


Ceylon Petroleum Corporation

Annual Report – 2009



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OUR 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.

OUR MISSION

To achieve excellence in petroleum refining, sales and marketing of high quality products through 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 by employee participation and innovation and maintaining high ethical norms in all its activities with highest concern for health, safety and environment and meet the expectations of the stakeholders.

CORPORATE INFORMATION

BOARD OF DIRECTORS

CHAIRMAN & MANAGING DIRECTOR

Major General Asoka Thoradeniya, USP

DIRECTORS

Mr. Methsiri Wijegunawardana

Ms. Kanthi Wijetunge

Mr. Saliya Rajakaruna

Mr. W.K.B. Weragama

Mr. Nihal Keppitipola

Mr. David Charitha Goonaratne

AUDITORS

The Auditor General

REGISTERED OFFICE

"Rotunda Tower", No. 109, Galle Road, Colombo 3.

Telephone	:	2473644(9 lines), 5455455(10 lines)
Telegrams	:	2473644"LANKA OIL"
Cables	:	CEYPETCO
Telex	:	221167,221235,221624 CEPETCO-CE
Fax	:	2473979
E-mail	:	cpcsec@ceypetco.gov.lk.

BANKERS

People's Bank	Bank of Ceylon
Commercial Bank	Hatton National Bank Ltd.
Citi Bank N.A.	Standard Chartered Bank

SENIOR MANAGEMENT

Major General Asoka Thoradeniya
Chairman/Managing Director

B.C. Jayawardhana
Actg. Refinery Manager

S.K. Cyril
Deputy General Manager (Administration/Corporate Affairs/Business Development)

Ms R.T.A .Dabare
Acting Deputy General Manager (Finance)

S.W. Gamage
Actg. Deputy General Manager (Planning & Development)

R.S.Suntharalingam
Additional Finance Manager

N.N.I.R. Fernando
Deputy Refinery Manager (Technical Services)

N.R.R. Jayasekara
Deputy Refinery Manager (Maintenance & Project)

Ms.G. De Fonseka
Chief Legal Officer

E.M. Piyasena
Deputy Refinery Manager (Manufacturing Operation)

A.R. Abel
Marketing Manager (Business Development)

W.Sarath Perera
Manager (Internal Audit)

K.S.W. Kottahachchy
Commercial Manager

N.W.D.J. Silva
Marketing Manager (Retail)

A. Lambius
Manager (Agro Chemical)

P.G.H. Samarwickrama
Engineering & Premises Manager

Maj. M.R.S.P. Samarasinghe
Manager (Security& Investigation)

Ms. H. Senevirathne
Manager Supplies

M. K. Garusinghe
Manager (Development)

DIRECTORS' REPORT

In accordance with Section 32(3) of the Ceylon Petroleum Corporation Act No. 28 of 1961, the Directors of the Ceylon Petroleum Corporation have pleasure in presenting their report together with the Audited Financial Statements for the year ended 31st December 2009. The Draft Financial Statements were approved by the Board of Directors at the Board Meeting held on 19th March 2010 and submitted to the Auditor General on the same day (19th March 2010). The Audited Financial Statements were authorized to be issued on19th March 2010.

The Annual Report and Accounts, together with the Auditor General's Report have already been submitted to the Minister of Petroleum and Petroleum Resources Development.

Principal Activities

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

Associate

Provision of storage and distribution facilities and IT services are core activities of Associate company (CPSTL) for which CPC has invested 1/3 of share capital.

Review of Business

The Chairman's Review on pages 11 to 19 deals with the year's performance of the Corporation and on the Sri Lanka economy.

System of Internal Controls

The Board of Directors has instituted an effective and comprehensive system of Internal Controls required to carry on the business of the Corporation in an orderly manner, to safeguard its assets and secure as far as possible the accuracy and reliability of the Corporation's Records.

Human Resources

The Corporation while continuing to implement appropriate Human Resource Management policies and practices to enhance employees' skills.HR division is preparing the revised cadre proposal as approved by the Board of Directors. Our HR policy emphasizes on providing employees with new opportunities including foreign training and ensuring their optimum contribution towards achieving our goals. The new proposed cadre will help to improve the efficiency of the management within the entire organization.

Audit Committee

Audit Committee consists of three members, all of whom are Non-Executive Directors including Chairman of Audit Committee. The Committee operates within a clearly defined Terms of Reference (TOR) given by the Public Finance Circular No. PF/PE 7 dated 15th March 2000.

Financial Performance

Turnover

The turnover for the year had reduced to Rs. 257.508Bn. from the previous year figure of Rs.358.002 Bn. which accounted the percentage reduction of28.07.The salient feature observed was the increase of sales volume while reducing the turnover. The main contributing factors for the reduction of turnover were the reduction of fuel prices of Diesel, Petrol, Kerosene and Furnace Oil during the year.

The total turnover of the Corporation during the year is comprised of domestic Sales (97.5 %) and Indirect Exports (2.5 %) for the year. Diesel, Petrol, Kerosene and Furnace Oil are the major components of the domestic sales. The Corporation was responsible for over 77 % of the Petrol and 85 % of the Diesel sales in the country.

Profit / (Loss)

The Corporation has continued to incur loss of Rs. 11,566.96Mn.. which is lower than the loss of Rs.14,735.028Mn. recorded in the previous year. The main contributory factors to the recorded loss were selling of Furnace Oil at a subsidized price for power generation and industries. Non adjustment of domestic retail price changes in line with international oil price movements. The loss incurred by selling high Sulphur Furnace Oil for power generation and industries were recorded as Rs. 18,550.24 Mn. and Rs. 2,588.49 Mn. respectively. Loss due to concessions granted to the general public on account of Kerosene was Rs. 1,540.43 Mn..The loss due to sale of Jet A-1 to Airlines was Rs. 353.95 Mn.. which is significantly less than the loss incurred during the previous year.

Despite the heavy losses incurred due to above reasons, the sale of Petrol 90 Octane and Auto Diesel had contributed positively with the profit contribution of Rs. 6,865.22 Mn..and Rs. 2,159.73Mn.. These two figures along with the profit earned from Asphalt, Naphtha, Petrol 95 Octane and Super Diesel had contributed to shrink the overall loss to Rs. 11,497.47 Mn.. during the year. Reasons for the profit earned by these products were the reduction of Crude oil and Refined product prices during the first quarter of the year under review. Variations of Crude Oil prices during the first quarter of the year were between US$ 40 per Bbl and US$ 60 per Bbl.

The net profit / (loss) for the year was Rs. (11,566.96) Mn..

The details of our profits / (loss) are given below:

	2009 Rs. Mn.	**2008 Rs. Mn..**
Revenue	237,662.619	341,670.329
Cost of Sales	(233,540.920)	(339,835.291)
Gross Profit	4,121.700	1,835.038
Operating Income	2,290.064	1,070.740
	6,411.760	2,905.778
Selling & distribution Exp.	(10,421.438)	(10,516.235)
Administrative Exp.	(2,602.887)	(3,961.366)
Financial Charges	(4,740.663)	(3,163.204)
Profit/(loss) Before Tax	(11,353.224)	(14,735.028)
Taxation	(213.735)	(217.490)
Profit/(loss) after Taxation	**(11,566.957)**	**(14,952.518)**

Contribution to the Government

	2009 Rs. Mn..	2008 Rs. Mn.
Value Added Taxes	9,007	5,817
Excise Duty	17,864	14,881
Social Responsibility Levy	461	-
Cess	-	3,981
Dealers Turnover Tax & Imports Turnover Taxes	2,248	3,289
PAL	5,783	4,967
Custom Duty	18,341	3,777
Debit Tax	125	205
NBT	166	-
TOTAL	**53,995**	**36,917**

Operating Expenses

The total operating expenses has marginally increased to Rs. 17,764.99Mn. When compared with the figure of Rs. 17,640.81 Mn.. recorded during the previous year.

Capital Expenditure

The total Capital Expenditure for the year was Rs. 270.642 Mn. whereas the same for 2008 recorded as Rs. 468.128Mn.

Property, Plant & Equipment

Details of Property, Plant & Equipment of the Corporation and their movements are given in Note 6 to the Financial Statements on pages 27.

Reserves

The total reserves of the Corporation stood at Rs. 5,628.58Mn.as at 31stDecember 2009 in comparison to the figure recorded as Rs. 5,586.20Mn. in 2007. Movements are given in the Statement of Changes in Equity on page 30.

Contributed Capital

The total Contributed Capital of the Corporation as at 31 December 2009 was Rs. 1,000 Mn.

Board of Directors

The Board comprises seven Directors including the Chairman. The Directors of the Corporation during the year under review were:

Major General Asoka Thoradeniya, USP – Chairman
Mr. Methsiri D. Wijegoonawardane
Mr. Saliya Rajakaruna
Mrs. Kanthi Wijetunge
Mr. David Charitha Gooneratne
Capt. Nihal Keppetipola
Mr. W.K.B. Weragama

Directors' Interest in Contracts & Related Party Transaction

Directors' interest in the contracts with the Corporation is referred in Note 22 to the Financial Statements.

Compliance with Laws and Regulations

The Corporation has not engaged in any activities contravening the laws and regulations. All those responsible for ensuring compliance with the provisions in various laws and regulations confirm their compliance to the Board of Directors.

Statutory Payments

The Directors, to the best of their knowledge and belief are satisfied that all statutory payments due to the Government and in relation to employees have been made on time.

Going Concern

The Board of Directors has reviewed the Corporation's business plan and is satisfied that the Corporation has adequate resources to continue its operations in the foreseeable future. Accordingly, the Financial Statements are prepared based on the going concern basis.

Internal Controls, Risk Management & Compliance

Directors are responsible for the system of internal controls and risk management and place considerable importance on maintaining a strong control environment to protect and safeguard assets of the Corporation and prevent frauds and mismanagement. Whilst inherent and residual risks cannot be completely eliminated, the Corporation attempts to minimize them by ensuring that appropriate infrastructure, controls, systems and ethical behavior are applied within predetermined procedures and constraints. The Directors and management have put in place risk management policies and guidelines. Senior Management Committee and Audit Committee are established to monitor and manage all material risks.

Appointment of Auditors

Pursuant to provisions of Article 154 of the Constitution of the Democratic Republic of Sri Lanka, the Auditor General is the Auditor of the Corporation and issues final opinion on the financial statements. The responsibilities in relation to the financial statements are set out in the report of the Auditor General on page 56 of this Annual Report.

Corporate Governance

The Board of Directors is committed towards the maintaining as effective Corporate Governance structure and process. The financial, operational and compliance aspects of the Corporation are directed and controlled effectively within Corporate Governance practices. These practices are in conformity to Corporate Governance rules and regulations are described in Corporate Governance Report appearing on page 22 to 26 of this report.

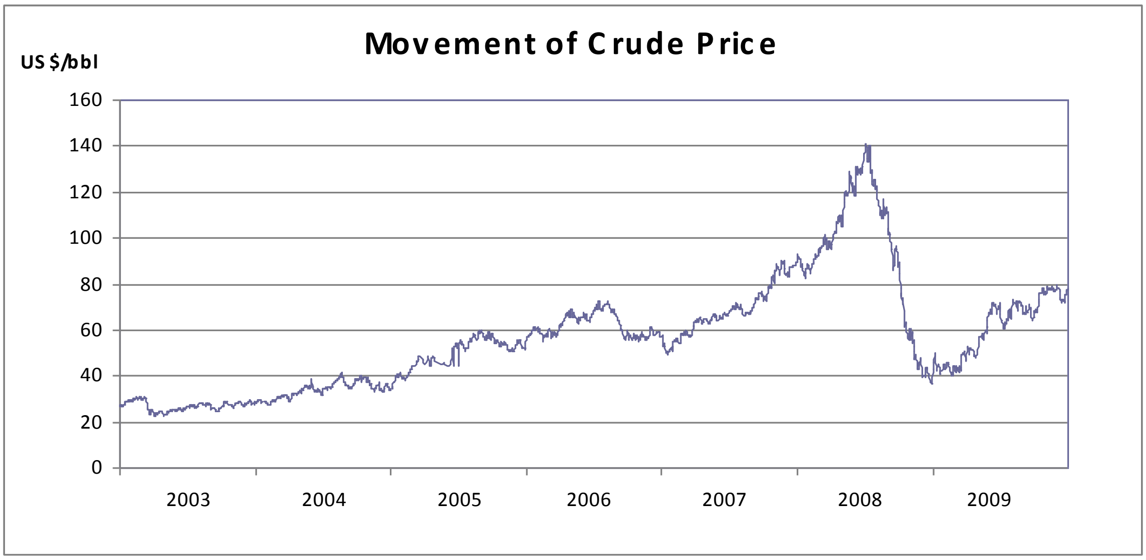
For and on Behalf of the Board of Directors

Major General Ashoka Thoradeniya, USP
Chairman & Managing Director

Introduction

The economy of Sri Lanka demonstrated an overall growth rate of 3.5 per cent in 2009 despite the most challenging domestic and external conditions. This is an outstanding achievement resulting from the steady recovery of the economy since the second quarter of the year. As reported by the Central Bank of Sri Lanka, the growth rate during the fourth quarter of the year was 6.2 per cent. The domestic front impact on the economy during early part of the year was due to the reaching of the internal conflict in to the critical juncture. External pressure was due to the sudden withdrawal of capital by foreign investors resulting from the adverse global condition continued throughout the early part of the year.

Slowing down of the Global economy from the latter part of the previous year reduced the global demand for oil and the prices dropped drastically. This trend had been continued to the early part of the year under review and the oil prices dropped as low as to US$ 40 per Bbl. The domestic selling price of petroleum products were revised in December 2008 by passing the benefits of the reduction of global oil prices to the Sri Lankan consumers.



