Annual Report - 2011

Ceylon Petroleum Corporation

Ceylon Petroleum Corporation

2011

Annual Report

Report Content

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OUR VISION

To be the premier customer driven, environmentally friendly, enterprise in the petroleum and related industries in the region contributing to 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 by providing total solutions and services exceeding customer expectations, while utilizing advanced technology for growth and development of the enterprise engaging employee participation, 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

Mr. D H S Jayawardene

DIRECTORS

Mr. Methsiri Wijegunawardana

Mr. Wasantha Ekanayake

Ms. C D Amarasekara

Mr.L Gunawardena

Ms. Sandya Wijayabandara

Mr. H D B Saman Kumara

AUDITORS

The Auditor General

REGISTERED OFFICE

609, Dr. Danister De Silva Mawatha, Colombo 9.

Telephone	:	011-5455455
Telegrams	:	”LANKA OIL”
Cables	:	CEYPETCO
Telex	:	221167,221235,221624 CEPETCO-CE
Fax	:	5455400
E-mail	:	cpcsec@ceypetco.gov.lk.

BANKERS

People’s Bank

Bank of Ceylon

Nations Trust Bank

Commercial Bank

Hatton National Bank Ltd.

SENIOR MANAGEMENT

Mr. D H S Jayawardene
Chairman / Managing Director

N R R Jayasekara
Actg. Refinery Manager

J R Wickramasinghe
Dy. General Manager (Planning &Dev.)

A R Abel
Dy. General Manager (Marketing)

S W Gamage
Dy. General Manager (HR &Admn.)

W Sarath Perera
Actg. Dy. General Manager (Finance)

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

K S K Ettipola
Actg. Dy.Refinery Manager (Electrical & Instrument)

N R Amarasinghe
Actg. Deputy Refinery Manager (Manufacturing & Operations)

Ms. R T A Dabare
Finance Manager

P G H Samarwickrama
Engineering & Premises Manager

G M U W Doloswala
Dy. Commercial Manager

S D S Rajapakse
Dy. Supplies Manager

Samantha PushpalalWithana
Human Resource Manager

Ms. R A K C Ariyaratne
Actg. Chief Legal Officer

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

W M K R B Wickramasinghe
Marketing Manager (Lube Oil & LPG)

M K Garusinghe
Manager (Development)

S M C P Samarakoon
Actg. Marketing Manager (Retail)

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 Annual Report together with Audited Financial Statements for the year ended 31 December 2011.

Annual Report together with Audited Financial Statements including Consolidated Financial Statements have already been submitted to the Minister of Petroleum Industries.

Principal Activities

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

Subsidiary Company

The provision of fuel storage and distribution facilities and information technology services are core activities of the subsidiary company – Ceylon Petroleum Storage Terminals Ltd. (CPSTL) in which CPC has invested 2/3 of share capital. Out of 09 Directors at CPSTL Board, 06 Directors represent Ceylon Petroleum Corporation.

Review of the Year's Performance

The Chairman's Report on pages 13 to 19 deals with the year's performance of the Corporation/Group and the Sri Lankan economy.

Risks and Internal Controls

The Board of Directors assumes overall responsibility for managing risks. For this purpose, the Board of Directors has instituted and put into practice an effective and comprehensive system of Internal Controls in the Corporation. Internal control systems have been reviewed and redesigned to mitigate the risks to which the Corporation is exposed, and to provide reasonable but not comprehensive assurance against material misstatements or loss. The Corporation's internal control systems provide Directors with reasonable assurance that assets are safeguarded, transactions are authorized and properly recorded and material errors and irregularities are either prevented or detected within a reasonable period of time. The Board of Directors is satisfied that a strong control environment is prevalent within the Corporation and that internal control systems are effective to safeguard the assets of the Corporation.

Corporate Governance

The Board of Directors is committed towards maintaining an effective Corporate Governance structure and the process. The financial, operational and compliance functions of the Corporation are directed and controlled effectively within the Corporate Governance practices. The procedures and practices that are in conformity to the Corporate Governance rules and regulations issued by various regulators are described in the Corporate Governance Report appearing on pages 22 to 26 of this report.

Human Resources

The Corporation has recognized valuable contribution of the Human Resources which can lead the business mission and vision into reality. To achieve this mission, several measures were taken to strengthen the much – valued human capital in order to optimize their contribution towards the achievement of corporate goals and objectives. Our HR policy emphasizes on providing all types of employees with new opportunities including local and overseas training to ensure their optimum contribution to achieve goals of the Corporation. The training and development have become key priority in developing human capital to achieve technical and managerial abilities to provide skills and competence of human resources of the Corporation.

Audit Committee

The Audit Committee consists of three members, all of whom are Non-Executive Directors including the Chairman of the 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.

Sub Committees

There are four main sub Committees assisting the Board of Directors to discharge their duties in an orderly manner. Senior Management Committee, Audit Committee, Technical Evaluation Committee and Procurement Committee are the main sub committees established in providing key guidance to the affairs of the Corporation. The details of the sub committees are described in the Corporate Governance Report appearing in pages 22 to 26 of this report.

Accounting Policies

The Accounting Policies adopted in the preparation of Financial Statements are given in pages 33 to 47 of this report. There have been no changes in the Accounting Policies adopted by the Corporation during the year under review.

