Rs. 174,557,534 receivable for the year 2014 had been erroneously debited to the interest income account and credited to other receivables account for the year under review. Accordingly, the interest income and the other receivables had been understated by the same amount.

(d) The Corporation had retained a long term fixed deposit having a balance of Rs.5,000,000 and the interest income thereon had not been recognized as income of the Corporation. However, information relating to that income was not made available to audit. Therefore, the accuracy and completeness of that interest income could not be ensured in audit.

(e) The Corporation had spent a sum of Rs. 2,116.18 million for the "Relocate of Crude Oil Pipe Line – Colombo Port Expansion Project" in the year 2011 and it had been included as plant and machinery in the assets and capital project in progress under the property, plant and equipment of the financial statements for the year under review. However, details of the progress of that project and the reasons for not capitalization of that amount were not made available to audit.

(f) According to the information made available, the Corporation had incurred a sum of Rs. 5,071.7 million for the project of the construction of aviation fuel storage facility and fuel hydrant system (outside the apron area) at the Hambanthota International Airport at Maththala, and that project had been substantially completed and handed over to the Corporation on 22 June 2014, and the "Taking over certificate" had been issued on 16 July 2014. Accordingly, the operations of the fuel hydrant system had been commenced with effect from 22 June 2014. The following observations are made in this regard.

(i) Some parts of the machinery of property, plant and equipment had been depreciated separately at different dates.

(ii) The depreciation rates and the dates applied by the Corporation for the computation of depreciation, and the useful life time of the relevant items of property, plant and equipment were not comparable. As a result, differences observed between the amounts of depreciation calculated based on estimated useful life time and the actual amounts provided in the financial statements of the year under review and the previous year (as per SAP system) were amounting to Rs. 128,576,712 and Rs. 36,487,486 respectively.

**2.2.2.4 Unreconciled Differences**

The following unreconciled differences were observed between the amounts shown in the financial statements of the Corporation and its Subsidiary for the year ended 31 December 2015.

| Items | Year | Amount as per the Individual Financial Statements of the | | Difference |
|---|---|---|---|---|
| | | Corporation | CPSTL | |
| | | Rs. million | Rs. million | Rs. million |
| **Related Party Transactions:** | | | | |
| Terminal (throughput) and transport charges/ Service for oil storage and distribution | 2015 | 10,660.4 | 10,234.4 | 426.0 |
| | 2014 | 9,772.7 | 10,185.5 | 412.8 |
| **Balance Outstanding:** | | | | |
| Balance due to/ from (Related party transaction) | 2015 | 5,828.7 | 6,164.2 | 335.5 |
| | 2014 | 5,605.7 | 7,237.6 | 1,631.9 |

The following observations are also made in this connection.

(a) In consolidation process, only sums of Rs. 10,660.4 million and Rs. 9,772.6 million had been eliminated for the years of 2015 and 2014 respectively with regard to the throughput (terminal) charges and transport charges included under the related party transactions. According to the reconciliation prepared by the Corporation, there were five items of transactions amounting to Rs. 338 million as disputes.

(b) Further, according to the reconciliation statement prepared by the Corporation in connection with the related party balances shown in the financial statements of the Corporation with the corresponding balances shown in the financial statements of the Subsidiary, a balance amounting to Rs. 172 million had been disputed.

Auditor General's Department

### 2.2.2.5 Accounts Receivable and Payable

Total trade receivables as at 31 December 2015 was Rs. 18,786.8 million consisting Rs.4,313.5 million and Rs. 14,473.2 million due from government institutions and private institutions respectively. However, the total dues as at the end of the year under review had decreased by 49 per cent when compared to the previous year outstanding balance of Rs.37,060 million.

Age analysis of accounts receivable as at 31 December 2015 is shown below.

| Customer wise | Total Dues as at 31 December 2015 | Age analysis of dues as at 31 December 2015 | | | | | |
|---|---|---|---|---|---|---|---|
| | | Below one year | 1-2 years | 2-3 years | 3-4 years | 4-5 years | Over 5 years |
| | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. |
| Dealers | 814,620,088 | 783,717,567 | 10,981,377 | 3,267,723 | 1,379,217 | 252,922 | 15,021,283 |
| Aviation | 9,477,595,864 | 7,335,533,925 | 5,173,970 | 23,376,709 | 2,111,097,630 | 2,326,616 | 87,015 |
| Power Plants | 4,497,947,417 | 3,500,944,742 | 243,391,845 | 753,610,830 | | | - |
| Government Customers | 1,593,523,430 | 928,829,094 | 480,740,633 | 61,544,346 | 51,100,014 | 46,952,425 | 24,356,918 |
| Private Consumers | 494,299,036 | 206,643,766 | 21,662,297 | 22,568,177 | 25,412,079 | 24,665,945 | 193,346,772 |
| Agro Chemical | 23,048,258 | 16,350,064 | (421,790) | 28,210 | (30,360) | 81,988 | 7,040,145 |
| Others | 1,885,747,417 | 1,884,321,245 | (4,081,296) | 1,362,001 | 65,474 | 201 | 4,079,793 |
| **Total** | **18,786,781,509** | **14,656,340,403** | **757,447,035** | **865,757,995** | **2,189,024,054** | **74,280,097** | **243,931,926** |

The following observations are made.

(a) According to the Board decision dated 08 August 2006, an interest rate of 24 per cent per annum is required to be charged from the customers having overdue balances. However, the System Application and Products (SAP) system, the Enterprise Resource Planning (ERP) system of the Corporation, introduced and implemented by the CPSTL, and used by the Corporation for data processing and monitoring of stock levels, does not facilitate to calculate the interest charges on unsettled invoices which are over and above the credit period. Therefore, the Corporation had used to calculate the interest manually on unsettled invoices and to update the SAP system. Accordingly, it was observed that proper systems had not been designed, implemented and maintained by the Corporation to ensure the accuracy and completeness of interest charges on overdue balances.

(b) Even though Sri Lankan Airlines Ltd. (SLA) and Mihin Lanka (Pvt.) Ltd. were contract customers, the Corporation had incurred losses up to the year 2014 on sale of Aviation Turbine Fuel to those companies and the settlement of outstanding fuel bills were also very poor due to their weak financial performance. However, the

Corporation was able to reduce the outstanding balances as at 31 December 2015 from Rs. 22,239.1 million in the year 2014 to Rs. 9,156.7 million in the year 2015. The trend of the outstanding balances since 2010 is given below.

| Name of the Company | Outstanding Balance as at 31 December | | | | | | |
|---|---|---|---|---|---|---|---|
| | 31 July 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 |
| | Rs. Mn | Rs. Mn. | Rs. Mn. | Rs. Mn. | Rs. Mn. | Rs. Mn. | Rs. Mn. |
| SriLankan Airlines Ltd | 10,709.30 | 8,607.36 | 20,900.35 | 29,519.68 | 25,890.12 | 12,351.43 | 541.54 |
| Mihin Lanka (Pvt.) Ltd | 247.50 | 549.37 | 1,338.73 | 4,313.68 | 3,416.10 | 1,227.02 | 361.24 |
| Total | 10,956.80 | 9,156.73 | 22,239.08 | 33,833.36 | 29,306.22 | 13,578.45 | 902.78 |

(c) The Corporation had not signed an Aviation fuel supply agreement with SriLankan Airlines Limited, and therefore, there was a default risk due to lack of legal right to the Corporation. Further, the outstanding balance of Rs. 8,607.4 million as at 31 December 2015 had increased up to Rs. 10,709.3 million as at 31 July 2016.

(d) As per the audit examinations carried out in relating to provisions for bad debts of the Corporation for the year ended 31 December 2015, the following observations are made.