Source: Platt's Singapore prices

In accordance with the Government decision, Corporation commenced to supply Furnace Oil for power generation at fixed subsidized price from the beginning of the year under review.

The total loss incurred on account of selling high Sulphur Furnace Oil at a subsidized price for power generation was recorded as Rs. 18,550.24 Mn. during the year. The loss incurred on selling Kerosene at subsidized price to general public was Rs. 1,540.43 Mn. and the same for Air Lines on account of supplying Jet A-1 was as Rs. 353.95 Mn.. During the year, the sale of petrol and Auto Diesel had generated profits for the Corporation. These profits significantly compensated the losses incurred by fixing the domestic selling price of Furnace Oil at a very low fixed price specially for power generation.

Financial Performance

Corporation has continued to incur loss of Rs. 11,566.96Mn. during the year. The loss incurred by selling high Sulphur Furnace Oil for power generation and industries were recorded as Rs. 18,550.24 Mn. and Rs. 2,588.49 Mn. respectively. Loss due to concessions granted to general public on account of Kerosene was Rs. 1,540.43 Mn. The loss due to sale of Jet A-1 to Air Lines was as Rs. 353.95 Mn..

Despite the heavy losses incurred due to above subsidies, the sale of Petrol 90 Octane and Auto Diesel had contributed positively with the profit contribution of Rs. 6,865.22 Mn..and Rs. 2,159.73 Mn. respectively. These two figures along with the profit earned from Asphalt, Naphtha, Petrol 95 Octane and Super Diesel had contributed to shrink the overall loss to Rs. 11,566.96 Mn. during the year. The main contributory factors for continuous loss making position were provision of fuel oil for power generation at very subsidized price determined by the Government and failure to make retail price adjustments in line with international oil price movements.

The Refinery recorded a gross loss of approximately Rs.3.1 billion at the end of the year even at the reduced throughput of 4,000 MT/Day during the period from August to December. The main contributing factor for the loss was the sharp reduction oil prices in the international market.

Starting from month of January of the year under review, CEB had agreed to settle their oil bills to CPC which did not materialize. The accumulated debt of all the Government agencies including CEB and the armed Forces is a continuing critical issue to CPC; these debts totaled Rs.52.50Bn as at 31stDecember 2009.

In total, the Corporation made a massive contribution of Rs. 53.995Bn. to Government revenue during the year. During the review period, CPC maintained the strategic stock levels required to meet the domestic demand through effective storage operations coupled with efficient planning of imports.

Serving the Nation

Arising from our vision, CPC continuously committed to contribute to enhance the living standards of people in our country. During the year, all possible efforts were taken to keep the domestic prices as low as possible absorbing the price fluctuations in the international market.

The Corporation granted massive discounts for the power sector including private power plants, thus helping to maintain steady energy prices for Sri Lankan consumers. As a Government-owned enterprise, CPC continued to provide uninterrupted fuel supplies to Sri Lanka Railways and the armed forces, helping these organizations discharge their responsibilities to the nation. Under the circumstance of the involvement of the armed forces in the humanitarian operations, contribution by CPC for their logistics was commendable. The corporation took part in the “Negenahira Udanaya” and “Uthuru Wasanthaya” programs of the Government and initiated to develop filling stations in the Northern and Eastern provinces.

CPC continued to provide energy for the poor in the form of kerosene at a subsidized price, from which the revenue loss to CPC in 2009 was Rs. 1.540 Bn.

CPC, while transferring all internally-generated cost advantages to the national economy, is determined to guarantee the best possible domestic energy prices. In line with this, we maintained our pricing policy with respect to agrochemicals, in order to protect farmers from the effect of unusually inflated prices.

CPC, as a responsible corporate citizen, has recognized the importance of minimizing the environmental pollution especially in terms of the handling and usage of petroleum products for the safety of the environment. In line with world environmental standards, it has developed plans to modernize the refinery to deliver products which have lower environmental impact, as well as to produce low-sulphur diesel and furnace oils.

Strategic Priorities

An effective and efficient operation of the refinery, optimum utilization of storage facilities including pipelines and discharging infrastructure both offshore and on shore, implementation of efficient procurement and effective risk management practices were identified as our strategic priorities.

The "Enterprise Resource Planning (ERP)" project, initiated in association with Ceylon Petroleum Storage Terminals Limited (CPSTL), is in its final stage for launching. This ERP system will enable providing timely and accurate information to the management. The ERP system is planned to be launched during the first quarter of 2010.

Our current refinery expansion project is the most critical element in CPC's future sustainability. CPC is still looking forward to secure financing for the implementation of the project.

New Markets

CPC has successfully entered into lubricant business and currently in the process of expanding the market through its well established dealer network. Despite the marginal loss of Rs. 6.17 Mn. incurred during the year more profit will be expected with the expansion of the coverage and gaining market share.

Introduction of more farmer friendly pricing scheme and opening of CPC owned outlets covering the entire geographical areas had been continued to expand our agrochemical business during the year under review. We have successfully obtained ISO certifications for our plant in Kolonnawa during the year.

New CPC Head Office Building

Construction of the new state-of-the-art Head Office building at Dematagoda at a cost of Rs. 2.0Bn. is continued during the year. The project is planned for completion in the third quarter of 2011.

Corporate Governance

An Audit Committee, which consists of three Non-Executive Board Members, continuously meeting to achieve the objective of bringing our corporate governance in par with global standards.

Corporate Social Responsibility

Corporate Social Responsibility is continued to be our main focus of attention and all attempts are made to meet the needs of the entire nation at the least possible cost to the consumer. As mentioned above, initiatives have promptly taken under the "Negenahira Udanaya" and "Uthuru Wasanthaya" programs to supply fuels to the cleared areas within a minimum possible time with the intention of the enhancing the livelihood of the affected people in these areas. We also guaranteed uninterrupted fuel supplies to Government institutions at any cost.

CPC has contributed a massive amount of Rs. 28.652 billion to the Government coffers by duties and taxes during the year 2009.

Refinery Production

Refinery completed 40 years of operation on 06 August 2009 and processed 2,005,915 metric tons (Mts.) of Crude Oil equivalent to 5574 TPCD and 5491 TPSD, against a budgeted 2,170,000 metric tons of crude oil intake. Total operating time efficiency was 98.5%.

The Refinery recorded a negative profit margin of approximately Rs.3.1 billion at the end of the year even at the reduced throughput of 4,000 MT/Day during the period from August to December.

Import of Crude Oil and Refined Products

The Corporation has imported 1.931Mn.. metric tons of crude oil at a C&F cost of USD 888.482Million. The average crude oil (C&F) cost is USD 62.524 per bbl compared to USD 97.65 per bbl during the previous year. The freight charges for importing crude oil average to USD 10.82 per metric ton, when compared to 13.77 per MT in the previous year.

Refined Bulk Products Imports were metric tons of 1.448Mn..and C & F value was USD 773.883Million.

Services by Ceylon Petroleum Storage Terminal Ltd., (CPSTL)

With the restructuring of CPC, the storage and operations of Kolonnawa and 12 regional bulk depots located island wide, Data Processing and Distribution activities were segregated and were brought under the CPSTL.

CPSTL along with CPC hold regular stock review meetings with marketing companies, to monitor and ensure product availability to meet the country's demand. It recovers a Terminal Fee for the provision of storage and operation services, and specific charges for distribution and data processing services rendered to CPC.

Operational facilities at Muthurajawela Tank Farm have been to unloading large tankers to build up stocks when oil prices are low. While saving Rs. 30 million (approximately) per shipment by way of reduced freight and avoiding pipeline and jetty charges.

The project to install a separate offshore pipeline with a dual berth Buoy to supply fuel to the 300 MW West Cost Power Plant in Kerawalapitiya has commenced. In order to improve operational efficiency, CPSTL will be launching a pipeline project linking Kolonnawa and Muthurajawela storage tanks.

Revenue

The Corporation was responsible for over 77% of Petrol, 85% of Diesel and 100 % of Kerosene sales in the country. Revenue for the year had reached Rs. 257.508Bn, when compared to the previous year revenue of Rs. 358.002 Bn. The salient feature observed is the increase of sales volume while reducing the turn over. The main contributing factors for the reduction of turnover were the reduction of fuel prices of Diesel, Petrol, Kerosene and furnace oil during the year. There wasn't a noticeable demand increase or decrease in all kinds of petroleum product.

Agrochemicals

CPC continues its pricing policy of maintaining reasonable prices for Agro Chemicals used by cultivators and Plantation Sector, thus making useful contribution towards lower production cost, thereby boosting overall agriculture sector.

The current "Ceypetco" agro chemical product range consist of 5 Weedcides, 4 Fungicides and 6 Insecticides. Serious consideration has been continuously given to extend our product range to cover other agro based areas in the future. We also plan to promote sales of Ceypetco agro Sales Centers, which would be set up in agro based areas of the country.

Human Resource Development and Welfare

The employee strength by the end of year 2009 was 2682 in the permanent cadre and 197 in the casual cadre.

CPC has provided its employees and their families a Medical Assistance Scheme which is managed by the Thrift Society of the Corporation. The Corporation employs two Medical Officers on fulltime basis to serve employees. The hospitalization costs and indoor treatments amount to Rs. 30 Million during the year under review. A monthly allowance of Rs. 250/= is also paid to all employees for outdoor medical treatment.

A gratuity equivalent to ½ month pay for every year of service is paid under the Gratuity Act and additional retirement and death benefits are paid out of Thrift Society funds. A Death Gratuity is also paid for death of an employee. Corporation also provided scholarship scheme for children of the employees who are at university level. During the under review 15 scholarships granted for the children of employees who are reading degrees in the field of Medicine, Engineering Management, Bio-Science, Physical Science, Commerce and Arts. CPC has also established a Sports Club with a view to encourage sports activities. CPC maintains four Holiday Homes outstation, exclusively for the usage of employees and their families. There are several loan facilities granted at concessionary interest rates to fulfill many necessities of employees.

We have also allocated funds for training employees locally and abroad. Funds are also allocated for improving the knowledge of languages and computer literacy of employees to upgrade their working environment.

The practice of awarding employees who have satisfactorily completed their services is as follows;

20 years	-	Rs. 10,000/=
25 years	-	Gold Coin of 2.5 sovereign
30 years	-	Rs. 20,000/=
35 years	-	Rs. 25,000/=
40 years	-	Rs. 40,000/=

Employees’ children who are selected for government University education are awarded scholarships as a welfare activity by the Corporation.

Environment Safety

CPC being the market leader of petroleum products in the island and the owner of the only local refinery in the country, is fully aware of its obligations to minimize environmental pollution, and concerned about the environment safety in handling and usage of petroleum products. In line with world environmental standards, CPC is planning a modernization project at refinery, in order to produce low sulphur Diesel.

Looking Ahead to 2009

We have realized the increasing demand for refined petroleum products, especially for liberated areas, power generation and increasing traveling within the country during the coming year. The increasing demand for refined petroleum products will have to be currently catered purely through importation. As mentioned previously, we eagerly look forward to the implementation of the refinery expansion project to cater to the domestic demand increase.

It is to be noted that, with our committed and experienced management team, with clear market leadership and a knowledgeable and experienced workforce, we will take every endeavors to achieve all targets while facing all the challenges ahead of us.

Acknowledgement

On behalf of the Board of Directors of the Ceylon Petroleum Corporation, I would like to thank all members of the CPC team, who had stood with me to take all the challenges during this period. I also thank the Hon. Minister of Petroleum and Petroleum Resources Development and his Officials, the Treasury, the Central Bank, our business partners and customers for their co-operation and support.

I take this opportunity to convey my gratitude to the Board of Directors for an excellent job done and for their valuable support extended to me throughout the year. I also thank our corporate and executive management, staff, customers and all stakeholders for their dedication, loyalty and support in making the year under review a successful one.

I further extend my appreciation to the Government; the Minister of Petroleum and Petroleum Resources Development, the Hon. Minister A.H.M. Fowzie, the Secretary of the Ministry of Petroleum and Petroleum Resources Development and his officials, the Secretary to the Treasury and his official and the Governor of the Central Bank of Sri Lanka, and his officials for their invaluable guidance and support.

Major General Ashoka Thoradeniya, USP
Chairman & Managing Director
CEYLON PETROLEUM CORPORATION

STATEMENT OF VALUE ADDED

Rupees Million	2009		2008	
Turnover		257,508.00		358,002.00
Bought in materials & services		(212,680.00)		(335,551.00)
Value Added		**44,828.00**		**22,451.00**
Applied the following way		**%**		**%**
To pay employees				
Wages & fringe benefits	2,301.00	5.13	2,237.00	9.96
To pay providers of capital				
Interest on loans	4,741.00	10.58	3,163.00	14.09
To provide maintenance and expansion of assets				
Depreciation	355.00	0.79	366.00	1.63
Retained Profit	(11,664)	(26.02)	(15,029)	(66.94)
To pay Government				
Taxes, Duties, Stamp duty and				
Contribution to the general Treasury	49,096	109.52	31,714.00	141.26
Value Added	**44,828**	**100.00**	**22,451.00**	**100.00**

HIGHLIGHTS

FINANCIAL	UNIT	2009	2008
Gross Revenue	Rs. Mill.	237,662.619	341,670.329
Gross Profit	Rs. Mill.	4,121.700	3,393.103
Operational Profit/(Loss)	Rs. Mill.	5,307.769	3,156.610
Finance Charges	Rs. Mill.	4,740.663	3,163.204
Profit before Taxation	Rs. Mill.	(11,353.224)	(14,735.028)
Net profit after Taxation	Rs. Mill.	(11,566.957)	(14,952.518)
Capital and Reserves	Rs. Mill.	(13,038.049)	(1,416.432)
Long Term Borrowings	Rs. Mill.	32,779.059	10,908.413
Capital Expenditure	Rs. Mill.	270.642	468.128
IMPORTS			
Crude Oil Imports	Metric Tons	1,928,655	1,846,453
Refined Bulk Products Imports	Metric Tons	1,449,969	1,625,720
C&F Value	Rs. Million	189,848.570	144,505.386
OPERATIONS			
Sales	Metric Tons	4,208.348	3,436,662
Refinery Throughput	Metric Tons	1,894.910	1,776,787
MARKETING			
CPC Owned	Nos.	252	253
Dealer Owned	Nos.	712	686
Dealer controlled	Nos.	48	48
EMPLOYEES			
Employees at the yearend	Nos.	2,792	2,832
Total emoluments for the year	Rs. Million	2,055.826	1,880.570
Value added per employee	Rs.	726,327	664,043

Corporate Governance

As the major supplier of fuel, one of the key intermediary products of the Sri Lankan economy, the Ceylon Petroleum Corporation affects the lives of all individuals and institutions in the country. Considering the stakeholder groups, the Board of Directors believe in and is committed to the practice of strong corporate governance, revising governance practices to maintain the highest standards in the operation of the Corporation. The Board believes that strong corporate governance helps to discharge its responsibilities relating to transparency, disclosure and accountability. Moreover, they are of the view that strengthening corporate governance is a continuous process. This section describes some of the structures, processes and procedures of corporate governance at the Ceylon Petroleum Corporation.