Financial Performance

The main source of income of the Corporation is revenue generated from sale of petroleum products such as Diesel, Petrol, Kerosene and Aviation Fuel. The main income of the subsidiary company is throughput charges and transport charges collected from Marketing Companies for the supply of petroleum products. The gross revenue of the Corporation for the year 2011 was Rs.356, 442 Mn. as against Rs.256, 329 Mn. in the previous year which is an increase of 39%. The total income of the Corporation accounted for 99% of total income of the Group.

Turnover

The turnover for the year had increased to Rs.382, 268 Bn. over the previous year figure of Rs.276.550 Bn. which showed a 38.23% (increase).

The total turnover of the Corporation during the year consists of domestic sales 94.4% and indirect exports 5.6% for the year. Diesel, Petrol, Kerosene and Furnace Oil are the major components of the domestic sales.

Profit / Loss

As a result of not having a cost reflective price mechanism for petroleum products the Corporation reported a loss of Rs. 94,508 Mn. in 2011 reflecting an increase of 351% compared to the loss of Rs.26,922Mn. recorded in the previous year as a consequence to absence of cost reflective price revision in petroleum products in line with international oil price movement.

Domestic retail prices of petroleum products were revised in 2011 due to the higher prices prevailed in the international market. The domestic retail prices of Petrol, Diesel and Kerosene were increased byRs.10/-, Rs.3/- and Rs.10/- per litre, respectively, with effect from 02 April 2011. The domestic retail prices of Petrol, Diesel and Kerosene were again increased by Rs.12/-, Rs.8/- and Rs.10/- per litre, respectively with effect from 30 October 2011. When compared with total segmental loss for the year 2011, heavy losses incurred by CPC were due to the sale of Auto Diesel to the transport sector and Fuel Oil and Naphtha for power generation at highly subsidized rates.

Details of the segmental loss of the year 2011 are noted below:-

Segment	Loss – Rs. Mn.
Transport – Supply of Diesel at subsidized rate	61,869.615
Power Generation – Supply of Naphtha and Fuel oil at subsidized rates	33,991.333
Aviation – Supply of Jet A-1 at highly subsidized rate	697.037
Industries – Supply of Fuel Oil and Industrial Kerosene	6,851.004
Domestic – Supply of LPG & Kerosene at subsidized prices	7,091.688
Farmer Community – Supply of Agro Chemicals	5.209
Export Sector – Naphtha & Fuel Oil	996.276

Despite the heavy losses incurred due to above reasons, the sale of Petrol, Super Diesel Avtur, Avgas, Lube Oil, Asphalt and Solvents had contributed positively with the profit contribution of Rs.16, 993.770 Mn. which enabled to limit overall loss to Rs. 94,508 Mn. during the year.

The international crude oil prices increased in year 2011. The average price of crude oil (Brent) increased to US$.112 per barrel in year 2011 reflecting a 40% increase compared to the year 2010. The supply uncertainties caused by political disturbances in oil producing countries in the Middle East and North Africa exerted an aimed and upward pressure on international crude oil prices. The average price of crude oil imported by CPC increased by 36% to US$. 110 per barrel in 2011.

The consumption of petroleum products increased during the year 2011 reflecting an increased demand for transportation and power generation sectors. Sales quantities of Petrol, Auto Diesel and Super Diesel were increased by 16%, 30% and 24% respectively in the year 2011 compared with the previous year.

Details of the profits / (loss) are given below:

	2011	2010
	Rs. Mn.	
Revenue	356,442.364	256,329.157
Cost of Sales	(428,070.572)	(265,603.764)
Gross Profit / (Loss)	(71,628.208)	(9,274.607)
Operating Income	461.840	532.847
Operating Profit/(Loss)	**(71,166.368)**	**(8,741.760)**
Selling & Distribution Expenses	(10,861.465)	(9,716.083)
Administrative Expenses	(3,479.990)	(1,606.078)
Financial Charges	(9,000.571)	(6,858.899)
Profit/(loss) Before Tax	(94,508.394)	(26,922.819)
Taxation	-	-
Profit/(loss) after Taxation	**(94,508.394)**	**(26,922.819)**

Contribution to the Government

	2011	2010
	Rs. Mn.	
Value Added Tax	1,337	7,789
Excise Duty	23,935	18,579
Social Responsibility Levy	-	269
Turnover Tax (Dealers)	-	2,776
Port & Aviation Levy (PAL)	14,537	8,353
Debit Tax	-	262
Custom Duty	440	1,246
Nation Building Tax (NBT)	1,897	95
TOTAL	**42,146**	**39,369**

Operating Expenses

The total operating expenses increased to Rs. 23,342.026 Mn. during the year under review, when compared with the figure of Rs. 18,181.06Mn.recorded during the previous year which is a 28% increase.

Capital Expenditure

The total Capital Expenditure for the year was Rs. 1,945.539 Mn. whereas the same for 2010 recorded as Rs.347.596 Mn.

Property, Plant & Equipment

Details of Property, Plant & Equipment of the Corporation and their movements are given in Note 6 to the Financial Statements on page 53.

Reserves

As at 31.12.2011, total reserves recorded at a negative equity capital of Rs.37, 451.634 Mn. This had been further deteriorated during the year upto Rs.131, 324.144 Mn. largely due to accumulated financial losses since 2008. Movements are given in the Statement of Changes in Equity on page 30.