(i) The Corporation had made a specific provision of Rs. 52,099,042 for bad debts, which was outstanding for the period ranging from one year to 29 years as at 31 December 2015, and out of that a provision of Rs. 8,219,208 had been made for the year 2015. Details are as follows.

| Name of the Customer | Provisions for bad debts | |
|---|---|---|
| | As at 31 December 2015 | As a percentage of total provision |
| | Rs. | |
| Dealers & Kerosene Agents | 26,900,233 | 52 |
| Estate & Pvt. Consumers | 9,264,132 | 17 |
| Govt. Departments & Corporations | 4,625,679 | 09 |
| Aviation | 4,032,957 | 08 |
| Agro Chemical & Stockiest | 7,276,041 | 14 |
| **Total** | **52,099,042** | **100** |

(ii) Provisions for bad and doubtful debts had been made for dealers and kerosene agents as at 31 December 2015 was Rs. 26.9 million, and out of that a sum of Rs 8.1 million or 30 per cent was represented by one dealer. The said dealer had failed to settle the outstanding amount of Rs. 7,817,395 as at 31 December 2014, and total outstanding amount as at 31 December 2015 was Rs. 8,102,409 (with interest). The following observations are also made in this regard.

- According to the cheques on delivery customer (COD) basis applied by the Corporation before 2015, when a cheque was returned and the customer was failed to settle the amounts due, that customer would be categorized as a hard cash customer, and a penalty of Rs. 1,000 was charged for each returned cheques. Further, once the outstanding balance was settled later, that customer would be categorized again as a COD customer. According to this poor credit control, some customers had exploited such opportunities in favor of them and obtained maximum benefits.

- According to the audit test carried out in this regard, it was observed that the above mentioned customer had been granted the special credit facilities despite the continuous failure to settle the outstanding balances within the given credit period. Further, according to the information made available, the Marketing Manager of the Corporation had provided inappropriate credit facilities to the said customer, and as a result, that customer had exploited such opportunities and obtained maximum benefits for several years. Accordingly, the Corporation had incurred a loss of Rs. 8,102,409 during the year 2015.

- Even though the then Additional Finance Manager (AFM) had pointed out that there was a default risk, due to continuous failure on settlement of outstanding balances for several years with the existing COD facility, the Corporation had not taken necessary actions to mitigate that risk, and instead, the Marketing Manager had granted more credit facilities without evaluating the dealer's financial viability and the previous payment records.

- Despite the avoidance of payment for bills and dishonor of cheques, the Marketing Manager had arranged some other opportunities such as Lord to Lord facility (settles the amount once other load comes) to that customer for two months period without any guarantee.

- According to the request made by the dealer on 06 March 2013, the Managing Director had given the approval to increase the credit limit up to Rs. 3,641,008 and 3 days credit period for 45 days with the condition of providing a bank guarantee within 45 days. Further, the Deputy General Manager (Finance) had again approved the credit period for two month on 22

April 2013, and it was further increased by three months from 20 June 2013 without obtaining a bank guarantee.

- The outstanding balance as at 21 January 2014 was Rs. 7,224,416 when he had stopped the market activities. However, on the request made by him, the Corporation had continued to provide services without a bank guarantee, and with an agreement to settle the outstanding balances. However, further two cheques issued by him had been returned on 21 October 2014. As a result, the outstanding balance with interest as at 31 December 2015 was Rs.8,102,409.

**2.2.2.6 Hedging Transactions**

As per the audit examination carried out pertaining to the hedging transactions of the Corporation, it was observed that the total loss incurred to the country on this transactions as at 31 December 2015 was Rs. 14,062 million.
The following observations are made.

(a) According to the transactions, the Corporation was cited as a party in the arbitration proceeding pertaining to hedging contracts entered into with several Commercial Banks and a sum of US Dollars 60 million (Rs. 7,612 million) had been paid to the Standard Chartered Bank (SCB) on 3 June 2013 and a sum of US Dollars 27 million (Rs.3,864.37 million) had been paid to the Deutsch Bank AG on 04 August 2016 (had made provision as at 31 December 2015) under the Deed of Settlement entered into between the parties. According to the information made available, the total loss incurred by the Corporation as at 31 December 2015 was Rs. 13,641.12 million.

(b) The Central Bank of Sri Lanka (CBSL) had incurred the legal expenses of Rs. 570.6 million with regard to this transaction of the Corporation and out of that a sum of Rs.567.5 million had already been reimbursed to the CBSL by the Corporation during the period 2011 to 2014.

(c) In addition to that, the CBSL had paid a sum of Rs. 404.3 million up to 31 December 2015 for the services obtained from the foreign lawyers those who had appeared in the arbitration proceedings initiated by the Deutsche Bank against the Government of Sri Lanka, and further, the CBSL had made a provision of Rs. 13.1 million in this regard during the year 2015.

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

(e) A formal investigation had been initiated against the then DGM (Finance) of the Corporation who had sent on compulsory leave since 2008, and his service has been terminated on 04 August 2016. However, no any other investigation had been initiated against the persons who were responsible for those transactions by the Corporation.

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

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

| | Reference to Laws, Rules, Regulations and Management Decisions | Non-compliance |
|---|---|---|
| (a) | Section 3.2 of the Public Enterprises Circular No. PED/12 of 2 June 2003 on Public Enterprises Guidelines for Good Governance. | The Board of Directors of the Corporation had not been included a member in the field of petroleum industry. |
| (b) | Finance Circular No. 124 dated 24 October 1997 of the Ministry of Finance and Planning. | Even though, covering up duties of a vacant post should be limited to a period of 03 months, 04 employees, appointed for covering up duties, had been working in those vacant posts for the period ranging 08 months to 04 years at the end of the year under review. |
| (c) | Public enterprises Circulars No. FP/06/35/02/01 dated 04 November 2013 and No. PED 03/2016 dated 29 April 2016. | The Corporation had borne the PAYE tax expenditure of its employees amounting to Rs. 213,986,411 without deducting from their personal emoluments for the year under review. |
| (d) | Guideline 5.4.12 of the Government Procurement Guidelines. | After making payments to settle the VAT liability, details of such payments shall be informed to the Commissioner General of Inland Revenue with a copy to the Auditor General, on or before the 15th day of the following month. However, such details had not been submitted to the Auditor General by the Corporation up to 31 July 2016. |
| (e) | Financial Regulations of the Government of the Democratic Socialist Republic of Sri Lanka. | |
| | Financial Regulations 135 | Financial authority had not been delegated since 2007. |

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இலங்கைத் தணிக்கையாளர் தலைமை அதிபதி திணைக்களம்
Auditor General's Department

## 3 Financial Review

### 3.1 Financial Results

According to the financial statements presented, the operation of the Corporation for the year under review had resulted in a pre-tax net loss of Rs. 20,176 million as against the corresponding pre-tax net profit of Rs. 1,129 million for the preceding year, thus indicating a deterioration of Rs. 21,305 million in the financial results. The negative impact of the exchange rate variations, increase in the selling and distribution expenses and finance expenses, and the increase of taxes were the main reasons attributed for this deterioration.

Even though the pre-tax net loss for the year under review was Rs. 20,176 million, the contribution of the Corporation to the Country during the year under review was 78,440 million. The contribution of the Corporation to the Country during the year under review and in the previous four years is as follows.

| | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| | Rs. Mn. | Rs. Mn. | Rs. Mn. | Rs. Mn. | Rs. Mn. |
| **Net Profit/(Loss) After Taxes** | **(21,735)** | **1,129** | **(7,889)** | **(97,181)** | **(94,357)** |
| Add: | | | | | |
| ▪ Personnel Emoluments | 4,530 | 3,727 | 3,572 | 2,658 | 2,610 |
| ▪ Taxes Paid to the Government | | | | | |
| · Income tax | 1,559 | - | - | - | - |
| · Nations Building Tax (NBT) | 2,074 | 2,936 | 2,652 | 3,147 | 1,897 |
| · Customs Duty | 44,713 | 11,730 | 10,187 | 9,735 | 440 |
| · Value Added Taxes (VAT) | 1,280 | 2,741 | 1,685 | 1,538 | 1,337 |
| · Excise Duty | 35,687 | 30,205 | 25,148 | 26,089 | 23,935 |
| · Ports Authority Levy (PAL) | 8,648 | 15,289 | 15,823 | 20,810 | 14,537 |
| · Other taxes | - | 447 | - | - | - |
| ▪ Special Fee* | 750 | 250 | - | - | - |
| ▪ Depreciation | 934 | 634 | 485 | 516 | 417 |
| **Total Contribution** | **100,175** | **67,959** | **59,552** | **64,493** | **45,173** |
| **Value Addition** | **78,440** | **69,088** | **51,663** | **(32,688)** | **(49,184)** |

* **Special Fee** – The Corporation had paid a sum of Rs. 10,000 million to the General Treasury on 31 December 2014 as a special fee, and out of which amounting to Rs. 250 million and Rs. 750 million had been charged as expenditure for the years 2014 and 2015 respectively and the outstanding balance of Rs. 9,000 million had been deferred for the period from 2016 to 2024.