Board of Directors

The Board of Directors comprises of seven members, including the Chairman, all appointed by the Hon. Minister of Petroleum and Petroleum Resource Development, in accordance with the Ceylon Petroleum Corporation Act. No.28 of 1961 and its amendments. One such Director is a representative of the Treasury (Ministry of Finance). All the Directors are Non-Executive Directors, except for the Chairman who is also the 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 the corporate management and if required, obtains information from external professionals.

The Board of Directors is responsible for conducting the business affairs of the Corporation, while adhering to the statutory requirements under which the Corporation is governed. They are also responsible for granting approval for annual accounts, the annual budget, corporate plan Action Plan and reviewing financial performance on a regular basis. The Board oversees the granting of approvals relating to key appointments, staff promotions, major capital expenditure investment and credit.

Board Meetings

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

The Board Meetings are conducted on a formal agenda and Directors are provided with relevant background information by the corporate management prior to meetings. Sixteen Board Meetings were held during the year under review, and there was full attendance at all of these meetings.

Compliance and Transparency

The Ceylon Petroleum Corporation is committed to maintaining transparency in all its dealings. The Corporation complies with Sri Lanka Accounting Standards and relevant regulations to ensure accountability. Strong internal compliance measures have been integrated into the Corporation's daily operations. In accordance with the Finance Act and Corporation Act, Financial Statements are published annually and tabled in Parliament. Also in compliance with the Finance Act, the Auditor General carries out the external audit of the Corporation.

Audit Committee

During the year the Audit Committee had five meetings at which review of financial statements, discussions with regard to the report submitted by the Auditor General, evaluation performance of different units of the Corporation, discussions relating to the strategic issues of the Corporation and issues relating to stock and terminal operations were taken up among the other matters. Mr. Saliya Rajakaruna who represented the Treasury function as the Chairman of the Audit Committee until latter part of the 2009 and after his retirement Mr. Methsiri Wijegunawardena was appointed as the Chairman of the Audit Committee.

Committee consists of three non executive directors who functioned as the members of the committee. The Manager Internal Audit acts as the secretary to the Audit Committee while superintendant of Government Audit unit and the external Auditors take part in as observers to the Committee. Recommendations made by the committee were submitted for the Board of Directors.

Management Committee

The Management Committee sits once a month to discuss current issues, especially in relation to functional areas. The Committee is headed by two Directors who assist the Chairman of the Committee. In this Committee, issues are discussed in detail and decisions taken are forwarded to the Board of Directors for final approval.

Financial Disclosure

The Board of Directors is responsible for presenting Financial Statements that provide a true and fair view of the operations of the Corporation. These statements are prepared in accordance with the requirements of Sri Lanka Accounting Standards, the Finance Act and the Corporations Act.

Internal Controls

The Board of Directors is responsible for maintaining a sound system of internal controls and reviewing its effectiveness. 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. It is vital to state, however, that any system of internal control can ensure only reasonable and not absolute assurance that errors and irregularities will be presented or detected within a reasonable period of time.

The Internal Audit Department of the Corporation is responsible for ensuring the adequacy of internal control procedures, and makes regular recommendations on improvements.

Internal Audit

The Internal Audit has focused on the following objectives in discharging its responsibilities.

(1) Review the annual financial statements to ensure whether they are complete, consistence and in compliance with statutory requirements.

(2) Review of the other sections of the annual report in order to ensure information disclosed are understandable and consistence.

(3) Oversee the function of risk management.

(4) Oversee the policies and procedures in place to have a system of internal controls adequate in design and effective in operation.

(5) Review of financial statements and ensure that management response to recommendations made by external auditors in timely manner.

(6) Performed all other functions delegated and / or requested by the Board.

(7) Regular update the Board about committee activities and make appropriate recommendations.

Summary of activities carried out during the year;

(1) The committee reviewed the audited financial statement for the year ended 31st December 2009 with the comments made by the Auditor General in his report.
(2) During above period the committee reviewed the effectiveness of financial controls to ensure that they provide reasonable assurance.
(3) Committee emphasizes that Sri Lanka accounting standards and other relevant rules and regulations should be complied in preparation of financial statements.
(4) The Committee had the meeting with the external auditors and reviewed various weaknesses, especially operational and a financial area in order to ensure that due attention is paid by the management in compliance with weaknesses highlighted.
(5) The Committee reviewed the internal audit reports of the Corporation and directed executive management to take corrective action to safeguard the assets of the Corporation.

During the period under review, the Committee appointed two subcommittees to address the pressing problems of the Corporation noted below;

(1) Financial reporting subcommittee to deal with all matters relating to audit and financial statements and preparation of register of land which are owned by the Corporation in order to ensure proper arrangements in regular basis.
(2) The committee also reviewed the progress report made by manager Internal Audit with regard to internal audit process and stock control and losses.

Relationship with Treasury

The Corporation is closely associated with the Central Bank and the Treasury and obtains their advice when managing Corporation's treasury operations. The Corporation also seeks advice and guidance for major expansion programmes and borrowings.

FINANCIAL STATEMENTS

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Statement of Changes in Equity

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INCOME STATEMENTS

CEYLON PETROLEUM CORPORATION

INCOME STATEMENTS

	Note	2009 Rs. Mn. Year Ended 31.12.2009	2008 Rs. Mn. Year Ended 31.12.2008
Revenue	**1**	237,662.619	341,670.329
Cost of Sales		(233,540.920)	(338,513.719)
Gross Profit		**4,121.700**	**3,156.610**
Other Operating Income	**2**	1,186.069	236.493
Gain /(Loss) on Derivative Financial Instruments		0.000	(1,321.573)
Selling & Distribution Expenses		(10,421.438)	(10,516.235)
Administrative Expenses		(2,602.887)	(3,961.366)
Finance Charges	**3.1**	(4,740.663)	(3,163.204)
Finance Income	**3.2**	1,103.995	834.247
Profit /(Loss) Before Tax	**4**	**(11,353.224)**	**(14,735.028)**
Income Tax Expense	**5**	(213.733)	(217.490)
Profit /(Loss) for the year		**(11,566.957)**	**(14,952.518)**

BALANCE SHEET

CEYLON PETROLEUM CORPORATION

BALANCE SHEET

	Note	2009 Rs. Mn. Year Ended 31.12.2009	2008 Rs. Mn. Year Ended 31.12.2008
ASSETS			
Non - Current Assets			
Property, Plant &Equipments	6	5,041.139	4,624.066
Investment in Associated Companies	7.1	2,500.000	2,500.000
Other Investments	7.2	41.876	41.876
Trade and Other Receivables - More than one year	8	4,201.682	4,788.333
Deferred Tax Asset	5	689.623	689.623
		12,474.320	**12,643.898**
Current Assets			
Inventories	9	25,568.277	31,537.495
Trade & Other Receivables - Due within one year	8	77,232.517	66,962.369
Income Tax Recoverable		106.369	243.672
Cash and Cash Equivalents	10	31,762.640	9,244.432
		134,669.803	**107,987.968**
Total Assets		**147,144.123**	**120,631.866**
EQUITY AND LIABILITIES			
Capital and Reserves			
Contributed Capital	11	1,000.000	1,000.000
Capital Reserve	12	4,992.686	4,992.686
Revaluation Reserve	13	25.696	25.696
Insurance Reserve	14	610.198	567.814
Retained Earnings		(19,666.628)	(8,002.628)
Total Equity		**(13,038.048)**	**(1,416.432)**
Non - Current Liabilities			
Retirement Benefits Liability	15	735.165	566.542
Interest Bearing Loans & Borrowings	16	32,779.059	10,908.413
		33,514.224	**11,474.955**
Current Liabilities			
Trade and Other Payables	17	120,421.143	63,802.285
Current Portion of Interest Bearing Loans & Borrowings	18	6,076.113	46,697.413
Provision for Deemed Dividend		170.691	73.647
		126,667.947	110,573.345
Total Equity and Liabilities		**147,144.123**	**120,631.868**

D.H.S.Jayawardena
Chairman

R.T.A.Dabare
Act. Finance Manager

R S Sunthartalingam
Addl. Finance Manager

19th March 2010

STATEMENTS OF CHANGES IN EQUITY

CEYLON PETROLEUM CORPORATION

STATEMENTS OF CHANGES IN EQUITY

Year ended 31st December 2009

	Contributed Capital Rs. Mn.	Capital Reserve Rs. Mn.	Revaluation Reserve Rs. Mn.	Insurance Reserve Rs. Mn.	Retained Earnings Rs. Mn.	Total(Restated) Rs. Mn.
Balance as at 1st January 2006 as previously stated	**1,000.000**	**4,992.686**	**25.696**	**482.210**	**6,172.863**	**12,673.455**
Correction of Prior Period Errors Prior to 01.01.2006						
(a) Reversal of Over provision made to Thrift Society in 2004					100.000	100.000
(b) Provisioning for non recoverable ACT					(376.000)	(376.000)
(c) Recognition of Deferred Taxation					(109.380)	(109.380)
Balance as at 1st January 2006 (restated)	**1,000.000**	**4,992.686**	**25.696**	**482.210**	**5,787.483**	**12,288.075**
Accounting Period 2006						
(e) Correction of the excess Finance Cost to accounting period 2006					(82.416)	(82.416)
(f) Correction of non provisioning for arrears in					(158.803)	(158.803)
Turnover Tax related to the accounting period 30.09.2003 to.30.09.2005						
Deemed Dividend					(54.568)	(54.568)
Surplus during the year				19.878		19.878
Net Loss for the Period					(946.220)	(946.220)
Balance as at 1st January 2006 (restated)	**1,000.000**	**4,992.686**	**25.696**	**502.088**	**4,545.476**	**11,065.946**
Accounting Period 2007						
Surplus during the year				20.991		20.991
Net Profit for the period					2,862.337	2862.337
Deemed Dividend					(381.464)	(381.464)
Balance as at 1st January 2007	**1,000.000**	**4,992.686**	**25.696**	**523.079**	**7,026.349**	**13,567.810**
Accounting Period 2008						
Surplus during the year				44.735		44.735
Net Loss for the period					(14,952.518)	(14,952.518)
Deemed Dividend					(76.459)	(76.459)
Balance as at 1st January 2008	**1,000.000**	**4,992.686**	**25.696**	**567.814**	**(8,002.628)**	**(1,416.432)**
Accounting Period 2009						
Surplus during the year				42.384		42.384
Net Profit for the period					(11,566.957)	(11,566.957)
Deemed Dividend					(97.044)	(97.044)
Balance as at 31st December 2009	**1,000.000**	**992.686**	**25.696**	**610.198**	**(19,666.629)**	**(13,038.049)**

CASHFLOW STATEMENT

CEYLON PETROLEUM CORPORATION

CASH FLOW STATEMENTS

	2009	2008
	Rs.Mn.	**Rs.Mn.**
	Year Ended	**Year Ended**
	31.12.2009	**31.12.2008**
Cash Flows From/(Used in) Operating Activities		
Profit/(Loss) before tax from continuing operations	(11,353.224)	(14,735.028)
Adjustment for :		
Depreciation	355.465	366.722
Foreign Currency Translation	443.355	(1,013.785)
Investment Income	(0.001)	(0.111)
Interest Received	(438.287)	(654.726)
Provision for Insurance Reserve	42.384	44.735
Provision for Stores Non Moving Items	27.535	(18.181)
Provision for Bad & Doubtful Debts & Recoveries	(367.536)	(16.152)
Interest Expenses	4,740.663	3,163.204
Adjustment for Valuation of Shares	-	5.000
Provision for Retirement Obligation	191.036	47.226
(Profit)/Loss on Sale of Property, Plant & Equipment	(8.669)	(1.908)
Operating Profit/(Loss) before Working Capital changes	**(6,367.278)**	**(12,813.004)**
Changes in Working Capital		
(Increase)/ Decrease in Inventories	5,941.683	8,673.831
(Increase)/ Decrease in Trade and Other Receivable	(9,315.962)	(32,409.849)
Increase/ (Decrease) In Trade and Other Payables	56,618.858	39,946.795
Cash Generated from/ (Used in) operating activities	**46,877.301**	**3,397.773**
Interest Paid	(4,740.663)	(3,163.204)
Retiring Gratuity Paid	(22.413)	(22.051)
Income Tax /WHT paid	(77.931)	(1,440.125)
Net Cash Generated from Operating activities	**42,036.294**	**(1,227.607)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of Property, Plant & Equipment	(833.409)	(630.180)
Proceeds from Sale of Property, Plant & Equipment	88.589	15.948
Income from Investment	0.001	0.111
Interest Received	438.287	654.726
Net Cash Used in Investing Activities	**(306.532)**	**40.605**
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of Long Term Loans	(21,538.358)	(1,001.410)
Net Cash From/(Used in) Financing Activities	**(21,538.358)**	**(1,001.410)**

CEYLON PETROLEUM CORPORATION

CASH FLOW STATEMENTS

	2009 Rs.Mn. Year Ended 31.12.2009	2008 Rs.Mn. Year Ended 31.12.2008
Net Increase/(Decrease) in Cash & Cash Equivalents	20,191.404	(2,188.412)
Cash & Cash Equivalents at Beginning of the Year	7,771.977	9,960.389
Cash & Cash Equivalents at End of the Year	**27,963.381**	**7,771.977**
Note 1. Cash & Cash Equivalent as at the Beginning of the Year (Note 10)		
Cash & Bank Balances	9,244.432	10,744.471
	9,244.432	10,744.471
Bank Overdraft **(Note18)**	(82.670)	(48.139)
Cash & Cash Equivalents before Adjusting the Foreign Currency Translation	**9,161.762**	**10,696.332**
Adjustment for Foreign Currency Translation	(1,389.785)	(735.943)
Cash & Cash Equivalents after Adjusting the Foreign Currency Translation	**7,771.977**	**9,960.389**
Note 2 .Cash & Cash Equivalent as at the end of the Year		
Cash & Bank Balances **(Note 10)**	31,762.640	9,244.432
	31,762.640	9,244.432
Bank Overdraft **(Note 18)**	(2,870.372)	(82.670)
Cash & Cash Equivalents before Adjusting the Foreign Currency Translation	**28,892.268**	**9,161.762**
Adjustment for Foreign Currency Translation	(928.887)	(1,389.785)
Cash & Cash Equivalents after Adjusting the Foreign Currency Translation	**27,963.381**	**7,771.977**

SIGNIFICANT ACCOUNTING POLICIES

1. CORPORATE INFORMATION

1.1 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.109, Galle Road, Colombo 03.