Contributed Capital

The total contributed capital of the Corporation as at 31.12.2011 was Rs. 1,000 Mn.

Board of Directors

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

Mr.D H S Jayawardena – Chairman & Managing Director
Mr. Methsiri D Wijegunawardana
Mr. Wasantha Ekanayake
Ms. Champika Amarasekara
Ms. Sandhya Wijayabandara
Mr. Lakshman Gunawardena
Mr. H D B Saman Kumara

Directors' Interest in Contracts & Related Party Transactions

During the year under review, Mr. Methsiri Wijegunawardana, Mr. C Ekanayake, Mrs. Champika D Amarasekera, Ms. Sandya Wijayabandara functioned as Directors at CPSTL where CPC has contributed 2/3 of share capital. The subsidiary company provides storage and distribution services and information technology services.

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.

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.

Event after Balance Sheet Date

On the balance sheet date, there were two cases pending relating to the hedging transactions; and the current position is noted below:-

(i) Citi Bank vs. CPC Arbitration in London

The claim of the Citi Bank NA was for two derivative transactions between July 2007 and July 2008 made by reference to a master agreement.

Citi Bank claimed US$.195, 458,092.67 as a principal sum due from CPC with interest.

The award was delivered on 31.07.2011. Accordingly, to award transactions numbered 1 – 16 made by Citi Bank between 11.07.2007 and 16.07.2008 by reference to master agreement are each declared to have been and to remain legally null and void as being ultra vires and beyond the capacity of Respondent (CPC). CPC was liable to pay Citi Bank a sum of US$.17, 926,300 together with interest. Citi Bank was liable to pay CPC a sum of US$.16, 723,750 together with interest. The net amount payable by CPC was US$. 1,202,550.

Both parties are entitled to interest on each payment made to the other from the date of payment to date of re-payment.

The interest calculation made upto 21.11.2011 after setting off interest receivable from Citi Bank NA is US$. 164,168.29. The total amount payable by CPC to Citi Bank is US$.1, 202,550 + 164,168.29 totaling US$.1, 366,718.29.

The Arbitration Tribunal issued the final award on 15.12.2011. Accordingly, Citi Bank should pay CPC, a total sum of US$.2, 705,760.43 as legal costs.

Accordingly, CPC received US$.1, 339,042.14 as net settlement (LKR 153,458,915.90).

(ii) Standard Chartered Bank vs. CPC

Standard Chartered Bank (SCB) claimed US$.161,733,500 plus interest being the sum allegedly due under to derivative transactions entered into with CPC on 28.05.2008 and 09.07.2008 (transactions 08 & 09).

CPC made a counter claim on various grounds. The Court concluded that SCB's claim in respect of transaction 08 & 09 succeeds and that CPC's counter claim be dismissed. The Court ordered that CPC should pay SCB a sum of US$.166, 476,282.77 plus 50% of cost to be paid was GBP.2, 963,546.02. CPC appealed to the Court of Appeal in U.K. against the judgment given and the judgment of the Court of Appeal was in favour of the SCB. Therefore, CPC appealed to the Supreme Court in U.K. and the matter is pending. All legal activities are performed through the Hon. Attorney General.

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. However, the Auditor General has reported in his report for the year ended 31.12.2011 that due to negative equity position of Rs.37,452 Mn., the ability of the Corporation to continue as a going concern without the financial assistance of the Government of Sri Lanka and other financial institutions, was doubtful.

Appointment of Auditors

The Auditor General is the Auditor of the Corporation. He has been appointed in terms of the provisions in Article 154 of the Constitution of the Democratic Socialist Republic of Sri Lanka.

For and on behalf of the Board of Directors

D H S Jayawardena
CHAIRMAN & MANAGING DIRECTOR
CEYLON PETROLEUM CORPORATION

CHAIRMAN'S REPORT

Introduction

As reported by the Central Bank of Sri Lanka, Sri Lanka's gross domestic product (GDP) grew by an impressive 8.3 percent in 2011, the highest growth witnessed during the past six decades.

International crude oil prices remained high in 2011. The average international crude oil price increased to US$.112 per barrel in 2011 reflecting an increase of 40% compared to 2010. Supply uncertainties caused by political disturbances in oil producing countries in the Middle East and North Africa exerted an upward pressure on international crude oil prices.

The average cost and freight (C&F) price of crude oil imported by CPC increased by 36% to US$.109 per barrel in 2011. The domestic retail prices of petroleum products were revised twice in 2011 due to higher prices in the International market.

Major Milestones taken to Improve Financial and Operational Health of CPC

1. During the year under review, CPC moved into a new building, a long awaited need of CPC was fulfilled. This state of the art building comprise of eight floors and facilitates to accommodate all needs of CPC.