Auditor General's Department

### 3.2 Analytical Financial Review

The following observations are made.

#### (a) Profitability

The operations of the Corporation had resulted in a markup of 11.75 per cent for the year under review thus indicating an improvement of 6.70 per cent as compared with the markup of 5.05 per cent in the preceding year. Similarly, the gross profit for the year under review had increased by Rs. 14,389 million or 57 per cent as compared with the corresponding gross profit of Rs. 25,227 million in the preceding year. These improvements are summarized and shown below.

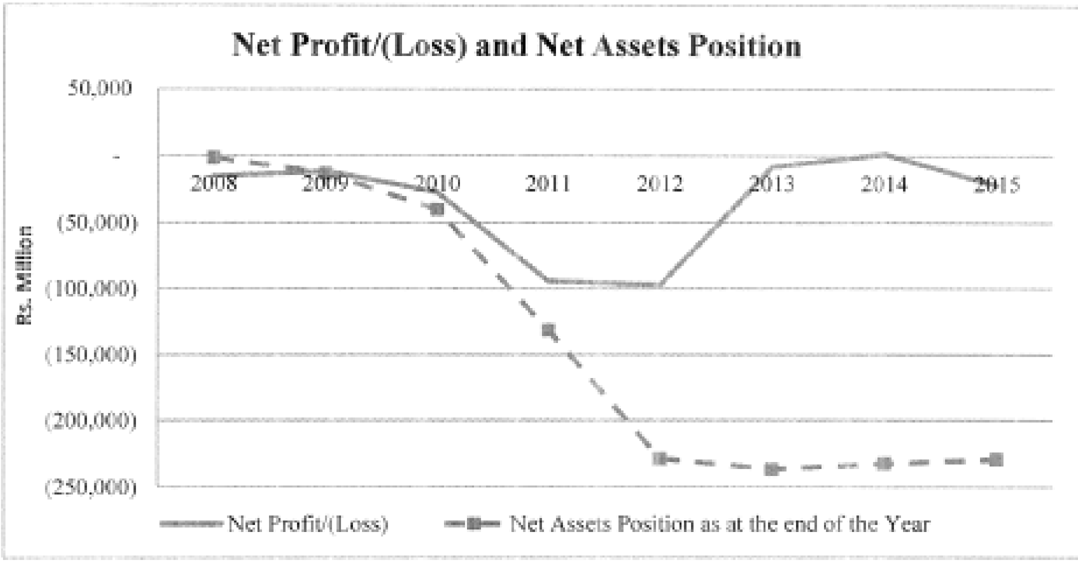
| Description | For the year ended 31 December 2015 | 2014 Restated | Change [Favorable/ (Unfavorable)] | Percentage |
|---|---|---|---|---|
| | Rs. million | Rs. million | Rs. million | |
| Revenue | 376,734 | 525,182 | (148,448) | 28.3 |
| Cost of Sales | (337,118) | (499,955) | 162,837 | 32.6 |
| **Gross Profit** | **39,616** | **25,227** | **14,389** | **57.0** |
| Other Income | 4,234 | 3,506 | 728 | 20.8 |
| Selling and Distribution Expenses | (13,618) | (11,533) | (2,085) | 18.1 |
| Administration Expenses | (2,814) | (4,904) | 2,090 | 42.6 |
| **Operating Profit** | **27,418** | **12,296** | **15,122** | **123.0** |
| Exchange Rate Variation | (32,841) | (967) | (31,874) | 3,296.2 |
| Finance Expenses | (15,049) | (13,980) | (1,069) | 7.6 |
| Finance Income | 4,910 | 4,030 | 880 | 21.8 |
| Hedging Expenses | (3,864) | - | (3,864) | ∝ |
| Special Fee | (750) | (250) | (500) | 200 |
| **Profit/(Loss) Before Income Tax** | **(20,176)** | **1,129** | **(21,305)** | **1,887.1** |

#### (b) Net Profit/(Loss) Vs Net Assets

The net profit/ (loss) and the net assets position of the Corporation for the year 2015 and previous seven years are depicted in the table and the chart given below.

| Year | Net Profit/(Loss) | Net Assets Position as at the end of the Year |
|---|---|---|
| | Rs. Mn | Rs. Mn |
| 2008 | (14,952) | (1,416) |
| 2009 | (11,353) | (13,038) |
| 2010 | (26,923) | (39,952) |
| 2011 | (94,357) | (131,236) |
| 2012 | (97,181) | (228,545) |
| 2013 | (7,947) | (236,529) |
| 2014* | 1,129 | (232,257) |
| 2015 | (21,735) | (229,153) |

* Restated




The main contributory factors for the continuous financial losses and capital erosion of the Corporation were revealed as sale of petroleum products other than petrol and super diesel at domestic retail market below the import cost and locally refined cost, exchange rate variations due to non-settlement of bills on time and depreciation of the Sri Lanka Rupee against US Dollar, increase of finance expenses due to high level of borrowings from banks, increase of custom duties, loss on export of Naphtha and Furnace Oil (bottom products of refinery) due to inefficiency of refinery operations with low margin and poor yields, and as a result importation of refined petroleum products to meet the demand of the country, heavy losses incurred on Hedging transactions, provision of fuel (Furnace Oil and Naphtha) at subsidized rate to Ceylon Electricity Board (CEB), etc.

Even though the domestic retail prices of petroleum products had been revised upward continuously up to September 2014 in order to address these financial difficulties of the Corporation, the prices had been reduced twice during the year 2014 and once in 2015 in line with decrease of international fuel prices. However, effective pricing strategy reflecting the international oil price movements and aligning with Government objectives had not been designed and implemented by the Corporation. Major changes made by the Corporation in retail prices of petroleum products during the years of 2014 and 2015 are as follows.

| Petroleum Products | Revised Price per Liter with effect from | | | | |
|---|---|---|---|---|---|
| | 28 Nov. 2015 | 22 Jan. 2015 | 06 Dec. 2014 | 17 Sep. 2014 | 23 Feb. 2013 |
| | Rs. | Rs. | Rs. | Rs. | Rs. |
| Petrol 95 Octane | 128.00 | 128.00 | 158.00 | 165.00 | 170.00 |
| Petrol 92 Octane | 117.00 | 117.00 | 150.00 | 157.00 | 162.00 |
| Lanka Auto Diesel | 95.00 | 95.00 | 111.00 | 118.00 | 121.00 |
| Lanka Super Diesel | 110.00 | 110.00 | 133.00 | 140.00 | 145.00 |
| Lanka Kerosene | 49.00 | 65.00 | 81.00 | 86.00 | 106.00 |
| Lanka Industrial Kerosene | 88.00 | 94.00 | 110.00 | 115.00 | 115.00 |

(c) **Significant Accounting Ratios**

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

| Ratios | 2015 | 2014 (Restated) |
|---|---|---|
| **Profitability Ratios** | | |
| Gross Profit Ratio (GP) (%) | 10.52 | 4.80 |
| Operating Profit Ratio (%) | 7.28 | 2.34 |
| Net Profit/(Loss) Ratio (NP) (%) | (5.77) | 0.21 |
| **Liquidity Ratios** | | |
| Current Assets Ratio (Number of times) | 0.31:1 | 0.34:1 |
| Quick Assets Ratio (Number of times) | 0.21:1 | 0.19:1 |
| Working Capital (Rs. million) | (295,113) | (271,581) |
| **Investment Ratios** | | |
| Return on Assets (ROA) (%) | (10.9) | 0.62 |

The following observations are made in this regard.

(i) The gross profit ratio had improved by 5.71 per cent whereas the net profit ratio had deteriorated by 5.57 per cent during the year under review as compared with the previous year.

(ii) The working capital position of the Corporation in 2015 was slightly declined as compared with the previous year. The main contributory factors for this feeble condition were increase of short term borrowings and decrease of the inventories and trade and other receivables.