1.2 Principal Activities and Nature of Operations

The principle activities of the Corporation are refining, selling& distributing and exploring Petroleum products in Sri Lanka.

1.3 Parent Entity and Ultimate Parent Entity

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

1.4 Date of Authorization for Issue

The Financial Statements of Ceylon Petroleum Corporation for the year ended 31 December 2009was authorized for issue in accordance with a resolution of the board of directors on 24 February 2010.

2. BASIS OF PREPARATION

The Financial Statements are prepared under the historical cost basis (except revaluation) in accordance with generally accepted accounting principles of the Accounting Standards laid down by the Institute of Chartered Accountants of Sri Lanka and the provisions of the Finance Act No:38of 1971 and subsequent amendments .

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

2.1 Statement of Compliance

The Financial Statements of Ceylon Petroleum Corporation has been prepared in accordance with Sri Lanka Accounting Standards (SLAS).

2.1.1 Going Concern

The Directors have made an assessment of the Corporation's ability to continue as a going concern and they do not intend either to liquidate or to cease trading.

2.1.2 Comparative Information

The accounting polices have been consistently applied by the Corporation and except for the changes in accounting policy (polices) discussed more fully in Note 25 consistent with these used in the previous year. The changes made to comparative figures are discussed more fully in Note 21.

2.2 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

2.2.1 Judgments

In the process of applying the Corporation's accounting policies, management has made the following judgments, apart from those involving estimations, which has the most significant effect on the amounts recognized in the Financial Statements.

2.1.2 Deferred Tax Assets

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.3.1 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 retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

2.3.2 Taxation

(a) Current Tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. 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 relevant tax legislations.

(b) 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 the transaction, affects neither the accounting profit or taxable profit or loss.

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

(c) Sales Tax

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

2.3.3 Borrowing Costs

Borrowing costs are recognized as an expense in the period in which they are incurred.

2.3.4 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 a)Refined Products b) Imports	 - At the cost of direct materials, direct labour and an appropriate proportion of manufacturing overheads based on normal operating capacity, but excluding borrowing Costs. - At purchase cost on first-in first–out basis.
Work-in-progress a)Refined Products b) Imports	 -At the cost of direct materials, direct labour and an appropriate proportion of manufacturing overheads based on normal operating capacity, but excluding borrowing Costs. - 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
Good in Transit	-At Purchase

(By Location)

Net realizable Value is the estimated selling price in the ordinary course of business, less estimated cost of completion and estimated costs necessary to make the sale.

2.3.5 Trade and Other Receivables

Trade receivables are stated at the amounts they are estimated to realize net of allowances for bad and doubtful receivables. In certain cases specific provisions are provided on specific Trade Receivable other than the normal provision made for Trade Receivables.

Other receivables and dues from Related Parties are recognized at cost less allowances for bad and doubtful receivables.

2.3.6 Cash and Cash Equivalents

Cash and cash equivalents are cash in hand, demand deposits and short-term highly liquid investments, readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

For the purpose of cash flow statement, cash and cash equivalents consist of cash in hand and deposits in banks net of outstanding bank overdrafts. Investments with short maturities i.e. three months or less from the date of acquisition are also treated as cash equivalents.

2.3.7 Property, Plant and Equipment

Plant and equipment is 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.

When each major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied.

An item of property, plant and equipment is de recognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is de recognized.

The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end. Depreciation rates are indicated in Note 6.5 as noted to the Financial Statement.

2.3.8 Investments

a) Initial Recognition:

Cost of investment includes purchase cost and acquisition charges such as brokerages, fees, duties and bank regulatory fees. The Corporation distinguishes and presents current and non current investment in the balance sheet.

b) Measurement

(i) Current Investment:

Current investments are carried at the lower of cost and market value, determined on the basis of aggregate portfolio.

(ii) Long Term Investments

Long term investments are stated at cost. Carrying amounts are reduced to recognize a decline other than temporary, determined for each investment individually. These reductions for other than temporary declines in carrying amounts are charged to income statement.

(iii) Investments in Associate Companies

Investments in Associate Companies are stated at Cost.

(iv) Disposal of Investment

On disposal of an investment, the difference between net disposals and proceed and the carrying amounts is recognized as income or expense.

2.3.9 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 assets but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

2.3.10 Retirement Benefit Obligations

(a) Defined Benefit Plan – Gratuity

Gratuity is a Defined Benefit Plan. The Corporation is liable to pay gratuity in terms of the relevant statute. In order to meet this liability, a provision is carried forward in the balance sheet, equivalent to an amount calculated based on a half month's salary of the last month of the financial year of all employees for each completed year of service, commencing from the first year of service. The resulting difference between brought forward provision at the beginning of a year net of any payments made, and the carried forward provision at the end of a year is dealt with in the income statement.

The gratuity liability is not funded nor actuarially valued

(b) 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.

2.3.11 Capital Reserve

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

2.3.12 Insurance Reserve

An amount equivalent to the actual cost of insurance on imports which are not insured with a third party while in transit is credited to insurance reserve.

2.3.13 Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow the corporation and the revenue and associated costs incurred or to be incurred can be reliably measured.

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.

a) 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.

b) Interest

Revenue is recognized on a time proportion basis that takes in to accounts the effective interest rate on asset.

c) Dividends

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

d) Hedging proceeds

Hedging gain or loss in relation to hedging of Petroleum products has been presented on the Income Statement as a separate line item.

e) Rental income

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

f) Others

Other income is recognized on an accrual basis

2.3.14 Segment Information

The activities of the segments are described in the segmental review of operation. Segments have been determined based on primary format. Primary format represents the business segments, identified based on the products which have similar risk and return faced by the customers. Since the Corporation's activities are geographically within Sri Lanka Secondary segment format is not available.

CEYLON PETROLEUM CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

1. REVENUE

DOMESTIC SALES	2009 QTY. M.Ltrs	2009 Value Rs. Mn.	2008 QTY. M.Ltrs	2008 Value Rs. Mn.
90 Octane Petrol	524.698	57,418.763	477.548	62,778.103
95 Octane Petrol	21.403	2,636.372	26.618	3,655.623
Auto Diesel	1,687.045	119,046.261	1,620.849	151,070.451
Super Diesel	10.104	866.145	8.495	885.249
Kerosene	191.810	9,754.538	192.596	14,000.051
Furnace Oil	1,021.448	27,416.214	1,048.919	62,666.528
Furnace Oil Low Sulper	134.191	5,740.935	42.589	3,553.623
Naphtha	160.516	8,093.232	206.406	15,255.831
Avn. Gasoline	0.237	66.103	0.231	62.761
Avn. Turbine Fuel	176.457	9,749.853	239.296	21,755.668
Asphalt	92.941	8,049.974	105.886	9,412.025
Lub Oil	1.727	457.944	-	-
Agro Chemicals	0.407	178.506	0.548	291.411
Solvent	1.353	135.188	3.637	435.322
L.P.G.	24.514	1,484.922	15.911	1,305.381
Total Domestic sales	4,048.850	251,094.950	3,926.844	345,095.913
EXPORTS				
a) Indirect Exports				
Avn.Turbine Fuel	113.280	6,298.091	122.656	11,262.986
Bunkering	6.310	115.153	25.097	1,643.217
	119.590	6,413.243	147.753	12,906.203
Total Sales		257,508.193		358,002.116
Less : T.T, Ex Duty		(19,845.574)		(16,331.787)
		237,662.619		341,670.329

Segment Information & Revenue

The following table presents revenue, cost of sales and gross profit of the corporation classified based on the class of the customers served.

Class of the Customers	2009 Sales Value Rs. Mn.	2009 Cost of sales Rs. Mn.	2009 Gross Profit Rs. Mn.	2008 Sales Value Rs. Mn.	2008 Cost of sales Rs. Mn.	2008 Gross Profit Rs. Mn.
a) Transport	160,121.967	142,441.754	17,680.213	180,710.894	169,338.450	11,372.447
	160,121.967	142,441.754	17,680.213	180,710.894	169,338.450	11,372.447
b) Power Generation	41,250.381	56,740.143	(15,489.762)	97,501.490	97,133.650	367.840
	41,250.381	56,740.143	(15,489.762)	97,501.490	97,133.650	367.840
c) Aviation	16,114.048	15,312.762	801.286	31,629.713	34,948.506	(3,318.793)
	16,114.048	15,312.762	801.286	31,629.713	34,948.506	(3,318.793)
d) Others	20,176.224	19,046.261	1,129.963	31,828.23	37,093.12	(5,264.884)
	20,176.224	19,046.261	1,129.963	31,828.23	37,093.12	(5,264.884)
			-			
Gross Profit As Per Income statement	237,662.620	233,540.920	4,121.700	341,670.328	338,513.721	3,156.610

2. OTHER OPERATING INCOME

	2009	2008
	Rs. Mn.	Rs. Mn.
Dividend Income	0.001	0.111
Fines Recovered from Contractors	4.539	7.858
Sundry Income	1,167.448	184.812
Rent Income	14.082	12.583
Commission On Lubricants Sales	-	31.129
	1,186.069	**236.493**

3. FINANCE COST AND INCOME

	2009	2008
	Rs. Mn.	Rs. Mn.
3.1 FINANCE COST		
Interest on Long Term Loans	124.953	135.588
Interest on Bank Overdrafts	398.224	-
Interest on Foreign Bills Payables & Other Bank Loans	4,217.487	3,027.616
	4,740.664	**3,163.204**
3.2 FINANCE INCOME		
Treasury Bill Interest Income	239.471	484.615
Interest on R.F.C. A/C	198.816	170.111
Interest on Credit invoice	665.708	179.521
	1,103.995	**834.247**

4. PROFIT / (LOSS) FOR THE YEAR

	2009	2008
	Rs. Mn.	**Rs. Mn.**
stated after charging /(Crediting)		
Included in Cost of Sales		
Written Down of Inventories to net Realizable Value	9,110.59	6,553.910
Depreciation -Refinery	122.179	153.261
Exchange Differences-(Gain)/Loss	1,269.670	2,661.474
Included in Administrative Expenses		
Employees Benefits including following		
- Defined Benefit Plans Costs -Gratuity	191.036	47.226
- Defined Contribution Plans Costs-EPF &ETF	208.536	192.719
Change in the value of Long Term Investments	-	5.000
Exchange Differences-(Gain)/Loss	(937.704)	1,004.824
Profit on Disposal of Property, Plants and Equipment	8.669	1.908
Reversal of Provisions	-	11.196
Auditors Remuneration	1.473	2.368
Depreciation -Head Office	232.767	213.495
Donation to Sri Lanka Sumithrayo	0.585	0.621

5. INCOME TAX

	2009 Rs.Mn.	2008 Rs.Mn.
Current Tax Expense on Ordinary Activities for the Year (5.1)	205.928	158.625
Social Responsibility Levy	3.089	3.484
Under /(Over) provision of current taxes in respect of prior years	4.716	55.381
	213.733	217.490
Deferred Income Tax		
Deferred Taxation Charge/(Reversal)	-	
Income tax expense reported in the income statement	213.733	217.490

5.1 Reconciliation between Current Tax Expense and the product of Accounting Profit.

	2009	2008
Accounting Profit /(Loss) before Tax	(11,479.663)	(14,735.028)
Aggregate Disallowed Items	717.318	499.557
Aggregate Allowable Expenses	(1,742.357)	(1,111.513)
Adjustment of Income / (Loss) not subject to Tax	13,367.679	15,372.044
Other Source of Income - Interest Income	905.179	664.137
Less : Utilization of brought forward tax losses	(316.813)	(232.442)
Taxable Profits	588.366	431.695
Tax on Profit from Operations		
Operating Income	-	-
Other Source of Income - Interest Income	205.928	151.093
Income Tax Expenses	205.928	151.093
Income Tax Expenses (Provisional)	205.928	158,625
Tax Rate Applicable for Operating Income	35%	35%
Social Responsibility Levy	1.5%	1%
Deemed Dividend Tax	25%	25%
Income Tax	210.644	214.006
Social Responsibility Levy	3.089	3.484
	213.733	217.490
Deemed Dividend Tax	95.610	2.812
Under /(Over) Provision of current taxes in respect of prior years	(0.620)	73.647
	94.990	76.459