2. Commission to dealers was increased from 1.75% to 2.5% in the case of Dealer Owned Dealer Operated (DODO) dealers and 1.5% to 2.25% to Corporation Owned Dealer Operated (CODO) category dealers with effect from 01 April 2011 in order to minimize adulteration and tampering with meters of dispensing pumps as CPC had not adjusted dealer's commission for a long period of time although petroleum prices had been increased during the past period. Some of dealers were compelled to bleed the consumers by adulterating and tampering with meters due to non-revision of their commission for a long time to mitigate the ever increasing cost. This increased to a greater success during this period and we received minimum complaints of tampering meters and adulteration of fuel. CPC increased the number of spot checks island-wide filling stations to investigate adulteration and adjusting meters. A lot of dealers were at heavy pressure to stop this malpractice and the Corporation as a result of continuous checks greatly tampering of meters and adulteration was reduced substantially. Busted a long standing racketeers who were operating on sludge oil with the help of the

Ministry of Defense raided all the unscrupulous dealers who were dealing with sludge oil leaking into trade in big quantities to the dealers were minimized.

3. Chinese manufacturers who supplied fuel dispensing pumps not upto the CPC's standards and specifications, were brought down and got all required spare parts free of charge by holding on bank guarantees given by them. As a result of this exercise, CPC saved a substantial amount of money. If not CPC would have imported these items from the suppliers by spending a huge amount of money.

4. There were two retail price increases during the year if not these two revisions, our loss would have been greater than the loss of Rs.94 Bn. reported in the year. Attempts were made with the help of the General Treasury and the Ministry of Petroleum Industries to recover trade debts receivable from state owned departments and commercial enterprises on a regular basis.

5. As a result of continuous dialogue with the General Treasury, a bond of Rs. 60 Bn. was issued to settle trade debts to CPC which resulted in mitigating credit crisis of CPC at a certain level.

6. CPC negotiated with all the banks and reduced the exorbitant interest charged at commercial level in par with other takers in the market

7. For the first time in the history of the CPC, exchange rates were monitored on a daily basis and in the right time. Dollars were purchased for settlement of import bills not at the rates quoted by bankers but at the market rates by monitoring the behavior of exchange rates and negotiating rates quoted by Banks. Foreign exchange was purchased for import bills when exchange rates were favorable not on a daily adhoc basis but after studying the foreign exchange market.

8. Action was taken to reject substandard oil shipments and imposed heavy penalties for acts and omissions of such suppliers. Claims were lodged against shipping companies for extra demurrages when such demurrages were not payable by the CPC due to lack of knowledge by the CPC staff by not enforcing the charter party clauses. Thereby, saved a huge amount of demurrages during the year. As a result of this, shipping cost of the current year had substantially come down.

9. There was an unfortunate incident of importing a substandard oil shipment during this period which created a hue and cry and adverse publicity against CPC. CPC appointed a three member committee headed by a non-Executive Director, Ms. Champika Amarasekera to look into the payment of compensation for the use of substandard petrol. After careful examination of all claims recommended by the Committee, CPC had paid Rs. 28.81 Mn. as compensation to 1,888 vehicle owners.

10. Action was taken to strengthen the Finance, Legal, Administration, and Retail Marketing Departments by employing professionally capable managers to improve operational and financial health of the Corporation.

11. During the year under review, The Refinery Manager was appointed and refinery operated with minimum breakdowns and continued in a satisfactory manner. A Plant maintenance programme, cleaning of tanks and all other activities were carried out which enabled the improvement of the storage capacity of petroleum products. This enabled the supply of fuel at lesser cost compared with high imported cost of finished petroleum products prevailed in the year.

Financial Performance

The Corporation has continued to incur a loss of Rs.94, 508.394 Mn. during the year. The main contributory factors for the financial loss were due to non–adjustment of prices in line with international oil prices during the year, sale of furnace oil to CEB and individual power producers at a subsidized rate and subsidy granted on kerosene and sale of aviation fuel to Sri Lankan Airlines and Mihin Lanka Ltd. at subsidized rates.

The losses incurred by CPC for selling of Furnace Oil & Naphtha for power generation and industries was Rs.40,013 Mn. Loss due to concessions granted to general public on account of Kerosene was Rs.6,870 Mn.

Corporate Governance

An Audit Committee, which consists of three Non-Executive Board Members, reviews independently all strategic issues of the Corporation at regular meetings to achieve the objective of bringing corporate governance in par with global standards. As a part of the corporate governance process, the internal controls, financial and operational transparency have been improved by strengthening the Internal Audit Function of CPC. The Audit Committee reviews financial and operational activities of the CPC.

Corporate Social Responsibility

Corporate Social Responsibility is continued to be a 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. We also guarantee uninterrupted fuel supplies to Government institutions at any cost.

CPC has contributed a massive amount of Rs. 42,146 Mn. to the Government coffers by way of duties and taxes during the year 2011. CPC has supplied fuel for power generation purposes and Diesel for the transportation sector at a heavily subsidized price which enabled to mitigate the impact on all economic activities due to external international oil price movement.

Production

Refinery completed 42 years of operation on 06 August 2011. It had operated for 339 stream days and processed 1,889,146 metric tons of Crude Oil during the year. The middle distillate recovery as a percentage of the weight of crude intake was 29.6% and the own use and handling losses were 5.72%.

Import of Crude Oil and Refined Products

The Corporation has imported 2,070 Mn. metric tons of crude oil at a C&F cost of USD 1,674.26 Mn. The average crude oil (C&F) cost is USD 110 per Bbl. compared to USD 62.52 per Bbl. during the previous year. The freight charges for importing crude oil averaged to USD 9.46 per metric ton, when compared to 7.12 per MT in the previous year.