## 4 Operating Review

### 4.1 Performance

(a) The domestic retail prices of petroleum products had been revised upward continuously up to September 2014 in order to address the financial difficulties of the Corporation. In the meantime, the domestic retail prices of petroleum products had been reduced twice during 2014 and 2015 as international oil prices had continued to be on a declining trend. However, the above price revisions had not reflected the actual reductions in international market prices in full. Moreover, the Corporation had continuously sustained losses from following petroleum products.

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

Further, the Corporation had incurred losses of Rs. 26,530 million and Rs. 2,787 million from petrol 92 octane and 95 octane respectively due to increase of customs duty on petrol by Rs. 20 (from Rs. 15 to Rs. 35) per liter in December 2014, and the revision of domestic selling prices downward in January 2015.

Profitability on petroleum products (per liter) for the year 2015

| Product | Selling Price per Liter | Sales Revenue Net of Dealer Margin per Liter | Cost of Sales per Liter | Gross Profit per Liter | Total Cost per Liter | All Taxes Included in the Total Cost per Liter | Net Profit/ (Loss) per Liter | Total Net Profit/ (Loss) for the year |
|---|---|---|---|---|---|---|---|---|
| | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. Mn. |
| Petrol 95 | 128.00 | 125.51 | 103.73 | 21.78 | 151.48 | 66.83 | (25.97) | (2,787) |
| Petrol 92 | 117.00 | 115.13 | 96.56 | 18.57 | 141.83 | 66.56 | (26.70) | (26,530) |
| Auto Diesel | 95.00 | 93.68 | 71.37 | 22.31 | 90.52 | 16.35 | 3.17 | 5,647 |
| Super Diesel | 110.00 | 108.23 | 75.75 | 32.48 | 94.98 | 16.28 | 13.24 | 734 |
| Kerosene | 59.00 | 57.80 | 66.84 | (9.04) | 82.60 | 0.04 | (24.80) | (3,860)* |

* Kerosene subsidy of Rs. 3,860 million had been received from the General Treasury during the year under review.

The Chairman of the Corporation stated in this regard as follows.

*"Once the cost reflective pricing mechanism is introduced losses from those products can be eliminated."*

(b) The agreement entered into between a private gas company and Ceylon Petroleum Corporation in respect of liquid petroleum gas sales had expired on 20 October 2006. However, the Corporation had supplied liquid petroleum gas to that company continuously without entering into a fresh agreement or renewing the earlier agreement. In addition to that, the Corporation had supplied liquid petroleum gas to another private company without entering into an agreement. However, a LP Gas filling equipment (Mobile LPG Filling Plant), having a filling capacity of 60 tons of LP Gas to 13.5kg LPG Cylinders in 10 hours, had been purchased by the Corporation in the year 2009 at a cost of Rs. 24 million for commissioning of retail business of LPG. Nevertheless, the Corporation had not initiated commercial operations up to 31 July 2015, and that asset had remained idle since then.

The Chairman of the Corporation stated in this regard as follows.

*"After failing all options, CPC finally has decided to enter into the LPG retail marketing business and hence, simultaneously has tried to commission the machine by bringing in its original supplier, who identified some minor repairs necessitated due to rodent attacks. This option is now being seriously considered by CPC, giving it*

*high priority. CPC has already called for expressions of interest from the parties concern for this business."*

### 4.2 Management Weaknesses

The following observations are made.

#### (a) Enterprise Resource Planning (ERP) System

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

(ii) Narrations for adjustments made in ledger accounts had not been clearly put down, and accordingly, it was difficult to identify the adjustments made to the ledger accounts during the year under review.

#### (b) Collection of Monthly Utilized Fee (MUF)

As per the Board decision No. 38/1140 of 29 October 2013, the Board had approved to charge Monthly Utilized Fee (MUF) calculated at 35 per cent of the average monthly commission on 2.25 per cent per litre of any product of the previous year earned by all Corporate Owned Dealer Operated dealers (CODO) and Treasury Owned Dealer Operated dealers (TODO) as the monthly rental (Monthly Utilized Fee) with effect from 01 January 2014. However, the Corporation was unable to initiate the said scheme up to 30 June 2016 due to delays in preparing special dealer agreements. Further, out of 248 numbers of CODO dealers, MUFs amounting Rs. 23 million had been recovered only from 12 dealers during the year under review.

#### (c) Increase of Borrowings from the Banking Sector

The Corporation had increased its borrowings from the banking sector to finance its oil bills and it had resulted to increase the sustained losses of the Corporation and to erode further the net assets position of the Corporation. Accordingly, the Corporation had to incur huge finance cost continuously during the last consecutive years due to maintaining the significant amount of borrowings as depicted below.

| Year | Balance of Loans & Borrowings as at 31 December | Bank Borrowings during the Year | Finance Cost | Annual Profit/(Loss) on Ordinary Activities |
|---|---|---|---|---|
| | Rs. Bn. | Rs. Bn. | Rs. Bn. | Rs. Bn. |
| 2015 | 267.926 | 356.57 | 15.05 | (21.74) |
| 2014 | 249.139 | 376.61 | 13.98 | 1.13 |
| 2013 | 228.758 | 406.85 | 18.54 | (7.89) |
| 2012 | 213.161 | 399.52 | 18.36 | (97.18) |
| 2011 | 150.622 | 310.06 | 9.00 | (94.36) |
| 2010 | 46.626 | 168.02 | 6.86 | (26.92) |

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

The pipelines installed several decades back to transport of finished petroleum products such as petrol, diesel, kerosene and furnace oil from the Colombo Port to the Kolonnawa Petroleum Installation are in a state of repair and it was revealed that some of them have already been abandoned due to the deteriorated condition beyond repairs. Renovation and modernization of these pipelines have been a very urgent need, as a large quantity of the national requirement of the petroleum products is being carried into Kolonnawa fuel Storage Terminal through those deteriorated pipelines. The possibility of paralyzing the whole country with a severe fuel crisis due to transporting the imported finished petroleum products through those deteriorated pipelines cannot be ruled out in audit.

The Chairman of the Corporation stated in this regard as follows.

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

The Muthurajawela installation is fed through a Single Point Buoy Mooring (SPBM) facility located in the mid sea about 6 km from the shore and 7.2 km from Muthurajawela Terminal and there was no alternative supply source in case of rough sea conditions or when the SPBM facility is under maintenance. At the same time, there was no linkage between the Muthurajawela Terminal and Kolonnawa

Installation for inter-terminal product transfers, which had also hampered the optimum utilization of those Terminals due to those constraints.

Even though, the approval of the Cabinet of Ministers for the implementation of "Cross Country Pipeline Project" had been granted on 13 September 2012, it had not been implemented up to 31 December 2015. The current position of the Cross country pipelines – Fuel lines from Colombo Port to Kolonnawa Depot is shown below.

| Diameters of the Line (Inches) | Product | Current Position |
|---|---|---|
| 10 | Gas Oil | Working condition |
| 10 | Other White Oil | Not Working |
| 10 | Naphtha Oil | Not Working |
| 12 | Naphtha Oil | Not Working. CPSTL is replacing the line (2 Km have already been completed) |
| 14 | Fuel Oil | Working condition |

**(e) Trincomalee Tank Farm**

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

In 2003, the Government of Sri Lanka had entered into an agreement with Lanka Indian Oil Company (LIOC) and the Corporation to lease out the storage facilities and the land to the LIOC for a period of 35 years and lease agreement should be executed within 6 months from the date of agreement. However, the Corporation had not yet entered into any lease agreement and no related lease rentals had been recovered from the LIOC for the use of storage facilities.

In 1942 one oil tank had been totally destroyed by the war. At present out of 99 oil tanks, 14 tanks are currently used by the LIOC and balance 85 tanks had been abandoned. During the Visit of Prime Minister of India to Sri Lanka in March 2015, it had been agreed that Lanka IOC and Ceylon Petroleum Corporation would jointly develop the China Bay upper tank farm. Then Joint Task Force (JTF) had been established with effect from 29 April 2015 and JTF consist of 10 Members (4 members from India and 6 members from Sri Lanka) and appointed Secretary, Ministry of power & Energy as Chairperson.