5.2 Deferred Tax (Assets), liabilities and Income Tax relates to the followings

	2009	2008
At the Beginning of the year	(689.623)	(689.623)
Transferred from /(to) Income Statement	-	-
At the End of the year	(689.623)	(689.623)

	Balance Sheet	
	2009 Rs.Mn.	2008 Rs.Mn.
Deferred Tax Liability		
Capital Allowance for Tax purpose	989.460	989.460
	989.460	989.460
Deferred Tax Assets		
Define Benefit Plans	(189.478)	(189.478)
Unutilized Tax Losses	(965.182)	(965.182)
Other Provisions	(524.424)	(524.424)
	(1,679.084)	(1,679.084)
Net Deferred Tax (Asset)/Liability	**(689.623)**	**(689.623)**

CEYLON PETROLEUM CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31st December 2009

6. PROPERTY, PLANT & EQUIPMENT

6.1 Gross carrying Amounts

Cost	Land & Buildings	Vested Property	Plant, Mach & Equip	SPM Facility	Motor Vehicles	Furn/ Fittings Off. Equip & Other Assets	Total
	2009						
	Rs.Mn.	**Rs.Mn.**	**Rs.Mn.**	**Rs.Mn.**	**Rs.Mn.**	**Rs.Mn.**	**Rs.Mn.**
Bal as at 01/01/2009	1,354.047	1.016	3,702.750	2,142.422	372.897	1,434.360	9,007.492
Additions	104.388	-	119.967	-	10.544	35.743	270.642
Disposals	-	-	(74.974)	-	(3.192)	(5.719)	(83.885)
Adjustment	10.169	-		-	-	8.879	19.048
Bal as at 31/12/2009	**1,468.604**	**1.016**	**3,747.743**	**2,142.422**	**380.249**	**1,473.263**	**9,213.297**
6.2 Depreciation							
Bal as at 01/01/2009	162.676	0.338	2,050.686	1,259.415	192.801	937.267	4,603.183
Charge for the Year	18.612	0.010	164.079	31.219	14.254	127.291	355.465
Disposals	-	-	(0.774)	-	(3.192)		(3.966)
Adjustments	-	-	-	-	-	-	-
Bal as at 31/12/2009	181.288	0.348	2,213.991	1,290.634	203.863	1,064.558	4,954.682
Net Book Value as at 31.12.2009	**1,287.316**	**0.668**	**1,533.752**	**851.788**	**176.386**	**408.705**	**4,258.615**
	2008						
Cost as at 31.12.2008	1,354.047	1.016	3,702.750	2,142.422	372.897	1,434.360	9,007.492
Acc.Dep as at 31.12.2008	162.676	0.338	2,050.686	1,259.415	192.801	937.267	4,603.183
Net Book Value l as at 31.12.2009	**1,191.371**	**0.678**	**1,652.064**	**883.007**	**180.096**	**497.093**	**4,404.309**

6.3 Assets and Capital Project in Progress

	2009	2008
	Rs.Mn.	Rs.Mn.
Buildings	651.568	144.447
Plant & Machinery	7.099	8.043
Storage Facility	9.522	14.929
Re-structuring of Filling Stations	114.335	49.807
Others	-	2.531
	782.524	**219.757**

6.4 Net Book Values

	2009	2008
	Rs.Mn.	Rs.Mn.
Property Plant & Equipment	4,258.615	4,404.309
Assets & Capital Projects in Progress	782.524	219.757
Total Carrying Amount of Property , Plant &Equipments	**5,041.139**	**4,624.066**

6.5 The useful lives of the assets is estimated as follows

	2009	2008
Freehold Land	Nil	Nil
Buildings	40 Years	40 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
Browsers & Tank Lorries	5Years	5Years
Vans & Coaches	4Years	4Years
Furniture/Fittings & Office Equipments up to 31.12.1998	Fully	Fully
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

7. INVESTMENTS

	2009		2008	
	Rs .Mn. At Cost	Rs .Mn. Director's Value	Rs .Mn. At Cost	Rs .Mn. Director's Value
7.1 Non-Current				
a) Investment in Associated Company (Unquoted)				
Ceylon Petroleum Storage Terminals Ltd.*	2,500.000	2,500.000	2,500.000	2,500.000
	2,500.000	**2,500.000**	**2,500.000**	**2,500.000**

	2009		2008	
	Rs .Mn. At Cost	Rs .Mn. Market Value	Rs .Mn. At Cost	Rs .Mn. Market Value
b) Other Investments (Quoted)				
Lanka Cement Ltd. 5,000,000 Ordinary Shares of Rs.10/= each fully paid.	50.500		50.500	31.250
Less: Allowance for decline in value	(19.250)	-	(19.250)	-
	31.250	**0.000**	**31.250**	**31.250**

Unquoted

	2009		2008	
	Rs .Mn. At Cost	Rs .Mn. Director's Value	Rs .Mn. At Cost	Rs .Mn. Director's Value
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 Coop/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**
7.2 Current				
Investments in Fixed Deposit	5.000		5.000	
	5.000		**5.000**	
Total	**41.876**		**41.876**	

* The effect of adopting the equity method could not be given due to the unavailability of Financial Statements of Ceylon Petroleum Storage Terminals Limited (CPSTL)

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December -2009

8 . TRADE & OTHER RECEIVABLE

	2009		2008	
	Rs. Mn. With in one Year	Rs. Mn. After one Year	Rs. Mn. With in one Year	Rs. Mn. After one Year
Trade Receivables	73,755.007	-	64,228.814	-
Other Receivables	2,327.730	3,171.653	1,564.897	3,758.950
Deposits	8.917	29.928	10.317	30.031
Advance	491.872	-	395.106	-
Prepayments	299.792	-	407.167	-
Loans & Advance to Employee	349.198	1,000.100	356.068	999.352
	77,232.516	**4,201.681**	**66,962.369**	**4,788.333**

9. INVENTORIES

	2009	2008
	Rs.Mn.	Rs.Mn.
Crude Oil	6,783.893	6,565.150
Other Raw material	519.310	540.994
Finished Products	15,234.771	23,422.707
Other Materials & Supplies	3,314.969	1,266.287
Less: Provision for Non Moving Items	(284.665)	(257.643)
	25,568.278	**31,537.495**

10. CASH AND CASH EQUIVALENTS

	2009	2008
	Rs.Mn.	Rs.Mn.
Components of Cash and Cash Equivalents		
Cash & Bank Balances	23,812.640	8,194.432
Treasury Bills	7,950.000	1,050.000
	31,762.640	**9,244.432**

11. CONTRIBUTED CAPITAL

	2009	2008
	Rs.Mn.	Rs.Mn.
Initial Contribution in Pursuance of Section23 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
	1,000.000	**1,000.000**

(No authorized capital has been fixed by the Parliament.)

12. CAPITAL RESERVE

	2009 Rs.Mn.	2008 Rs.Mn.
Balance as at 01st January	4,992.69	4,992.69
Balance as at 31st December	**4,992.69**	4,992.69

* In 2003, the transfer of assets to CPSTL had been done at book values. Subsequently it had been decided to record the above transaction based on the values that had been agreed upon in the process of privatization. The effect of the above transaction had been adjusted under net re-structuring sales proceeds.

13. REVALUATION RESERVE

	2009 Rs.Mn.	2008 Rs.Mn.
Balance as at 01st January	25.70	25.70
Balance as at 31st December	25.70	25.70

14. INSURANCE RESERVE

	2009 Rs.Mn.	2008 Rs.Mn.
Balance as at 01st January	567.81	523.08
Charged to Profit & Loss Account	42.38	44.74
Balance as at 31st December	**610.20**	567.81

15. RETIREMENT BENEFIT OBLIGATION

	2009 Rs.Mn.	2008 Rs.Mn.
Balance as at 01st January	551.69	526.51
Less: Payments made during the year	22.41	22.05
	529.27	504.46
Add: Charge for the year	191.04	47.23
	720.31	551.69
Add: Benefit China Bay Employees	14.86	14.86
Balance as at 31st December	735.17	566.54

16. INTEREST BEARING LOANS & BORROWINGS

	2009 Rs.Mn.	2008 Rs.Mn.
16.1 L.T. Loans not assigned to CPSTL		
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.	797.57	873.53
Indian Line of Credit (Interest LIBOR+0.5 p.a.) repayable in twelve half yearly installments of Rs.1228.030 Mil each commencing May ' 06	3,837.83	6,319.82
16.2 L.T. Loans assigned to CPSTL		
Treasury (Exim Bank) Loan - (Interest 12 .0 p.a %) repayment commencing Oct. 2004 in 24 equal 1/2 yearly installments of final Loan value	3,142.75	3,714.16
16.3 B.O.C Long Term Long -	25,000.00	0.00
	32778.16	10907.51
Compensation Payable to Former Owners of properties vested in CPC	0.90	0.90
	32779.06	**10908.41**

	2009 Rs.Mn.	2008 Rs.Mn.
16.4 Loans repayable within five years from 31st December - 2009 is as follows.		
Amount due within 1-2 years	3,205.741	3,175.297
Amount due within 3-5 years	2,574.198	5,086.630
Amount due after 5 years	1,998.219	2,645.584
	7,778.158	10,907.511

17. TRADE & OTHER PAYABLES

	2009 Rs.Mn.	2008 Rs.Mn.
Foreign Bills Payable	109,643.234	**56,144.839**
Other Creditors		
- Amount due to Inland Revenue & Custom Dept.	1,905.237	**1,426.941**
- Accrued Expenses	467.203	**239.734**
- Refundable Deposits & Others	7,106.531	**4,575.138**
- Amount due to Related Parties	1,298.938	**1,415.633**
	120,421.143	**63,802.285**

18. INTEREST BEARING LOANS AND BORROWINGS WITHIN 01YEAR	2009 Rs.Mn.	2008 Rs.Mn.
Bank & Other loans		
- Wholly Repayable within one year	3,205.740	**3,175.297**
- Bank Overdrafts	2,870.372	**82.670**
- Bank Temporary Loan	-	**2,162.51**
- Short Term Working Capital Loans	-	**41,276.94**
	6,076.112	**46,697.413**

19. EMPLOYEES

19.1 Staff Cost

	2009 Rs.Mn.	2008 Rs.Mn.
Salaries & Wages	1,815.765	**1,668.718**
Bonus	240.061	**211.852**
Provident & Trust Fund contribution	208.536	**192.719**
Gratuity Provision	191.036	**47.226**
	2,455.398	**2,120.515**

	2009	2008
19.2 No. of Employees		
Administration & Marketing	1,005	**1,247**
Manufacturing	1,150	**990**
Security	493	**445**
	2,648	**2,682**
19.3 Contract & Casual Employees	**144**	**150**

20. COMMITMENTS FOR CAPITAL EXPENDITURE

	2009 Rs.Mn. Amount Approved	2008 Rs.Mn. Amount Spent Up to 31.12.2008
Fuel Quality Improvement & Storage Facilities at Refinery	**358.000**	**213.425**
Refinery Main Plant (Minor modifications)	**248.441**	**44.302**
Other Capital Expenditure	**26.761**	**25.000**
Construction of Head Office New Building	**592.465**	**810.000**
Construction of Fling Yard	**114.334**	**420.900**
	1,340.001	**1,513.627**

CEYLON PETROLEUM CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2009

21 COMPARATIVE INFORMATION

The presentation and classification of following items in theses Financial Statements are amended to ensure comparability with the current year.

	As reported previously	2008
		Rs.Mn
a)	Cost of Sales (Proceedings from Hedging)	(1,321.572)
b)	Trade and Other Payables	5,420.477
c)	Current Portion of Interest Bearing Loans & Borrowi	105,079.221

	Current Presentation	2009	2008
		Rs.Mn	Rs.Mn
a)	Gain /(Loss) on Derivative Financial Instruments	-	(1,321.572)
b)	Current Portion of Interest Bearing Loans & Borrowi	6,076.113	46,697.413
c)	Trade and Other Payables	120,421.143	63,802.285

Reasons for change in then presentation and classification:

a) Short Term Working Capital Loans which have been included under trade and other payables as short term working capital loans and presented in a separate line item for better presentation.

CEYLON PETROLEUM CORPORATION

NOTES TO THE FINANCIAL STATEMENT

22. TRANSACTIONS WITH RELATED PARTIES

Mr.W.K.B. Weragama - Director of CPC, Mr Chethiya Ekanayake Director of CPC perfomed as directors at CPSTL throughtout the year.