Refined Bulk Product Imports were metric tons 2,155Mn.at a cost of US$.2, 070.650 Mn.

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.

Revenue

Revenue for the year had reached Rs. 382.268 Bn. when compared to the previous year's revenue of Rs. 276.551 Bn.

During the year 172.562 Mn. Ltrs. of Diesel 964.187Mn. Ltrs. of Fuel Oil and 67.131 Mn. Ltrs. of Naphtha had been sold for power generation to CEB & private power plants.

Foreign Airline Aviation Fuel sales had increased by 14.75% to generate an income of Rs.37, 613.92 Mn. while, Sri Lankan Airlines had consumed 211,256,144 Ltrs., 53.6% of the total aviation sales.

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 the 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 Ceypetco agro Sales Centers, to be set up in agro based areas of the country.

Human Resource Development and Welfare

The employee strength by the end of year 2011 was 2,582 in the permanent cadre and 28 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. Hospitalization costs and indoor treatments amount to Rs.30 Mn. 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's pay for every year of service is paid under the Gratuity Act and additional retirement and death benefits are paid out of the Thrift Society funds. A Death Gratuity is also paid for death of an employee. Corporation also provided financial assistance to the CPC Employees' Sports Club with a view to encourage sports activities. It maintains four Ho liday 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 is 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 the refinery, in order to produce low sulphur Diesel.

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 by me to take all the challenges faced during this period. I also thank the Hon. Minister of Petroleum Industries and his Officials, the Treasury, the Central Bank, our business partners and customers for their co-operation and support.

D H S Jayawardena
CHAIRMAN & MANAGING DIRECTOR
CEYLON PETROLEUM CORPORATION

STATEMENT OF VALUE ADDED

Rupees Million	2011		2010	
Turnover	388,011		279,167	
Bought in Materials & Services	(428,591)		(264,250)	
Value Added	**(40,580)**		**14,917**	
Applied the following way		**%**		**%**
To pay employees				
Wages & fringe benefits	2,070	5.10	2,308	15.47
To pay providers of capital				
Interest on loans	9,001	(22.18)	6,859	45.98
To provide maintenance and expansion of assets				
Depreciation	417	(1.03)	374	2.51
Retained Profit	(94,508)	231.89	(26,923)	(180.49)
To pay Government				
Taxes, Duties, Stamp duty and Contribution to the General Treasury	42,440	(104.58)	32,299	210.53
Value Added	**(40,580)**	**100.00**	**14,917**	**100.00**

HIGHLIGHTS

FINANCIAL	UNIT	2011	2010
Gross Revenue	Rs. Mn.	356,442.364	256,329.157
Gross Profit/(Loss)	Rs. Mn.	(71,628.208)	(9,274.607)
Operational Profit/(Loss)	Rs. Mn.	(71,166.368)	(8,741.760)
Finance Charges	Rs. Mn.	9,000.571	6,858.899
Profit before Taxation	Rs. Mn.	(94,508.394)	(26,922.819)
Net profit after Taxation	Rs. Mn.	(94,508.394)	(26,922.819)
Capital and Reserves	Rs. Mn	(131,324.144)	(39,951.634)
Long Term Borrowings	Rs. Mn.	28,273.164	29,224.531
Capital Expenditure	Rs. Mn.	1,766.451	3,457.256
IMPORTS			
Crude Oil Imports	Metric Tons	2,069.550	1,821.258
Refined Bulk Products Imports	Metric Tons	2,154.688	1,625.720
C&F Value	Rs. Mn.	429,179.264	146.282.297
OPERATIONS			
Sales	Metric Tons	4,915.614	4,432.413
Refinery Throughput	Metric Tons	2,003.674	1,649.474
MARKETING			
CPC Owned	Number	248	248
Dealer Owned	Number	775	737
Dealer controlled	Number	47	48
EMPLOYEES			
No. of employees at the yearend	Number	2,610	2,744
Total emoluments for the year	Rs.	848,143	933,416
Value added per employee	Rs.	787.673	841,168

CORPORATE GOVERNANCE

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 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 seven members, including the Chairman, all appointed by the 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 the Chairman who is also the Managing Director.

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

The 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 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.

Board Meetings are conducted on a formal agenda and Directors are provided with relevant background information by the corporate management prior to meetings. Eight 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.

Composition of the Audit Committee

During the year under review, Corporation has conducted 06 Audit Committee meetings for which Non-Executive Directors were appointed by the Board of Directors. At the 49th Audit Committee meeting, 03 Non-Executive Directors namely Mr. Methsiri Wijegunawardena (Chairman -49th Audit Committee), Mrs. Champika Dilhara Amarasekara and Mrs.Sandhya Wijayabandara acted as Members of the Committee. (Member). Commencing from 50th Audit Committee to 54th Audit Committee meetings 04 Non-Executive Directors were appointed and Mr.Wasantha Ekanayake - Treasury Representative acted as Chairman of the Committee, Names of the other three Members are noted below :-

1. Mr. Methsiri Wijagunawardena
2. Mrs. Champika Dilhara Amarasekara
3. Mrs. Sandhaya Wijayabandara

The Audit Charter of the Committee has been prepared covering scope of responsibilities given in Treasury Circulars issued in relation of conducting Audit Committees in Public Commercial Enterprises.