**(f) Service Agreement between the Corporation and CPSTL**

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

**(g) Stock Review Committee**

The Stock Review Committee consisted of members from the Corporation, CPSTL, JCT Oil Bank and Lanka Indian Oil Company, members of Ceylon Electricity Board (CEB) and an officer from the line Ministry and its meetings had been held in every week. However, The CPC had not maintained proper records relating to the stock levels, i.e. re-order level, maximum level, minimum level, and re-order quantity etc. in each petroleum products. 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 of the Corporation. However, it was revealed that, since the introduction of SAP system, the Corporation was unable to extract data and produce stock related reports.

**(h) Utilization of Muthurajawela Terminal**

It was observed that Muthurajawela Terminal had not been optimally used in issuing petroleum products. Accordingly, the following benefits had not accrued to the Corporation from the investment made.

- Savings port charges
- Shortening lay time of vessels
- Reducing demurrage charges
- Savings delivery costs
- Reducing human resource costs
- Savings delivery loss at the point of discharging of fuel through pipelines
- Reducing traffic congestions in delivering fuel by bowsers.

**(i) Fisheries Coupon System**

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

(i) According to the information made available, the amount paid by the Corporation, as at 31 December 2015, to the dealers with regard to the fisheries coupon programme was Rs. 4,371,312,889. However, the Corporation had reimbursed a sum of Rs. 4,549,775,000 from the General Treasury in three instalments.

Although a sum of Rs. 178,462,111 had been excessively reimbursed by the Corporation, it was not settled to the General Treasury even up to 31 July 2016.

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

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

- There were instances that the fisheries boats owners had obtained cash from dealers by discounting fuel coupons instead of obtaining fuel, and the dealers had submitted those coupons to the Corporation and got reimbursed the total amount of the value of the coupons.

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

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

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

(iv) There was a difference of Rs. 81,886,701 between the actual value of the fisheries coupons issued to the fisheries boats owners and the value of coupons submitted by the dealers to the Corporation for settlement.

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

- Even though the Corporation had settled fisheries coupons subsidy amounting to Rs. 321 million to the above dealer during the period from March 2012 to September 2013, he had not obtained the allowable quantity of fuel from the Corporation during that period.

- According to the fisheries coupons procedure of the Department of Fisheries and Aquatic Resources, the dealers were not allowed to issue fuel to the fisheries boat owners of other districts. Even though the filling station of the above mentioned dealer had been located in Trincomalee District, he had obtained fisheries coupons from the fisheries boat owners of Mullaitivu and Jaffna Districts at discounted prices (without issuing fuel), and submitted to the Corporation for the settlement of fuel bills. Accordingly, fisheries coupons amounting to Rs. 17,508,875 had been submitted to the Corporation for settlement but, it had not been settled by the Corporation. Further, some other fisheries coupons amounting to Rs. 6,281,250 had been retained by him as at 30 June 2016 because the Corporation had rejected to accept them.

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

**(j) Bitumen business**

The bitumen business in the country had been solely done by the Corporation up to January 2004, and Lanka Indian Oil Company (LIOC) had been granted the approval for importation and sales of bitumen with effect from 21 January 2004. In addition, according to the Cabinet Decision dated 16 November 2011, the Ministry of Petroleum Industries, by obtaining a no-objection letter from the Corporation, had granted the permission to the Road Development Authority (RDA) to import bitumen to the country. Accordingly, under the recommendation of the Ministry of Ports and Highways, the permission had been granted to fifteen other private companies to import bitumen for their identified projects.

Mainly, two types of bitumen, namely Asphalt 80/100 and Asphalt 60/70, had been imported and sold by the Corporation during the past period. As per the audit test carried out on bitumen business of the Corporation during the year under review, the following deficiencies were observed.

(i) A quantity of 140,123 barrels of bitumen Asphalt 60/70 had been received during the year 2015 in response to the import orders placed by the Corporation in the last quarter of the year 2014, and accordingly, it was revealed that the importation quantity of bitumen had increased by 28,015 barrels or 25 per cent during the year under review when compared with the previous year. Likewise, the sales quantity of the same product had decreased by 80,258 barrels or 67 per cent when compared with the preceding year. As a result, closing stock of that product had increased by 101,195 barrels or 336 per cent during the year under review.

(ii) Information regarding the country's requirement of bitumen for the year under review, and the details of the quantity of bitumen imported by the Road Development Authority during the year under review had not been maintained by the Corporation or by the Ministry. Therefore, the Corporation was unable to properly estimate the requirement of the bitumen to be imported by the Corporation during the year under review. As a result, unnecessary stock had been maintained by the Corporation.

(iii) The Corporation had not designed and implemented an appropriate stock control system and accordingly, re-order level, re-order quantity, minimum level and maximum level of stock had not been maintained for bitumen. As a result, stock damages and incurring losses by selling of bitumen at lower prices due to inappropriate stock controls were observed.

(iv) A Procurement Plan for the bitumen was not made available to audit, and also, such a Plan had not been included in the Action Plans of the Corporation prepared for the years of 2015 or 2016.

(v) The Corporation had received 147,180 barrels of bitumen (Asphalt 60/70) amounting to US $ 13,350,480 during the period from December 2014 to September 2015, and out of that 129,802 barrels (23,364 metric tons) had been remained in the stocks as at 31 December 2015. However, due to drop in the price of bitumen in the market, the Corporation was unable to sell that bitumen stock at a profit margin, and accordingly, that stock was remained as slow moving items until the price reduction by Rs. 6,480 (from Rs. 15,480 to Rs.9,000) per barrel with effect from 22 January 2016. The Corporation had sold 88,833 barrels of bitumen during the period from 01 February to 31 July 2016 at a loss of Rs. 3,504.60 per barrel, and accordingly, the estimated loss incurred by the Corporation during that period was amounting to Rs. 311.3 million.

(vi) The closing stock of the bitumen of Asphalt 60/70 as at 31 July 2016 had included 36,679 barrels of bitumen, which had been purchased at a cost of Rs.485.9 million in 2014 and received up to September 2015. Accordingly, investing such a huge amount of money in the bitumen business, which was not a main business activity required to achieve the objectives of the Corporation, was a questioned in audit.

(vii) Even though there were no proper plans for stock level maintenance, sales targets, information relating to customer demand and market position, etc., the Corporation had purchased 55,556 barrels (10,000 metric tons) of bitumen, Asphalt 60/70 at a cost of USD 2,360,000 (Approximately Rs. 344.1 million) on 15 March 2016, and that stock also was remained in the stocks as at 31 July 2016.

**(k) Payment of Penalty**

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

(i) The amount paid by the Corporation had not been reimbursed by the General Treasury up to 31 July 2016.

(ii) The bunker business had not been commenced even up to 31 July 2016.

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

(iv) Even though there was an opportunity to set off that amount as the two institutions were Government institutions, the Corporation had not taken actions to appeal in accordance with the Sections of 154 and 165 of the Customs Ordinance.

**(l) Agreement with the Ceylon Electricity Board (CEB)**

Even though the Corporation sells fuel to the CEB for power generation since several years, a formal agreement or MOU between those two parties in order to ensure the smooth operation of the individual institutions had not been entered.

**4.3 Operating Inefficiencies**

**(a) Refinery Operations**

The existing 45 years old refinery, which was commissioned in 1969, is a basic refinery and is not able to cater the increasing demand of petroleum products in the country and this refinery is operating with low margin when compared with refineries operating with advanced technologies including facilities to produce petroleum products at lower cost and capabilities to upgrade bottom products to high value products such as petrol and diesel, whereby maximizing the refinery operating efficiency. However, the Corporation was unable to implement the proposed Sapugaskanda Oil Refinery Expansion and Modernization (SOREM) Project in order to ensure the petroleum products are supplied to the market in a cost effective manner. Even though preliminary feasibility study had been completed and the required land (35 acres) had been acquired for this purpose, the Corporation was unable to initiate the project yet due to insufficient financial strength to invest for this project. Total cost of the project was estimated at US$ 2.1 billion with a payback period of less than 8 years, and the Net Present Value (NPV) of the project would be US$ 1,535 million. Further, the expenditure incurred by the Corporation amounting to Rs. 837 million, which had been included in the assets and capital projects in progress under the property, plant and equipment as at 31 December 2015, was observed as an uneconomic transaction.