22.1 Transactions made with Related Parties

Company	Relationshi	Nature of Transaction	Amount Paid/ (Received)	
			2009	2008
			Rupees Mil	Rupees Mil
Ceylon Petroleum Storage Terminals Limited (CPSTL)	Associate Company	- Storage ,Terminal and distribution charges	7,636	6,954
		- Recovery of Repayments of the following bank loans		
		NDB -Recovered repayments	0.000	24,157
		The Interest rate is 16% p.a and CPSTL repays 12% p.a of this rate and the excess interest is born by Ceylon Petroleum Corporation		
		The excess interest charge absorbed by Ceylon Petroleum Corporation	0.000	0.119
		Exim Bank- Recovered Repayments	1,068.535	1,137.104
		Interest Rate is 12 p.a % and the full repayments are recovered from CPSTL		

21.2 Other Transactions made with key Management Personnel.

	2009	2008
	Rupees Mil	Rupees Mil
Chairman's Remuneration	1.395	1.339
Directors Remuneration	0.157	0.051

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கணக்காய்வாளர்தலைமைஅதிபதிதிணைக்களம்
AUDITOR GENERAL'S DEPARTMENT

මගේ අංකය
எனது இல
My No } LP/D/CPC/FA/09

ඔබේ අංකය
உமது இல
Your No. }

දිනය
திகதி
Date } 29 September 2010

The Chairman
Ceylon Petroleum Corporation

Report of the Auditor General on the Financial Statements of the Ceylon Petroleum Corporation for the year ended 31 December 2009 in terms of Section 14(2)(c) of the Finance Act, No. 38 of 1971

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1. The audit of financial statements of the Ceylon Petroleum Corporation (CPC) for the year ended 31 December 2009 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. In carrying out this audit, I was assisted by a firm of Chartered Accountants in public practice. 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. A detailed report in terms of Section 13(7) (a) of the Finance Act was issued to the Chairman of the Corporation on 23 June 2010.

1.1 Responsibility of the Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards. This responsibility includes; designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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කොළඹ 07, ශ්‍රී ලංකාව

சுதந்திரசதுக்கம்,
கொழும்பு 07, இலங்கை

INDEPENDENCE SQUARE,
COLOMBO 07, SRI LANKA

දුරකථනය
தொலைபேசி
Telephone. } 2691151

ෆැක්ස් අංකය
பக்ஸ் இல
Fax No. } 2697451

ඉලෙක්ට්‍රොනික් තැපැල්
ஈ-மெயில்
E-mail. } oaggov@sltnet.lk

1.2 Scope of Audit and Basis for Opinion

My responsibility is to express an opinion on these financial statements based on my audit. Audit opinion, comments and findings in this report are based on review of the financial statements presented to audit and substantive tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards to obtain reasonable assurance as to whether the financial statements are free from material misstatements. The audit includes the examination on a test basis of evidence supporting the amounts and disclosures in financial statements and assessment of accounting policies used and significant estimates made by the management in the preparation of financial statements as well as evaluating their overall presentation. I believe that my audit provides a reasonable basis for my opinion. 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.

2. Financial Statements

2.1 Opinion

In view of my comments and observations appearing in this report, I am unable to express an opinion on the financial statements of the Ceylon Petroleum Corporation for the year ended 31 December 2009 presented for audit.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Accounting Standards (SLAS)

Following observations are made.

(a) The General Treasury had transferred 1/3 of the shares of the Ceylon Petroleum Storage Terminal Ltd. (CPSTL) on 21 October 2009 to the Corporation with effect from 01 January.2009. As a result, the total shareholdings of the Ceylon Petroleum Corporation increased to 2/3 of shares of the CPSTL. The Corporation had not disclosed the transfer of these shares in the financial statements and had not prepared the consolidated financial statements, as required by the SLAS -26 – Consolidated and Separate Financial Statements.

(b) The Corporation had not revalued the assets to ensure that the carrying amount do not differ materially from the fair value which would be determined at the balance sheet date, as stipulated in SLAS 18 – Property, Plant and Equipment. Further, fully depreciated assets valued at Rs. 619.6 million which still continues to be used by the Corporation without taking action to revalue the relevant assets

(c) The risk and returns of the petroleum business with the Corporation vary according to the class of customers. Hence, segmental analysis as required by SLAS 28 – Segment Reporting, should be disclosed based on the class of customer for revenue, cost of sales and gross profit. However, the segmental information had not been properly disclosed in the financial statements, as required.

In this connection the Chairman informed me as follows

The objective of segmental reporting is to provide information about different types of products and services of an enterprise or different class of customers or different geographical areas in which products are sold. This segmental information assists users of financial statements to:-

- understand the enterprise's past performance
- assess the risk and rewards
- make more informed judgments about the enterprise as a whole.

The CPC provides as per SLAS 28, the group of products sold and class of customers that are subject to different rates of profitability, opportunities for growth and risks. This allows assessing the risk and return of CPC. SLAS 28 requires an enterprise to identify segments on the basis of internal reporting system whenever applicable.

The materiality threshold for a segment is basically 10% of total revenue, profit or assets. However, this is a very subjective exercise. When considered refinery products refining process common assets, liability and same inputs material are shared in getting different refined products so that, identification of separate assets, liabilities are not practicable. Therefore, segmental information provided by CPC is compliance with SLAS 28 considering the nature of operations.

(d) The Corporation had not included certain taxes, which are not recoverable from tax authorities in determining the cost of purchase. Further, it was observed that the advertising cost of Rs. 2.9 million had been included in the manufacturing cost and this accounting treatment violated the provisions in SLAS 05 – Inventories.

(e) The Corporation had not adopted appropriate procedures to identify impairment indicators for its assets as required by SLAS 41- Impairment of Assets. Due to this non compliance, the carrying amount of the property, plant and equipment amounting to Rs. 9,200 million had not been compared with their recoverable amount.

2.2.2 Going Concern

The Corporation had sustained a loss of Rs. 11, 480 million (without tax adjustment) for the year under review and had a negative equity position of Rs. 13,716 million. Thus the ability of the Corporation to continue as a going concern without the financial assistance from the Government of Sri Lanka and other financial institutions is doubtful.

2.2.3 Accounting Deficiencies

The following accounting deficiencies were observed in audit.

(a) As per General Accounting Guidelines and Accounting Standards, purchases are recorded when the risk and rewards are transferred to the buyer, irrespective of the physical transfer of goods. In the case of importation of goods, the recognition of purchases is based on the date of Bill of Lading and the Pricing Method. In the case of CPC, crude oil and refined products had been insured by the CPC and all the risks and rewards relating to purchases had been transferred when the goods are taken over by the Captain of the vessel thus, it was the date of Bill of

Leading. However, it was observed that purchases of crude oil amounting to Rs 8,700 million (CR/15/2009) the date of Bill of Lading of which was 24 December 2009 had not been considered as purchases during the year under review.

(b) It was observed that the rent income of the Corporation had been understated by Rs. 1.8 million, due to the Corporation had not recognized rent income as per rent agreement.

(c) Goods-in-transit (crude oil) amounting Rs. 8,700 million had not been disclosed in the financial statements.

(d) The closing stock of fuel of Lanka Furnace Oil (LFO) 800 had been overstated by Rs. 66.6 million due to an erroneous valuation. As a result, purchases and creditors had been understated by a similar amount.

2.2.4 Accounts Receivable and Payable

The following observations are made.

(a) The Corporation had not obtained Bank Guarantees from two aviation contract customers, two private customers, four dealers and four Government institutions whose outstanding balances amounted to Rs. 20.4 million, Rs. 1, 544.9 million, Rs. 20.8 million and Rs. 3, 478.9 million respectively as at 31 December 2009. Further, it was observed that the Corporation had provided credit facility aggregating Rs. 626.6 million to dealers, private customers and aviation customers exceeding their bank guarantees.

(b) The amount outstanding from the Ceylon Electricity Board (CEB) as at 31 December 2009 amounted to Rs. 46,320 million. Eighty-eight per cent of this amount was outstanding for a period of over one year. Meanwhile, there was a dispute regarding a balance of Rs. 998 million due from the Ceylon Electricity Board.

2.2.5 Lack of Evidence for Audit

The following items in the financial statements could not be satisfactorily vouched in audit due to the non-availability of required evidence as indicated.

(a) The provision of Rs. 479 million made in the preceding years for contractors' payments, employees' income tax, PAYE tax and other payables relating to the Muthurajawela Project continued to be shown in the financial statements every year. However, the details concerned had not been furnished to audit. Further, this provision had not been reviewed at the balance sheet date and adjusted to reflect the current best estimate as required by SLAS 36 – Provisions, Contingent Liabilities and Contingent Assets.

(b) No adequate documentary evidence were made available regarding sundry items amounted to Rs. 487 million to determine its accuracy and completeness

(c) The Corporation had failed to produce title deeds of the land valued at Rs 67 million belonging to the Sapugaskanda Mini Terminal.

(d) The existence and recoverability of investments aggregating Rs. 55.5 million could not be determined due to lack of sufficient evidence.

(e) Twenty five acres of land valued at Rs. 259 million at Muthurajawela had been shown as an asset in the ledger. However, there were no title deeds or documents to establish the ownership of the land.

(f) No sufficient evidence were made available regarding the assets purchased prior to 31 December 2002 reflected under property, plant and equipment. As a result, the ownership, existence and completeness of such assets could not be determined in audit.

(g) Confirmations had not been received in respect of a sum of Rs 8,096 million due from Government departments and agencies included under trade and other receivables. As a result, the completeness, existence and recoverability of such balances could not be satisfactorily verified in audit.

(h) Sufficient evidence was not made available to determine the recoverability of the Excise Duty amounting to Rs. 714 million receivable from the General Treasury and included under Trade and Other Receivables.

2.2.6 Non-compliance with Laws, Rules, Regulations and Management Decisions

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

Reference to Laws, Rules, Regulations and Management Decision	Non compliance
(a) Payment of Gratuity Act, No. 12 of 1983	Gratuity had not been paid within 30 days from the termination of an employee as stipulated in the Act. Further, the Corporation had not paid surcharge for such delayed payments.
(b) Value Added Tax Act, No. 14 of 2002	The Corporation computed output Value Added Tax on invoice basis and claimed the input Value Added Tax on cash basis without obtaining approval for cash basis. Further, it affects the working capital as the Corporation has to wait till the payment is made to claim the input Value Added Tax.
(c)Department of Public Enterprises Circular No. PED/12 of 2 June 2003 (i) Paragraph 3.2	The Board of Directors of the Corporation did not contain at least one member in the field of Petroleum, which is the main subject of the Corporation.
(ii) Paragraph 6.1 (iii) Paragraph 6.5	The draft annual report for the year under review had not been submitted to the Auditor General. The draft annual accounts should be rendered to the Auditor General within 60 days after the closure of the financial year. However, incomplete draft annual accounts had been submitted to the Auditor General on 17 March 2010.
(iv) Paragraph 8.3.5	Officers who were not entitled to assign motor vehicles had been assigned with motor vehicles on the approval of the Board of Directors or the Chairman, contrary to the Circular instructions. As such, 08 officers of the Corporation had been paid a sum of Rs 1.8 million as fuel and traveling allowances in 2009 alone. Fuel limits for such assigned motor vehicles had been decided either by the Board or by the Chairman. In addition, the Chairman had granted approval to certain officers to claim reimbursement of the value of 100 – 120 litres of fuel per month for travel between their residences and office in their private motor vehicles.

(v) Paragraph 8.7 (d) Department of Public Enterprises Circular No. 130 of 18 March 1998	The Corporation had paid PAYE tax from its own funds for the employees of the Corporation contrary to circular instructions. PAYE tax so paid by the Corporation, for the period 2000 to 2009 amounted to Rs. 777 million. In addition the Corporation had paid tax on tax for PAYE. Further PAYE tax had not been paid on bonus amounted to Rs. 147 million and Rs.148 million paid in 2008 and 2009 respectively. Rate of interest on staff loans had been reduced from 7.2 per cent to 4.2 per cent without the authority of the General Treasury. The amount under recovered for the year under review due to this change amounted to Rs. 32 million. ***In this connection the Chairman informed me as follows.*** Reduction of the loan interest is in par with the public sector employees was implemented after consultation with the Hon. Minister by the Board of Directors during the year 1999.
(e) Letter dated 19 February 1990 issued by the Ministry of Policy Developmentand Implementation	Services of private lawyers had been obtained at a higher rate without obtaining prior approval of the Attorney General. The amount so paid to private lawyers during the year under review amounted to Rs.5 million.

2.2.7 Transactions not Supported by Adequate Authority

According to the Department of Public Enterprises Circular No PED/12 of 2 June 2003, the payment of bonus approved by the Board of Directors should be made from the profit generated by the Corporation. However, the Corporation had paid bonus amounting to Rs. 147 million and Rs. 148 million without generating profit in the years 2008 and 2009 respectively.

3. Financial and Operating Review

3.1 Financial Review

3.1.1 Financial Results

According to the financial statements presented, the working of the Corporation for the year under review had resulted in a pre-tax net loss of Rs 11,480 million as compared with the pre-tax net loss of Rs. 14,735 million in the preceding year, thus indicating an improvement of Rs. 3,255 million in the financial results.

3.1.2 Analytical Review of the Financial Results and Financial Position

The following observations are made.

(a) The liquidity ratio at the end of the year under review indicated 1.06 times as compared with 0.98 times of the preceding year showing a slight upward move while the acid test ratio had deteriorated from 0.86 times to 0.69 times at the end of the year under review.

(b) The following analysis depicted the poor performance in the management of working capital for the year under review.

(i) The debtors' turnover ratio indicated 3.9 times as compared with 6.75 times of the preceding year and the debt collection period had increased to 119 days as compared with 83 days of the preceding year.

(ii) The stock residence period had been 45 days as against 39 days of the previous year thus showing an increase of 06days.

(iii) The creditors' turnover ratio indicated 2.52 times as compared with 7.52 times of the preceding year and the credit payment period had increased to 144 days as compared with 49 days of the preceding year.

(iv) The operating cycle had been 20 days as against 44 days of the previous year thus showing a decrease of 24 days.

(c) Debt Capital of the year under review as a percentage of Equity had been 302% as compared with 3,996% of the preceding year.

(d) The gross profit margin of the year under review had increased to 1.73 %as compared with 0.92 % of the preceding year.

(e) The return on capital employed ratio showed a negative trend in 2008 and 2009.

(f) The return on total assets ratio was a negative of 7.79 % as compared with the negative of 8.18 % of the preceding year.

3.2 **Operating Review**

3.2.1 **Performance**

The following observations are made.