Tasks of the Audit Committee

During the year under review the Committee has focused its attention on the reports submitted by the Auditor General on the affairs of the financial and operational aspects of CPC, evaluation of the performance of CPC and assessment of the replies sent with regard to the external and internal audit queries, preparation of Human Resource Plan and other connected Human Resource Issues. Methodology adopted for recovery of trade debts and evaluation of progress of ERP Projects, Head Office Construction Project and current position of the idle properties.

2. Audit Committee Meetings

During the year under review 06 Audit Committee meetings have been conducted to discuss duties entrusted to them as noted above.

The members who took part in Audit Committee Meetings during the year are noted below:-

Serial No.	Date	Chairman of the Committee	No. of Committee Members	No. of Members attended	Names of Members attended
49	26.01.11	Mr.Methsiri Wijegunawardena	03	03	Mrs.Champika Amarasekara Mrs.Sandhaya Wijayabandara
50	11.05.11	Mr.Wasantha Ekanayake	04	04	Mr.Methsiri Wijegunawardena Mrs.Champika Amarasekara Mrs.Sandhaya Wijayabandara
51	10.06.11	- Do -	04		- Do -
52	14.10.11	- Do -	04		- Do -
53	08.11.11	- Do -	04		- Do -
54	06.12.11	- Do -	04		- Do -

3. Work performed by Audit Committee

Following strategic issues were taken up at the Audit Committee meeting and recommendations of the Audit Committee are submitted to Board of Directors for taking up workable action.

i. **Discussion of the Report of the Auditor General for the year ended 31.12.2010**
Workable action taken by respective operational management to prevent risks faced in the area of stock and terminal operations, product storage, transportation and credit management and Human Resource risks.

ii. Approval of Annual Audit Programme and Audit Plan

iii. Review of major audit queries and replies sent by Corporation.

iv. Salient points arising out of draft financial statement submitted to the Auditor General for the year ended 31/12/2011. Review of the progress of ERP system, construction of Head Office Project and preparation of HR Plan and Recruitment and selection Procedure.

v. Discussion on LPG pricing and Aviation Fuel sold to Air Lines.

vi. Preparation of Consolidated Accounts for the year 2010 and 2011

vii. Review of Internal Controls as per the report and matters reported to the Audit Committee. Committee having discussed above matters and directed respective Functional Heads to take appropriate viable action in order to arrest shortcomings and lapses observed in various systems controls.

Further, reports of the Committee have been submitted to the Board of Directors for taking appropriate decisions to improve financial and operational health of the Corporation.

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 present 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 Department is headed by a professionally qualified Chartered Accountant. Audit Plans were implemented to assess the internal controls, understanding risk areas of individual functions and evaluating the management control functions using compliance and substantive tests.

In addition to the native audit assignments during the year under review the Internal Audit has also focused on the following areas.

(1) Review and evaluation of accounting policies on their adequacy and relevance.
(2) Review of possible risks management including the trade receivables.
(3) Assessing the relevance and acceptability of answers sent to external audit queries sent by Government Audit.
(4) To ensure dialogue with the staff of the Auditor General to maximize the productive use of resources.
(5) Raising Internal Audit queries to ensure the effectiveness of the internal controls to exercise, safe guard assets and to assure a fair view of the financial statements.

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

- Income Statement
- Financial Position
- Statement of Changes in Equity
- Cash Flow Statement

CONSOLIDATED INCOME STATEMENTS

CEYLON PETROLEUM CORPORATION & ITS GROUP
CONSOLIDATED COMPREHENSIVE INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31ST,

		CPC		GROUP	
		2011	2010	2011	2010
	Note	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.
Revenue	1	356,442.364	256,329.157	356,754.040	256,655.162
Cost of Sales	2	(428,070.572)	(265,603.764)	(428,070.572)	(265,603.764)
Gross Profit/(Loss)		**(71,628.208)**	**(9,274.607)**	**(71,316.532)**	**(8,948.602)**
Other Operating Income	3	132.728	302.233	219.366	466.015
Selling & Distribution Expenses	3.1	(10,861.465)	(9,716.083)	(3,499.819)	(4,519.442)
Administrative Expense	3.2	(3,479.990)	(1,606.078)	(7,804.979)	(6,549.183)
Finance Charges	3.3	(9,000.571)	(6,858.899)	(9,746.523)	(7,674.969)
Finance Income	3.4	304.455	230.614	370.356	298.244
Income on Invesment Property	3.5	24.657	0.000	24.657	0.000
Proft/(Loss) Before Tax		**(94,508.394)**	**(26,922.820)**	**(91,753.473)**	**(26,927.938)**
Income Tax		-	-	-	-
Proft/(Loss) After Tax		**(94,508.394)**	**(26,922.820)**	**(91,753.473)**	**(26,927.938)**
Less : Non controlling interest		-	-	(918.307)	1.706
Profit/(Loss) for the year		**(94,508.394)**	**(26,922.820)**	**(92,671.780)**	**(26,926.232)**

The notes and accounting policies on pages 32 through 60 form an integral part of the Finacial Statements.