According to the information made available, the Refinery had to be closed down on one occasion during the year 2014 for a total period of one month due to shortage of crude supply with the SPBM hose failure and there were two regenerations for nearly another one month with low throughput operation during the year 2014. Therefore, it indicates that the refinery needs an urgent technical modification to avoid failures of old equipment and to avoid frequent regenerations while enhancing the profitability and operational flexibility.

**(b) Bulk Sales of Fuel to Consumers**

As per the audit test check on bulk sales of fuel to the consumers by the Corporation, the following deficiencies were observed.

(i) According to the information made available, the Corporation had given approval to dealers to use their own bowsers to transport fuel to their filling stations in 1996 for the purpose of reduce the complaints on incorrect quantity, unavailability of fuel distribution on time and problems of downgrading the product quality due to mixing of other inferior products.

(ii) Further, that procedure had been amended in 2008 by the Board decision No. 43/1073 of 23 June 2008 and the Corporation's Internal Circular No.898 of 29 August 2008. Accordingly, dealers had been granted approval to transport fuel to consumers under the following terms and conditions.

- Distribution of fuel directly to the consumer.
- Invoices could be prepared on the name of the dealer.
- A commission of 2.5 per cent could be obtained, but the transport charges were not allowed.
- That sale was called as dealer's bulk sale.
- It was allowed to get only diesel from the closest Bulk Depots, and terminals at Kolonnawa, Supugaskanda and Muthurajawela.
- Dealers, those who used their own bowsers to transport fuel to their filling stations and obtained transport charges from the Corporation, were not permitted for bulk sales.

(iii) However, due to some failures of the above mechanism, the following conditions had been introduced by the Marketing Manager of the Corporation by his letter No. MKT/13/35 dated 15 August 2013.

- Dealers can obtain diesel only from the Sapugaskanda Terminal
- Discounts were provided based on the sales, but transport charges are not allowed

Objectives of the Corporation by introducing the above new conditions were to save the throughput charges which needed to be paid to the CPSTL for storage and distribution facility, and to encourage optimum utilization of operational capacity of the Supugaskanda Terminal.

(iv) However, instead of distribution of fuel directly to the consumers from the Supugaskanda Terminal, a dealer had issued diesel to consumers in bulk quantities from his own stocks using two pumps (Pumps No. 04 and 05). Also, the dealer had purchased that fuel from bulk depots in Galle and Matara.

(v) Calibration of the above two dispensing pumps (Pumps No. 04 and 05), which had been used only for bulk sales from his own stocks, had not been conducted by the Area Supervisor with the assistance of the officers of the Measurement Units Standards and Service Department (MUSSD). According to the audit test check conducted in this regard, it was observed that the actual calibrations of those pumps were not within the standard level. Following further observations are made.

- Those two pumps had been used only for bulk issues.
- The responsibility of the Area Supervisor to check the calibration of those dispensing pumps had been ignored.
- Area Managers and the Marketing Manager had not taken remedial actions to rectify the detected issues relating to the improper bulk sales carried out by dealers from their own fuel stocks.

(vi) According to the instructions given by the above mention letter No. MKT/13/35 dated 15 August 2013, the said dealer should have been paid only discounts for bulk sales. However, the Corporation had paid through put charges and slab charges (transport charges) to the CPSTL for storage and distribution facility, in addition to the payment of discounts to the dealer. According to the audit test check on bulk sales during the period from February to April 2015, it was observed that the Corporation had paid a sum of Rs. 12,012,134 to the CPSTL with regard to the bulk sales made by the above mentioned dealer in addition to the dealer discounts paid to him. Details are as follows.

| Description | Amount |
|---|---|
| | Rs. |
| (i) Throughput Charges | 8,678,928 |
| (ii) Slab Charges (Terminal to Depot) | 830,519 |
| (iii) Transport – (Galle to Dealer) | 2,502,687 |
| **Total** | **12,012,134** |

According to the above inappropriate practices, the total estimated loss incurred by the Corporation during the year 2015, was approximately (12,012,134 X 4) Rs. 48,048,536.

(vii) The following deficiencies were observed due to lack of proper procedure to select dealers for bulk sales and weaknesses in monitoring system of the process of bulk sales.

- Instead of distribution of fuel directly to the consumers only from the Sapugaskanda Terminal, dealers had used to distribute fuel to consumers in bulk quantity from their own stocks inappropriately.

- It was revealed that when transporting fuel by dealers from their own stocks to consumers, the bowsers used for that purpose had not been sealed. Accordingly, it was observed that the Corporation had not established a proper procedure to ensure the quality and the quantity of fuel distributed by dealers on the bulk sales basis.

- Risk of unloading of contaminated fuel to consumers due to lack of proper procedure for the bulk sales carried out by the dealers.

- Obtaining of unauthorized charges from consumers. For example, instances of charging of higher prices than the retail prices of fuel from the consumers on bulk sales were observed.

- Incurring heavy losses on bulk sales by the Corporation due to needless payments of through put charges and slab charges on bulk sales.

- Some dealers had carried out bulk sales without any permission of the Corporation and obtained unauthorized gains. According to the audit test check, it was observed that some dealers had distributed fuel on bulk sales basis from their own fuel stocks without any permission and earned unauthorized gains. For instance,

  – A dealer had sold 54,800 liters of diesel on the basis of bulk sales in September 2015 to Marine Services without any permission. Accordingly, the Corporation had incurred an estimated loss of Rs.136,285 for the month of September 2015.

  – That dealer had sold out 13,200 liters of diesel on bulk sales basis without any permission, and accordingly the Corporation had incurred an estimate loss of Rs. 32,828 in two instances as revealed in the audit.

(viii) The Area Managers and Area Supervisors were responsible for maintaining sufficient fuel stocks at each filling station and should aware of the policies of CEYPETCO that governed retail network and distribution of bulk products with the information of trip times assigned to tank trucks, duration of unloading, payment of transport for hired tank trucks etc. However, according to the above audit test check, it was observed that the Area Managers and the Area Supervisors had neglected their responsibilities relating to the following matters.

- Complying with the policies of CEYPETCO relating to the dealers' bulk sales of fuel.

- Taking required actions to prevent unauthorized bulk sales from the dealers' fuel stocks.

- Providing accurate and timely information to the Corporation with regard to such irregular activities of dealers.

(ix) Due to weaknesses in monitoring and supervision on the operations of filling stations, instances of improper usage of fuel pumps by dealers were observed. Some of such instances are as follows.

- According to the audit test conducted on a retail outlet in Galle, on 01 October 2015, following deficiencies were observed.

  - Main board seals of the dispensing pumps number 1 & 2 had been removed by the dealer for repair without informing to the Area Supervisor and the Area Manager, and the Area Supervisor had not aware about that. However, it was observed that without the main board seals, those pumps had been used for issuing fuel.

  - A main board seals of the diesel pump number 3 had been removed for repairing purposes and the dealer had informed to the Area Supervisor in this regard. However, the Area Supervisor had not recorded it in the complaints book at the regional office. Further, that pump had been used for issuing diesel without the main board seal.

- According to the audit test check on a retail outlet on 02 October 2015, the dispensing pump number 03 was not in working condition due to some faults. Even though, the dealer had informed to the Area Supervisor regarding that fault, the Area Supervisor had not taken any action to rectify the matter.

Auditor General's Department

**(c) Identified Losses**

The following observations are made.

(i) According to the information made available, the Corporation had incurred the following losses caused by damages due to improper handling of lubricant containers and stocks. However, actions as per the Financial Regulations (FR) 103 and 104 had not been taken by the management with regard to those damages.

| Year | Amount of Damage | Reasons for Damage and Actions taken by the Management |
|---|---|---|
| | Rs | |
| 2012 | 8,670,455 | Not made available |
| 2013 | Not available | - |
| 2014 | 14,822,315 | Not made available |
| 2015 | 16,759,825 | Not made available |

(ii) The Corporation had incurred an abnormal loss amounting to Rs. 70.5 million from the following three petroleum products produced in the refinery process during the year 2015. Details are as follows.

| Product | Allowable Operation Loss (0.5%) | Actual Out-turn Loss As per Cost Sheets | Abnormal Loss Exceeding the Allowable Loss |
|---|---|---|---|
| | **(Rs.)** | **(Rs.)** | **(Rs.)** |
| Lanka Furnace Oil (800) | 73,224,814 | 116,508,897 | 43,284,083 |
| Lanka Furnace Oil (1500) | 46,525,010 | 71,713,240 | 25,188,230 |
| Special Boiling Point (S.B.P.) | 778,404 | 2,852,103 | 2,073,699 |
| **Total** | **120,528,228** | **191,074,240** | **70,546,012** |

**4.4 Assets Management**

The following assets had been lying idle since the acquisition.