(a) The agreement entered into between the Laugf Gas (Pvt) Ltd and Ceylon Petroleum Corporation in respect of LP gas sales had been expired on 20th October 2006. However, the Corporation has supplied LP Gas to Laugf Gas (Pvt) Ltd continuously without entering into agreement. Instead, the supply of gas had been continued with a letter given by the Minister of Petroleum Industries. Further, the Corporation had planned to engage in gas business in the year 2008. However, the Laugf Gas (Pvt) Ltd filed a case against the Corporation in this regard which could possibly discontinue supply of gas. The Supreme Court directed the Corporation to continue gas supply to Laugfs Gas (Pvt) Ltd as agreed on 30 March 2009.

(b) According to the tender procedure set out by the National Procurement Agency followed in evaluating tender economical viability of offers, it should be based on competitive offer which conforms to tender procedures /conditions of the Corporation. For a tender to be competitive there should be more than one offer for a Tender. However, it was observed that three tenders aggregating to Rs. 6,290 million had been selected with only one offer.

In this connection the Chairman informed me as follows.

It is to be noted that from December, 2008 to November, 2009, the procurement of crude oil and petroleum products was carried out by the General Treasury under a Court order and procurement for crude oil and petroleum products was determined on the urgency of country's requirement as refinery production was limited. Under this situation, even a single quotation has to be considered.

(c) Some products of the Corporation have been sold at a price less than the production cost. It appears that those loss making products have contributed for the huge net loss significantly as well as for the negative equity position of the Corporation at the end of the year under review.

The Details are given below :-

Product	**Sales Value Rs. Mn..**	**Cost of Sales Rs. Mn..**	**Gross Profit/(Loss) Rs. Mn..**	**Net Profit at the year end 2009**
Fuel Oil 3500 (power)	7,350	12,466	(5,116)	Net Loss for the year ended 31 December 2009 amounted to Rs. 11,480 million and power generation fuel oil has contributed for a gross loss of Rs. 14,941 million
Fuel Oil 1500 (power)	14,402	24,227	(9,825)	
Fuel Oil (others)	5,665	7,507	(1,842)	
Agro Chemicals	179	197	(18)	
Solvent	135	145	(10)	
LPG	1,485	1,523	(38)	
Kerosene	9,754	10,379	(625)	
LAD (Bunkering)	64	74	(10)	
Fuel Oil (Bunkering)	51	126	(75)	

3.2.2 Hedging Transactions

According to on the minutes of the Board of Directors of the Corporation, arbitration proceedings are being conducted at the London Court of International Arbitration. The Corporation was sighted as a party in the arbitration proceeding pertaining to hedging contracts entered into several commercial banks. Pending the outcome of these proceedings at the London Court of International Arbitration, the Corporation had not recognized any resultant liability. Further, the Corporation had not furnished the details pertaining to the transactions to enable to independently verify the liability under these circumstances. Further it was not possible to satisfy in audit whether the Corporation has adequately recognized all liabilities arising out of these contracts.

In this connection the Chairman informed me as follows :-

Supreme Court cases were pending during the course of audit for the year 2009. Instructions were received from Hon. Attorney General not to disclose any confidential information until conclusion of the Court cases.

3.2.3 Utilization of Corporation's Resources by Other Government Institutions

Nine motor vehicles had been released to two Government Institutions and 18 employees had been released to seven Government Institutions without the approval of the appropriate authority and disregarding the instructions contained in the Public Enterprises Circular No. PED/12 of 02 June 2003.

3.2.4 Identified Losses

The following observations are made.

(a) The Corporation had entered into bunkering business through a private company in April 2008 with the intention of carrying out that business in future. According to the Corporation, at the commencement of the business, the environment was not favorable to the Corporation since it had to adopt different strategies to compete with other competitors in the market. Therefore, during the period April 2008 to December 2008 and January 2009 to May 2009, the Corporation had sold fuel at a reduced price to a private company and as a result, the Corporation had incurred an approximate loss of Rs.85.2 million and Rs.125 million respectively from the bunkering business.

(b) According to the current practice and the terms and conditions agreed with CPSTL, the Corporation had reimbursed to CPSTL more than the amount collected as slab from dealers. The Corporation had computed the dealer commission based on the outlet spot price which included the slab. The slab payments to CPSTL had been computed based on the actual monthly consumption report prepared by the CPSTL. Due to this practice, the Corporation had sustained an approximate loss of Rs. 11.1 million for the year ended 31st December 2009.

(c) The Corporation had sustained a loss of Rs. 1,039 million during the year under review (previous year loss was Rs. 2,071 million)by down grading 19,502,631 litres of Aviation Turbine Fuel to Lanka Kerosene as there was an average price difference of Rs. 18.65 per litre between these two products

(d) The Corporation had sustained a gross loss of Rs.624 million. (gross loss of the previous year was Rs. 4,971 million) from kerosene sales during the year under review.

(e) There was no standard set for allowable operational loss of fuel deliveries through bowsers and wagons and storage at depots and terminals. The practice followed by the Corporation is to allow the Own Use and Process Loss figure at 5 per cent for Crude Oil input and to allow a 0.5 per cent for evaporation loss for each transfer between two locations**.** However, it was observed that a loss of Rs. 576 million had been occurred with regard to evaporation, processing, operation and stock handling, product transferring etc. during the year 2009.

3.2.5 Management Inefficiencies

The following observations are made.

(a) No proper evaluation of the risk involved in linking the Corporation data base to an Enterprise Resource Planning (ERP) system developed by Ceylon Petroleum Storage Terminal Ltd. (CPSTL) with the assistance of the Indian Oil Company (the parent company of the major industry competitor of the Corporation had been made by the Corporation. Since the Corporation has to commit significant amount of its resources (both capital and human) for this purpose, a proper and in depth analysis of the impacts that would arise through this system integration should have been done with the assistance of experts in the field of Enterprise

Resource Planning Systems. Further, it was observed that there was no agreement or a memorandum of understanding (MOU) amongst the Corporation, CPSTL and LIOC with regard to their respective responsibilities under this project before the implementation of same. It was also important to have an agreement/memorandum as precautionary measure, taking into account the significant outlay of capital and human resources incurred by the Corporation to upgrade their equipment etc. to be compatible with the ERP System to be introduced by CPSTL.

(b) The bays No. 4C, 1D and 1A at Muturajawela Tank farm of the Corporation were not in operation due to a technical failure. However, no action had been taken to repair the bays by the Corporation.

(c) The Corporation had incurred demurrage charges amounting to Rs. 20.3 million due to delay in establishing the letters of credit.

(d) The Corporation had made major investments amounting to Rs.2,556 million in various portfolios. However, no income had been generated on these investments as at 31 December 2009.

(e) The Corporation had paid Value Added Tax based on the turnover as per sales ledger. However, a difference of Rs.550 million was observed between the aggregate amount as per Sales Ledger and the aggregate amount as per Value Added Tax Returns. Further, It was observed that a proper reconciliation mechanism was not in practice to monitor Value Added Tax payments/receivables.

(f) The management had accepted some cargo against the recommendation of the Technical Evaluation Committee. An examination of the related file revealed that the Corporation had paid the supplier based on the price calculated on the monthly average of respective product price. However, TEC report available in the respective file had recommended to use the average price of two days before and after from Bill of lading date. Due to the violation of recommendation of the TEC the Corporation had paid an additional sum of Rs. 52.3 million.

(g) As a practice, the Corporation used to select the vessel for transporting crude oil based on competitive bidding process over the years. However, it was observed that the Corporation had entered into an agreement with only two vessel owners for a certain period at a fixed price. Hence, the Corporation had been deprived of the benefits that could have been gained if the vessels were selected on competitive bidding. Further, earlier tender condition facilitated for out turn losses which were favorable to the Corporation. However, it was observed that the said tender conditions had been modified and in place of our turn losses it had been agreed for in transit losses since vessel owners had not agreed with the out turn loss.

.(h) It was observed that 20,000 Mt. of High Sulphur fuel oil 1500 valued at Rs.1,140 million imported by the Corporation had been contaminated and it has affected the Independent power producers in the country and the CPC has consulted the Attorney General in this regard. The Attorney General's opinion was that the fuel specifications and the tender conditions laid down for the import of High Sulphur fuel oil 1500 are not in favor of the Corporation in case of the above situation, and therefore taking legal action against supplier could be a waste of money. Hence the Board of Directors has taken a decision to cancel the registration of this particular supplier.

(i) According to the agreement entered into with Lanka Indian Oil Company (LIOC), the Government of Sri Lanka and the Corporation in 2003 relating to the taking over of possession and related matters of the China Bay installation, the Corporation has agreed to lease the storage facilities and the land to LIOC for a period of thirty five years and that lease agreement should be executed within 06 months from the date of the agreement. However, the Corporation has not yet entered into any lease agreement and any related lease rentals had not been received from LIOC for the usage of this storage facility, although the facility had already been used by the LIOC since February 2003.

3.2.6 Assets Management

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

Nature of the Asset	Comments
(a) Wanathamulla - Halgahakumbura Land	This land had been acquired for Rs.10.6 million for the purpose of LP Gas project and a playground. However, it had not been utilized due to encroachments. In addition, this land is being illegally occupied by squatters since 1973, and it was observed that about 623 families are being occupied this land presently.
(b) Mahahena Land	According to the correspondence available, the Corporation had paid a sum of Rs. 0.625 million for the acquisition of the land. However, this land had not been accounted in the books of the Corporation, and is being used by the previous owner since 1986.

3.2.7 Human Resource Management (HRM)

There is no written standard period of rotation for the security officers at the Muthrajawela terminal. A security officer is the only person who checks the tongue level of each bowser after filling the fuel into the bowser.

3.2.8 Apparent Irregularities/ Irregular Transactions

As mentioned in my previous audit reports, an employee's welfare association (Ceylon Petroleum Corporation Thrift Society) is being functioned from the premium made by the Corporation from time to time. The following observations are made in this connection.

(a) A sum of Rs. 40.2 million had been released to the Society during the year under review to implement the Medical Scheme of the Corporation which could have been done by the Corporation itself. The above contribution had been made to the Society in addition to the medical allowance of Rs. 3,000 per annum paid to each employee with their monthly salary to meet outdoor treatments.

(b) The balance outstanding from the loans granted to members of the Society by the Corporation out of the funds of the Corporation as at 31st December 2009 amounted to Rs. 20.7 million and a sum of Rs. 2.2 million had been received as interest income from this Society.

3.2.9 The Corporate Plan

The Corporate Plan of the Corporation had not been reviewed and updated annually, in terms of the Public Enterprises Circular No PED/12 of 2nd June 2003 and also; it had not been forwarded to the Ministry, Department of Public Enterprises and the Auditor General at least 15 days before the commencement of each financial year. Further, Corporate Plans for the period 2007 – 2011 and 2009-2013 had not been forwarded to the Auditor General.

3.2.10 Budgetary Control

Significant variances were observed between the budget 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.

4. Systems and Controls

Significant deficiencies observed during 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.

a) Property, Plant and Equipment
b) Debtors and Other Receivables
c) Trade Creditors and Other Payables
d) Hedging Transactions
e) Taxation
f) Accounting
g) Compliance with Laws, Rules etc.
h) Investments
i) Inventories
j) Utilization of Resources
k) Human Resource Management
l) Budget

H.A.S. Samaraweera

Acting Auditor General

TEN YEAR SUMMARY

DOMESTIC SALES OF BUL PRODUCTS

Rupees Mn..	2000	2001	2002*	2003	2004	2005	2006	2007	2008	2009
(A) VALUE										
Petrol	14,614.769	16,258.637	18,514.426	22,461.268	28,761.366	28,633.662	36,677.342	46,579.620	**66,433.726**	**60,055.135**
Auto Diesel	**35,674.876**	48,472.452	52,668.931	52,084.773	74,520.990	78,104.774	92,474.65	113,737.174	**151,070.451**	**119,046.261**
Super Diesel	1,342.637	1,904.453	1,902.580	1,698.721	1,711.525	725,285	349.805	467.764	**885.249**	**866.145**
Kerosene	4,432.654	5,512.753	5,938.386	5,683.438	7,775.135	11,430.279	13,209.914	12,459.330	**14,000.051**	**9,754.538**
Furnace Oil	6,932.905	11,836.009	15,126.837	16,238.84	20,135.716	30,165.885	36,421.645	43,941.105	**66,220.151**	**33,157.145**
Total		83,984.30	94,151.16	98,167.04	132,904.73	149,059.89	179,133.352	217,184.993	**298,609.628**	**222,879.224**
(B) QUANTITY - Thousand Metric Tons										
Petrol	224.400	249.500	286.100	337.900	350.300	334.100	367.600	382.100	**383.747**	**415.667**
Auto Diesel	1,683.800	1,624.900	1,728.300	1,523.000	1,583.300	1,330.100	1,335.300	1,449.700	**1,371.323**	**1,427.328**
Super Diesel	46.700	49.00	46.900	39.500	31.600	11.700	4.700	5.400	**7.188**	**8.548**
Kerosene	229.100	227.800	228.800	184.600	171.800	178.000	196.600	168.500	**151.308**	**150.690**
Furnace Oil	736.700	748.800	757.600	648.300	771.700	972.800	911.100	985.200	**994.545**	**1,095.733**
Total	2,920.700	2,900.000	3,047.700	2,733.300	2,908.700	2,826.700	2,815.300	2,990.90	**2,908.111**	**3,097.966**
(C) RETAIL SELLING PRICES IN PETROLEUM PRODUCTS										
(Colombo Spot Price in Rs. Per Litre as at 31st December)										
Super Petrol	50.000	50.000	49.000	53.000	70.000	80.000	95.000	92.000	**120.000**	**115.000**
Auto Diesel	24.500	26.500	30.000	32.000	44.000	50.000	92.000	60.000	**70.000**	**73.000**
Super Diesel	18.500	29.800	31.800	35.300	49.300	55.300	65.300	65.3	**85.300**	**88.300**
Kerosene	18.400	17.400	24.000	25.500	25.500	30.500	48.000	48.000	**50.000**	**51.000**
Furnace Oil										
-1000 Sec	14.600	16.500	21.200	23.200	24.700	31.400	44.400	44.400	**33.900**	**34.900**
-1500 Sec	14.000	15.800	20.700	22.300	24.300	30.300	43.300	43.300	**31.700**	**32.700**
-3500 Sec	12.400	14.100	18.900	20.700	22.000	28.000	41.000	41.000	**25.000**	**26.000**
INCOME & EXPENDITURE										
Gross Income										
Less Taxes	63,159.000	74,351.000	80,114.000	85,900.000	121,540.000	161,852.000	196,767.000	238.364	**341.670**	**236,332.000**
Income from Investment	181.000	120.000	1118.000	162.000	-	-	-	-	-	
Cost of Sales	70,688.000	62,734.000	67,211.000	75,471.000	106,750.000	144,501.000	187,231.000	221,724.000	**338,514.000**	**233,250.000**
Margin	-7,529.000	11,617.000	12,903.000	10,429.000	14,789.000	17,350.000	9,536.000	16,641.000	**1,835.038**	**3,082.000**
Extraordinary Item	-	-	2,530.000	-	-	-	-	-	-	-
Working & Establishment Exppenses including Interest	8,714.000	10,178.000	6,765.000	5,715.000	10,344.000	7,510.000	7,621.000	12,657.000	**16,570.000**	**15,424.773**
Kerosene Subsidy and other Levis paid to the treasury	-	-	-	-	-	-	-	-	-	
Profit/(Loss) Before Tax	-16,062.00	1,559.00	9,786.00	4,874.00	4,445.00	9,840.00	-1,915.00	3,984.00	**(14,735.000)**	**(12,342.640)**