CONSOLIDATED FINANCIAL POSITION

CEYLON PETROLEUM CORPORATION & ITS GROUP
CONSOLIDATED FINANCIAL POSITION
AS AT DECEMBER 31ST,

	Note	CPC 2011 Rs. Mn.	CPC 2010 Rs. Mn.	GROUP 2011 Rs. Mn.	GROUP 2010 Rs. Mn.
ASSETS					
Non - Current Assets					
Property, Plant & Equipments	6	8,818.203	8,280.084	29,254.771	28,202.976
Investment Property		32.169		32.169	0.000
Investment in Subsidary	7.1	5,000.000	5,000.000	0.000	0.000
Other Investments	7.2	41.876	41.876	41.876	41.876
Trade and Other Receivables - More than one year	8	4,122.600	6,699.985	1,713.425	3,557.235
Deferred Tax Asset		689.623	689.623	689.623	689.623
		18,704.471	**20,711.568**	**31,731.864**	**32,491.710**
Current Assets					
Inventories	9	37,104.182	41,433.110	37,475.724	41,839.897
Trade & Other Receivables - Due within one year	8	118,384.937	80,022.307	120,987.867	82,687.763
Income Tax Recoverable		246.990	244.357	246.990	244.357
Cash and Cash Equivalents	10	12,686.986	13,312.112	12,771.737	13,515.036
		168,423.095	135,011.886	171,482.319	138,287.053
Total Assets		187,127.566	155,723.454	203,214.183	170,778.764
EQUITY AND LIABILITIES					
Capital and Reserves					
Contributed Capital	11	1,000.000	1,000.000	1,000.000	1,000.000
Shares Held in C. P. S. T. L		2,500.000	2,500.000	2,500.000	2,500.000
Capital Reserve	12	4,992.686	4,992.686	4,992.686	4,992.686
Reserve on consolidation		0.000		2,493.675	2,493.675
Revaluation Reserve	13	25.696	25.696	25.696	25.696
Insurance Reserve	14	620.208	619.432	621.300	620.524
Retained Earnings		(140,462.734)	(46,589.448)	(138,105.824)	(46,069.152)
Non controlling interest		0.000		4,925.838	4,007.531
Total Equity		(131,324.144)	(37,451.634)	(121,546.629)	(30,429.040)
Non - Current Liabilities					
Retirement Benefits Liability	15	626.675	746.337	1,481.089	1,594.572
Interest Bearing Loans & Borrowings	16	27,646.489	28,478.194	30,009.893	31,301.079
		28,273.164	29,224.531	31,490.982	32,895.651
Current Liabilities					
Trade and Other Payables	17	167,032.106	145,632.415	169,308.219	149,178.841
Income Tax Liabilities		0.000	0.000	(87.072)	(87.072)
Provision for Deferred Taxation		0.000	0.000	838.106	838.106
Current Portion of Interest Bearing Loans & Borrowings	18	122,975.749	18,147.451	122,975.749	18,147.451
Provision for Deemed Dividend		170.691	170.691	234.827	234.827
		290,178.546	163,950.557	293,269.829	168,312.153
Total Equity and Liabilities		187,127.566	155,723.454	203,214.183	170,778.764

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

DayanandaWidanagamachchi
Acting Chairman

W. SarathPerera
Acting D.G.M (Finance)

R.T.A Dabare
Finance Manager

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

CEYLON PETROLEUM CORPORATION & ITS GROUP

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31ST,

	Contributed Capital Rs. Mn.	Capital Reserve Rs. Mn.	Revaluation Reserve Rs. Mn.	Insurance Reserve Rs. Mn.	Reserve on Consolidation Rs. Mn.	Retained Earnings Rs. Mn.	Shareholders fund Rs. Mn.	Non controlling Interest Rs. Mn.	Total Equity Rs. Mn.
Balance as at 31st December 2009	1,000.000	4,992.686	25.696	610.198	2,493.675	(19,142.92)	(7,520.665)	4,008.744	(3,511.921)
Surplus during the year				10.326			10.326	0.493	10.819
Net Profit/ (Loss) for the period						(26,926.232)	(26,926.232)	(1.706)	(26,927.938)
Balance as at 31st December 2010	1,000.000	4,992.686	25.696	620.524	2,493.675	(46,069.152)	(34,436.571)	4,007.531	(30,429.040)
Prior period adjustments						635.108	635.108		635.108
Surplus during the year				0.776			0.776		0.776
Net Profit /(Loss) for the period						(92,671.78)	(92,671.78)	918.307	(91,753.473)
Balance as at 31st December 2011	1,000.000	4,992.686	25.696	621.300	2,493.675	(138,105.824)	(126,472.467)	4,925.838	(121,546.628)