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

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

(c) Investments - The caring value of the investment made in quoted and unquoted shares of four companies as at 31 December 2015 was Rs. 34.63 million. However, no dividend since longer period had been received to the Corporation thereon.

**4.5 Resources Released to Other Institutions**

The following observations are made.

(a) In contrary to the instructions of the Circulars, particularly, the Public Enterprises Circular No. PED/12 of 02 June 2003 on Public Enterprises Guidelines for Good Governance, the Letters of No. CSA/P1/40 of 04 January 2006 and the No. CS/1/17/1 of 14 May 2010 issued by His Excellency the President, and the Public Enterprises Circular No. 21 of 08 January 2004, the Corporation had released the following resources to other institutions and incurred a considerable amount of money on payment of remuneration and other allowances on behalf of released employees and payment of fuel and maintenance expenses for released vehicles. Details are shown below.

| Type of Resource Released | 2015 | | 2014 | | 2013 | |
|---|---|---|---|---|---|---|
| | Number | Cost Incurred by the Corporation | Number | Cost Incurred by the Corporation | Number | Cost Incurred by the Corporation |
| | | Rs. | | Rs. | | Rs. |
| Human Resources | 11 | 3,452,737 | 56 | 46,261,907 | 44 | 41,980,142 |
| Vehicles | 03 | 641,375 | 07 | 7,808,961 | 07 | 4,461,920 |
| **Total** | | **4,094,112** | | **54,070,868** | | **46,442,062** |

(b) Further, 02 officer had been released by the Corporation on no-pay basis since 2014.

(c) Moreover, according to the information made available, it was revealed that the Corporation had continued the same practice during the year 2016 as well.

(d) Accordingly, it was observed that the management of the Corporation had not taken remedial actions to rectify that situation and to take disciplinary actions against the officers who were responsible for these mismanagements.

### 4.6 Human Resources Management

The following observations are made in this connection.

(a) Out of the total approved cadre of 3,284 for the year under review, 705 posts or 21 per cent were in vacant as at 31 December 2015, and out of that, 120 posts or 27 per cent were in the senior staff level including the Manager Internal Audit, Manager Agro Chemicals, etc. Accordingly, running the entity's operations efficiently having such a huge number of vacancies was questionable in audit.

(b) According to the approved cadre of the Corporation, the post of the Manager (Secretariat/ Secretory to Board) has been in vacant since 2012.

(c) A Manual of Procedures on Human Resource Management had not been prepared in accordance with Section 9.14 of the Public Enterprises Circular No. PED 12 of 2 June 2003.

(d) The Corporation had not maintained proper succession plan to mitigate the risk of filling vacancies in the posts of the senior management level when they get retired from the service in terms of provisions in the above mentioned Circulars. However, it was revealed that the Corporation had extended the service of retired officers on contract basis due to lack of succession plan.

## 5 Accountability and Good Governance

### 5.1 Corporate Plan and Action Plan

Even though a Corporate Plan for the period 2014 to 2018 and an Action Plan for the year 2015 had been prepared, the Corporation had failed to achieve the following major targets during the year 2015.

(a) Construction of $2^{nd}$ bitumen tank.

(b) Installation of charger points (recharging facilities) for new Electric/Hydrogen Cells Vehicles especially at 25 numbers new CEYPETCO dealers owned category outlets.

(c) Construction of a lubricant blending (BOT model) plant at Muthurajawela with Hyrax Oil. (It was revealed that the Corporation had entered into an agreement with the M/s. Hyrax Co. of Malaysia in this regard on 06 May 2016.

(d) Construction of Fuel Hydrant system under Bandaranayake International Airport (BIA). (Phase II stage 2 development and upgrading the existing Aviation Refueling Terminal facilities of BIA).

### 5.2 Internal Audit

The internal audit function should be properly resourced with competent and capable persons and headed by a senior level officer (DGM) who is responsible for reporting the result of the internal audit works to the Audit Committee to ensure the independence of the Head of Internal Audit and internal audit department from the Finance Director and the Chief Executive Officer. Even though, the internal audit functions are required to be strengthened to review all areas, including examining, evaluating and monitoring the adequacy and effectiveness of internal control of the Corporation, it was observed that the internal audit functions had been deteriorated by the Corporation as follows.

(a) Out of the total approved cadre of 42 posts of the Internal Audit Division, 15 posts or 36 per cent were in vacant as at 31 December 2015, and out of which, 7 posts were in the senior staff level.

(b) According to the Organization Chart of the Corporation, the Chief Internal Auditor is directly responsible to the Managing Director of the Corporation.

(c) The Chief Internal Auditor had been acting in the post of Deputy General Manager (Finance) in full time since mid of 2011 due to the former Deputy General Manager (Finance) has been sent on compulsory leave since 2008 subject to the decision of a disciplinary inquiry which had been held regarding the Hedging transactions. Further, it was revealed that the former Deputy General Manager (Finance) has been dismissed with effect from 01 August 2016.

(d) Despite of the vacancies in the Internal Audit Division, pre-audit activities had been initiated by the Corporation. Accordingly, it was revealed that the formal internal audit functions had been deteriorated as a result of engaging the existing internal audit officers for pre-audit activities in full time at present.

### 5.3 Budgetary Control

Significant variances were observed between the budgeted and the actual income and expenditure for the year under review, thus indicating that the budget had not been made use of as an effective instrument of management control.

## 6 Systems and Controls

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

Auditor General's Department

| | Major Areas | Observations |
| --- | --- | --- |
| (a) | Personnel Administration | The Managing Director is the Chief Executive Officer (CEO) of the Corporation and the Chairman and CEO is the same person. Even though the Committee on Public Enterprises (COPE) held on 2016 had directed to appoint two persons for those posts, necessary actions had not yet been taken by the Ministry of Petroleum Resources Development to do so.<br><br>Failure to get the approval for the Scheme of Recruitment (SOR). |
| (b) | Financial Control | Utilisation of funds for the execution of the main objectives of the Corporation. |
| (c) | Trade and Other Receivables | There were weaknesses in controls over the collection of dues in time and mitigation of the default risk. |
| (d) | Accounting and Financial Management | Utilization of funds for the execution of the main objectives of the Corporation had not been carried out adequately. |
| (e) | Procurement | Complying with the provisions of the Government Procurement Guidelines |
| (f) | Utilization of Resources | Complying with the Circular instructions in deploying the resources. |