** Retail prices revised monthly as per Formulae from February 2002*

*** Taxes comprise provisional, TT, Excise Duty & SRL*

TEN YEAR SUMMARY

Rupees Mn.	2000	2001	2002*	2003	2004	2005	2006	2007	2008	2009
CAPITAL STRUCTURE										
Capital Employed										
Capital	1,000.000	1,000.000	1,000.000	1,000.000	1,000.000	1,000.000	1,000.000	1,000.000	**1,000.000**	**1,000.000**
Reserves	(16,221.800)	(15,039.400)	(8,589.100)	(2,253.800)	1,984.100	11,673.400	10,065.900	12,567.800	**(2,416.400)**	**(14,716.686)**
L/T Liabilities	3,012.700	4,787.000	6,644.600	8,476.500	7,699.900	19,113.400	16,705	13,728.200	**10,908.400**	**32,779.058**
Gratuity Provision	462.200	482.800	424.900	556.800	700.400	377.400	514.300	541.400	**566.500**	**735.200**
Total	(11,746.900)	(8,769.600)	(519.600)	7,779.500	11,384.400	32,164.200	28,285.400	27,837.400	**10,058.500**	
Represented										
Fixed Assets, Including work in Progress	5,905.400	7,630.200	10,844.700	4,504.400	4,450.700	4,512.700	4,460.900	4,374.600	**4,624.000**	**5,041.000**
Investment	316.200	338.700	57.800	2,173.800	2,176.100	2,535.600	2,553.100	2,546.900	**2,541.900**	**2,541.900**
Net Current Assets	(17,968.500)	(16,738.500)	(11,422.100)	(1,101.300)	4,757.600	25,115.900	21,271.500	20,915.900	**2,892.600**	**12,214.672**
Total	(11,746.900)	(8,769.600)	(519.600)	5,576.900	11,384.400	32,164.200	28,285.500	27,837.400	***10,058.500***	***19,797.572***
SUMMARISED CASH FLOW STATEMENT										
Cash Flow from Operating	(13,920.000)	4,495.757	7,310.655	4,874.194	4,444.837	9,839.809	(1,915.029)	3,984.181	**(14,735.028)**	**(12,342.640)**
Extraordinary item	-	-	2,529.832	-	-	-	-	-	-	**-**
Adjustment for Items not involving Movement of cash	537.928	604.449	529.412	988.365	776.807	841.682	1,431.845	1,928.200	**1,922.024**	**4,986.477**
Operating Profit/(Loss) before Working Capital changes	(13,382.072)	5,100.206	10,369.899	5,862.559	5,221.644	10,681.491	(483.184)	5,912.381	**(12,813.004)**	**(7,356.162)**
Change in Working Capital										
(increase)/Decrease in inventories	3,367.729	1,845.314	(3,099.970)	1,844.676	(5,157.403)	(4,066.365)	(9,184.440)	(13,321.526)	**8,673.831**	**5,962.155**
(increase)/Decrease in Trade and Other Receivables	(197.361)	(2,143.290)	711.285	(384.386)	789.614	(3,434.619)	(2,852.640)	(13,098.772)	**(32,409.849)**	**(9,365.376)**
(increase)/Decrease in Trade and Other Payables	22,289.402	(3,215.520)	(4,571.558)	(1,792.170)	2,862.133	(1,838.767)	11,099.326	23,813.340	**39,946.795**	**57,438.630**
Les Gratuity/Tax and Interest Paid	(2,264.633)	(3,250.230)	(2,788.440)	(617.268)	(880.768)	(2,072.717)	(5,613.107)	(3,268.480)	**(4,625.380)**	**(4,871.602)**
Cash Generating From Operational Activities	3,077.607	(1,663.520)	621.216	4,913.411	2,835.220	(730.977)	(7,034.045)	36.943	**(1,227.607)**	**41,807.644**
Cash Used in Investing Activities	(1,217.353)	(2,173.473)	(1,899.240)	(3,421.404)	246.165	317.925	662.033	1,165.988	**40.605**	**(308.564)**
Cash from/(Used in) Financing Activities	715.698	1,797.652	2,069.996	1,880.885	1,050.684	13,020.883	(2,478.143)	(3,326.039)	**(1,001.410)**	**(21,339.770)**
Net (Decrease)/Increase in cash & Cash Equivalents	2,575.952	(2,039.341)	791.972	3,372.892	4,132.069	12,607.831	(8,850.155)	(2,123.108)	**(2,188.412)**	**20,159.310**
Cash & Cash Equivalents at beginning of the year	(507.723)	2,068.229	28.888	820.860	4,193.752	8,325.821	20,933.652	12,083.497	**9,960.389**	**7,771.977**
Cash & Cash Equivalents at end of the year	2,068.229	28.888	820.860	4,193.752	8,325.821	20,938.652	12,083.497	9,960.389	**7,771.977**	**27,931.287**

TEN YEAR SUMMARY

FOREIGN EXCHANGE EARNINGS & PAYMENTS

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Aviation fuel sales										
Foreign Airlines-US$ Mn.	40.900	31.100	32.400	48.300	57.000	77.420	84.540	75.280	**104.747**	**54.795**
Direct Exports-US$ Mn.	27.600	16.500	13.100	-	7.000	-	23.090			
Total-US$ Mn.	68.500	47.600	45.500	48.300	64.000	77.420	107.630	75.280	**104.747**	**54.795**
Rupee Equivalent	5,545.900	3,561.500	3,977.700	350.800	6,458.500	7,159.010	8,714.050	8,264.680	**11,262.986**	**6,298.137**
Import cost										
Crude oil US$ Mn.	489.100	353.900	408.000	431.000	597.000	747.200	1,028.500	1,023.000	**1,330.902**	**964.925**
Refined product-US$ Mn.	303.500	304.000	286.000	300.000	464.000	653.000	761.300	996.000	**1,449.394**	**774.937**
Total US$ Mn.	792.600	657.900	694.000	731.000	1,061.000	1,400.200	1,789.800	2,019.000	**2,780.296**	**1,739.862**
Avg. Crude (C&F) Price US$/Bb1	28.270	24.670	25.000	29.290	37.380	52.140	65.070	71.970	**97.645**	**63.48**
Avg. Exch. Rate-US$ 1= Rs.	77.270	89.620	96.340	96.420	101.900	100.530	103.960	111.490	**108.330**	**114.94**

OTHER MANGEMENT INFORMATON

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
TRADING RESULTS										
Revenue	75,865.800	95,103.188	105,001.924	111,389.486	135,351.978	174,554.976	211,012.846	253,344.379	**358,002.116**	**257,508.193**
Profit/(Loss)after Taxation	(16,062.100)	1,169.310	9,986.088	4,874.194	3,907.862	7,710.890	(946.220)	2,862.337	**(14,952.518)**	**(12,342.64)**
ASSETS EMPLOYED										
Property, Plant & Equipment	*5,905.500*	7,630.244	10,844.721	4,504.432	4,450.672	4,512.448	4,460.920	4,374.649	**4,624.068**	**5,041.139**
Net Current Assets	*(17,968.500)*	(16,738.531)	(12,165.676)	(6,785.125)	(2,728.739)	17,763.403	14,519.333	15,138.460	**(2,585.377)**	**7,323.200**
Total	(12,063.000)	(9,108.287)	(1,320.955)	(2,280.693)	1,721.933	22,275.851	18,980.253	19,513.109	**2,038.691**	**12,364.339**
FUNDS EMPLOYED										
Capital	1,000.000	1,000.000	1,000.000	1,000.000	1,000.000	1,000.000	1,000.000	1,000.000	**1,000.000**	**1,000.000**
Reserves	(16,221.800)	(15,039.418)	(8,588.861)	(2,253.785)	1,984.126	11,673.455	10,065.946	12,557.400	**(2,416.400)**	**(14,716.700)**
Total	(15,221.800)	(14,039.418)	(7,588.861)	(1,253.785)	2,984.126	12,673.455	11,065.946	13,557.400	**(1,416.400)**	**(13,716.700)**
Capital Expenditure	(1,408.973)	(2,306.025)	(4,001.341)	(5,255.000)	(255.000)	(78.000)	(255.000)	(242.680)		
EMPLOYEES EARNINGS										
Wages	1,538.068	1,620.893	1,496.242	1,461.006	1,201.357	986.434	1,221.585	1,429.796	**1,668.718**	**1,815.765**
Bonus	122.590	125.804	112.884	186.671	101.931	84.739	129.689	149.007	**211.852**	**240.061**
Annual Average Earrings per Employees (000' Rs.)	227.550	243.510	224.863	759.298	531.530	419.410	461.188	538.657	**664.043**	**736.327**
No. of Employees	7,298	7,173	7,156	2,170	2,452	2,540	2,930	2,931	**2,832**	**2,792**
FINANCIAL RATIOS										
Return on Capital Employed %	-	-	-	-	130.900	60.840	(15.770)	21.100	**-**	**-**
Return on Turnover %	-	21.000	14.650	5.670	3.220	4.760	(0.870)	1.200	**(4.38)**	**(5.22)**
Debtors to Turnover %	0.040	0.050	0.030	0.040	0.060	0.080	0.090	0.130	**0.19**	**0.31**
Turnover to Fixed Assets times	10.690	9.780	7.390	19.070	27.310	35.870	44.450	53.430	**78.10**	**55.50**
Finished Stock to Turnover times	0.060	0.050	0.050	0.050	0.070	0.060	0.090	0.090	**0.065**	**0.064**
Current Ratio times	0.460	0.500	0.600	0.700	0.920	1.480	1.330	1.220	**0.977**	**1.057**
Liquid Ratio times	0.210	0.230	0.240	0.450	0.530	1.000	0.740	0.640	**0.69**	**0.86**
Interest Cover times	-	1.470	9.910	9.960	6.780	8.810	0.350	1.280	**(4.73)**	**(2.60)**

GLOSARY OF FINANCIAL TERMS

Cash Equivalents - Short term investments readily convertible to known amounts of cash subject to insignificant risk of changes in value.

Contingent Liabilities - Conditions or situations at the Balance Sheet date, the financial effects of which are to be determined by future events which may or may not occur.

Current Ratio - Measures the number of times current liabilities be 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)

Deferred Income - Income yet to be realized or realized but not recognized as income.

Interest Cover - Measures the extent to which interest charges be covered by profit before Tax.

Liquid Ratio - Measures the number of times current assets be recouped with available current liabilities.

Post Balance Sheet Events - Significant events that occur between the Balance Sheet date and the date on which financial statements are authorized for issue.

Provisions - Liability of uncertain timing or amount.

Related parties - Parties who could control or significantly influence the Financial and operating decisions/policies of the Corporation.

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

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

ABBREVIATIONS

Avn	-	Aviation
Bbl	-	Barrel (Basic unit in international petroleum sales)
bps	-	Basis points
BTR	**-**	Bulk Transfer
CEB	-	Ceylon Electricity Board
CIF	-	Cost Insurance Freight
CPC	-	Ceylon Petroleum Corporation
CPSTL	-	Ceylon Petroleum Storage Terminals Ltd.
EPF	-	Employees Provident Fund
ETFB	-	Employees Trust Fund Board
FIFO	-	First in First Out
FOB	-	Free on Board
FOREX	-	Foreign Exchange
GOSL	-	Government of Sri Lanka
ICPA	-	International Coop/Petroleum Association
Int	-	Interest
LIOC	-	Lanka Indian Oil Corporation Ltd.,
LMS	-	Lanka Marine Services (Pvt.) Ltd.,
LPG	-	Liquid Petroleum Gas
Ltr	-	Litre (Basic unit in domestic Petroleum sales)
MOU	-	Memorandum of Understanding
NDB	-	National Development Bank
OPEC	-	Oil Producing and exporting Countries
PERC	-	Public Enterprise Reforms Commission
SPBM	-	Single Point Buoy Mooring Facility
TT	-	Turnover Tax
VAT	-	Value Added Tax
VRS	-	Voluntary Retirement Scheme