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

# DECADE AT A GLANCE

## DOMESTIC SALE OF BULK PRODUCTS

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014(Restated) | 2015 |
|---|---|---|---|---|---|---|---|---|---|---|
| **(A) VALUE - Rupees Mn.** | | | | | | | | | | |
| Petrol | 36,677 | 46,580 | 66,434 | 60,055 | 65,158 | 90,499 | 117,600 | 132,398 | 140,885 | 127,879 |
| Auto Diesel | 92,475 | 113,737 | 151,070 | 119,046 | 122,360 | 165,800 | 246,441 | 216,420 | 244,407 | 174,984 |
| Super Diesel | 350 | 468 | 885 | 866 | 1,170 | 1,588 | 3,540 | 4,152 | 5,104 | 5,998 |
| Kerosene | 13,210 | 12,459 | 14,000 | 9,755 | 10,711 | 12,804 | 18,100 | 16,803 | 15,366 | 9,831 |
| Furnace Oil | 36,422 | 43,941 | 66,220 | 33,157 | 35,792 | 49,991 | 84,790 | 60,651 | 70,021 | 34,841 |
| **Total** | 179,134 | 217,185 | 298,609 | 222,879 | 235,191 | 320,682 | 470,471 | 430,424 | 475,783 | 353,533 |
| **(B) QUANTITY - Thousand Metric Tons** | | | | | | | | | | |
| Petrol | 368 | 382 | 384 | 416 | 484 | 563 | 619 | 640 | 687 | 838 |
| Auto Diesel | 1,335 | 1,450 | 1,371 | 1,427 | 1,422 | 1,849 | 1,930 | 1,559 | 1,757 | 1,579 |
| Super Diesel | 5 | 5 | 7 | 9 | 11 | 14 | 22 | 25 | 31 | 47 |
| Kerosene | 197 | 169 | 151 | 151 | 165 | 147 | 143 | 126 | 122 | 130 |
| Furnace Oil | 911 | 985 | 995 | 1,096 | 1,004 | 1,093 | 1,187 | 668 | 722 | 512 |
| **Total** | 2,816 | 2,991 | 2,908 | 3,099 | 3,086 | 3,666 | 3,901 | 3,018 | 3,319 | 3,106 |
| **(C) RETAIL SELLING PRICES IN PETROLEUM PRODUCTS** | | | | | | | | | | |
| (Colombo Spot Price in Rs. Per Litre as at 31st December) | | | | | | | | | | |
| Petrol - 92 Octane | 95.00 | 92.00 | 120.00 | 115.00 | 115.00 | 125.00 | 159.00 | 162.00 | 150.00 | 117.00 |
| Auto Diesel | 92.00 | 60.00 | 70.00 | 73.00 | 73.00 | 76.00 | 115.00 | 121.00 | 111.00 | 95.00 |
| Super Diesel | 65.30 | 65.30 | 85.30 | 88.30 | 88.30 | 98.30 | 142.00 | 145.00 | 133.00 | 110.00 |
| Kerosene | 48.00 | 48.00 | 50.00 | 51.00 | 51.00 | 61.00 | 106.00 | 106.00 | 81.00 | 49.00 |
| Furnace Oil 800" | 44.40 | 44.40 | 33.90 | 34.90 | 40.00 | 52.20 | 92.20 | 92.20 | 92.20 | 80.00 |
| Furnace Oil 1500" | 43.30 | 43.30 | 31.70 | 32.70 | 40.00 | 50.00 | 65.00 | 90.00 | 90.00 | 80.00 |
| Furnace Oil 3500" | 41.00 | 41.00 | 25.00 | 26.00 | 40.00 | 50.00 | 65.00 | 90.00 | 90.00 | 80.00 |
| **OPERATING RESULTS** | | | | | | | | | | |
| Revenue | 196,767 | 238,364 | 341,670 | 237,663 | 256,329 | 356,442 | 512,910 | 490,381 | 525,182 | 376,734 |
| Cost of Sales | (187,231) | (222,763) | (334,849) | (232,271) | (269,316) | (420,227) | (540,439) | (464,374) | (499,956) | (337,119) |
| Gross Margin | 9,536 | 15,601 | 6,821 | 5,392 | (12,987) | (63,785) | (27,529) | 26,007 | 25,226 | 39,615 |
| Net operating expenses and interest | (11,451) | (11,617) | (21,557) | (16,745) | (13,936) | (30,572) | (62,041) | (33,897) | (24,097) | (55,927) |
| Hedging expenses | - | - | - | - | - | - | (7,612) | - | - | (3,864) |
| Profit/(Loss) before tax | (1,915) | 3,984 | (14,736) | (11,353) | (26,923) | (94,357) | (97,182) | (7,890) | 1,129 | (20,176) |

| Rupees Mn | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014(Restated) | 2015 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Equity & Liabilities** | | | | | | | | | | |
| Capital | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 3,500 | 3,500 | 3,500 | 3,500 | 28,500 |
| Reserves | 10,066 | 12,568 | (2,416) | (14,038) | (38,369) | (134,736) | (232,045) | (239,967) | (235,757) | (257,653) |
| L/T Liabilities | 16,705 | 13,728 | 10,908 | 32,779 | 28,478 | 27,646 | 1,998 | 1,351 | 703 | 342 |
| Gratuity Provision | 514 | 541 | 567 | 735 | 746 | 626 | 547 | 538 | 664 | 861 |
| **Total** | 28,285 | 27,837 | 10,059 | 20,476 | (8,145) | (102,964) | (226,000) | (234,578) | (230,890) | (227,950) |
| **Represented by** | | | | | | | | | | |
| Fixed Assets, Including WIP | 4,461 | 4,374 | 4,624 | 5,041 | 8,280 | 8,850 | 9,599 | 13,136 | 13,616 | 13,638 |
| Investment | 2,553 | 2,547 | 2,542 | 2,542 | 2,542 | 5,042 | 5,058 | 5,044 | 15,028 | 41,849 |
| Net Current Assets | 21,271 | 20,916 | 2,893 | 12,893 | (18,967) | (116,856) | (240,657) | (252,758) | (259,534) | (283,437) |
| **Total** | 28,285 | 27,837 | 10,059 | 20,476 | (8,145) | (102,964) | (226,000) | (234,578) | (230,890) | (227,950) |

**SUMMARISED CASH FLOW STATEMENT**

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014(Restated) | 2015 |
|---|---|---|---|---|---|---|---|---|---|---|
| Net Cash flow from / (used in) Operating Activities | (7,034) | 37 | (1,228) | 41,840 | (24,169) | (102,756) | (68,408) | (13,920) | (1,817) | 9,416 |
| Net Cash flow from / (used in) Investing Activities | 662 | 1,166 | 41 | (309) | (3,376) | (644) | 1,148 | (7,547) | (1,826) | (23,568) |
| Net Cash flow from / (used in) Financing Activities | (2,478) | (3,326) | (1,001) | (21,340) | (4,379) | 119,017 | 62,540 | 7,232 | 28,745 | 41,049 |
| Net increase / (Decrease) in cash & Cash Equivalents | (8,850) | (2,123) | (2,188) | 20,191 | (31,924) | 15,617 | (4,720) | (14,235) | 25,102 | 26,897 |
| Cash & Cash Equivalents at beginning of the year | 20,934 | 12,084 | 9,961 | 7,772 | 27,963 | (3,961) | 11,656 | 6,936 | (7,299) | 17,803 |
| Cash & Cash Equivalents at the year end | 12,084 | 9,961 | 7,772 | 27,963 | (3,961) | 11,656 | 6,936 | (7,299) | 17,803 | 44,700 |

**ACCOUNTING RATIOS**

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014(Restated) | 2015 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Profitability Ratios** | | | | | | | | | | |
| Gross Profit Ratio | 4.8% | 6.5% | 2.0% | 2.3% | -5.1% | -17.9% | -5.4% | 5.3% | 4.8% | 10.5% |
| Net Profit Ratio | -0.5% | 1.2% | -4.4% | -4.9% | -10.5% | -26.5% | -18.9% | -1.6% | 0.2% | -5.8% |
| **Operating Ratios** | | | | | | | | | | |
| Cost to Income ratio | 99.8% | 97.9% | 102.6% | 102.7% | 109.4% | 121.8% | 108.9% | 97.8% | 97.7% | 92.8% |
| Inventory T/O Ratio | 6.97 | 6.65 | 9.34 | 8.13 | 8.04 | 10.70 | 10.89 | 7.30 | 7.77 | 6.44 |
| Interest Cover | 0.20 | 2.28 | (3.66) | (1.39) | (2.93) | (9.48) | (3.88) | 0.57 | 1.08 | (0.08) |
| **Liquidity Ratios** | | | | | | | | | | |
| Current assets Ratio | 1.32 | 1.22 | 0.98 | 1.06 | 0.82 | 0.58 | 0.43 | 0.39 | 0.34 | 0.31 |
| Quick Ratio | 0.73 | 0.64 | 0.69 | 0.86 | 0.57 | 0.45 | 0.28 | 0.24 | 0.19 | 0.21 |

# GLOSSARY OF FINANCIAL TERMS

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

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

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

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

**Current Ratio** - Measures the number of times current liabilities are recouped with available current assets.

**Debtors to Turnover** - Measure of the credit extended to customers (i.e. average debt settlement period if stated in days)

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

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

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

**Provisions** - Liability of uncertain timing or amount

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

**Segments** - Constituent business units grouped in terms of nature and similarity of operations.

**Working Capital** - Capital required for financing the day-to-day operations (current assets less current liabilities).