CONSOLIDATED CASH FLOW

CEYLON PETROLEUM CORPORATION & ITS GROUP
CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31ST,

	CPC		GROUP	
	2011	**2010**	**2011**	**2010**
	Rs. Mn.	**Rs. Mn.**	**Rs. Mn.**	**Rs. Mn.**
CASH FLOWS FROM OPERATING ACTIVITIES	(94,508.394)	(26,922.819)	(91,753.473)	(26,927.937)
Adjustment for:				
Depreciation	417.357	369.118	1,234.451	1,179.403
Foreign Currency Translation	1221.438	(1,324.435)	1,221.438	(1,324.435)
Investment Income	(0.003)	(0.112)	(0.003)	(16.149)
Interest received	(304.455)	(230.614)	(319.366)	(230.614)
Provision for Insurance Reserve	0.776	9.234	0.776	10.714
Provision for Stores Non Moving Items	0	57.247	0	57.247
Provision for Bad & Doubtful Debts & recoveries	(0.588)	(4.132)	(0.588)	(1.529)
Bad debts write off - \`cpc			0	0
Interest Expenses	9,000.570	6,858.899	9,651.883	7,537.868
Prior year adjustments	635.108		635.108	0
Provision for Retirement Obligation	(76.862)	44.593	(17.985)	327.922
(Profit)/Loss on Sale of Property ,Plant & Equipment	(39.225)	(1.154)	(47.155)	(1.154)
OPERATING PROFIT/(LOSS) BEFOR WORKING CAPITAL CHANGES	(83,654.277)	(21,144.175)	(79,394.913)	(19,388.664)
CHANGESIN WORKING CAPITAL				
(Increase)/ Decrease in Inventories	4,328.927	(15,922.077)	4,364.172	(15,966.188)
(Increase)/ Decrease in Trade and Other Receivable	(35,784.660)	(5,283.962)	(36,455.654)	(5,429.907)
Increase/ (Decrease) In Trade and Other Payables	21,399.691	25,211.640	20,129.380	25,736.203
Cash Generated from/ (Used in) operating activities	(10,056.042)	4,005.601	(11,962.104)	4,340.107
Interest Paid	(9,000.570)	(6,858.899)	(9,651.883)	(7,537.868)
Retiring Gratuity Paid	(42.801)	(33.789)	(95.551)	(87.923)
Income Tax /WHT paid	(2.633)	(137.988	(2.633)	(137.988)
Net Cash Generated from Operating activities	(9,046.005)	(7,030.676)	(9,750.067)	(7,763.779)
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of Property, Plant & Equipment	(989.091)	(3,608.064)	(2,319.862)	(6,220.768)
Proceeds from Sale of Property, Plant & Equipment	40.674	1.154	48.604	1.154
Income from Investment	0.003	0.112	0.003	0.112
Interest Received	304.455	230.614	319.366	246.651
Net Cash Used in Investing Activities	(643.960)	(3,376.184)	(1,951.889)	(5,972.851)
CASH FLOWS FROM FINANCING ACTIVITIES				
Loans obtained during the period			150.269	2,113.628
Repayment of Long Term Loans	119,016.507	(4,379.068)	118,406.754	(5,229.000)
Net Cash From/(Used in) Financing Activities	119,016.507	(4,379.068)	118,557.023	(3,115.372)

CONSOLIDATED CASH FLOW

CEYLON PETROLEUM CORPORATION & ITS GROUP
CONSOLIDATED CASH FLOW

FOR THE YEAR ENDED DECEMBER 31 ST,

	CPC		GROUP	
	2011	2010	2011	2010
	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.
Net Increase/(Decrease) in Cash & Cash Equivalents	15,616.224	(31,924.502)	15,498.050	(31,900.559)
Cash & Cash Equivalents at Beginning of the Year	(3,961.122)	27,963.381	(3,758.197)	28,142.363
Cash & Cash Equivalents at End of the Year	**11,655.102**	**(3,961.121)**	**11,739.853**	**(3,758.197)**
Note 1. Cash & Cash Equivalent as at the Beginning of the Year				
Cash & Bank Balances	13,312.111	31,762.640	13,515.036	31,972.334
Bank Overdraft	(15,019.911)	(2,870.372)	(15,019.911)	(2,901.084)
Cash & Cash Equivalents before Adjusting the Foreign Currency Translation	(1,707.800)	28,892.268	(1,504.875)	29,071.250
Adjustment for Foreign Currency Translation	(2,253.322)	(928.887)	(2,253.322)	(928.887)
Cash & Cash Equivalents after Adjusting the Foreign Currency Translation	**(3,961.122)**	**27,963.381**	**(3,758.197)**	**28,142.363**
Note 2 .Cash & Cash Equivalent as at the end of the Year				
Cash & Bank Balances	12,686.986	13,312.111	13,122.905	13,515.036
Bank Overdraft	0.000	(15,019.911)	(351.168)	(15,019.911)
Cash & Cash Equivalents before Adjusting the Foreign Currency Translation	12,686.986	(1,707.800)	12,771.737	(1,504.875)
Adjustment for Foreign Currency Translation	(1,031.884)	(2,253.322)	(1,031.884)	(2,253.322)
Cash & Cash Equivalents after Adjusting the Foreign Currency Translation	**11,655.102**	**(3,961.122)**	**11,739.853**	**(3,758.197)**

ACCOUNTING POLICIES

Year Ended 31.12.2011

1. CORPORATE INFORMATION

1.1 General

The Ceylon Petroleum Corporation is a Public Corporate incorporate under the Ceylon Petroleum Corporation Act No. 28 of 1961 and domiciled in Sri Lanka. The registered office of the Corporation is located at No. 609, Dr. Danister De Silva Mawatha, Colombo 9.

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 & Subsidiary Company

The Corporation is under the purview of the Ministry of Petroleum Industries in the opinion of the Directors, the Corporation's ultimate parent undertaking and controlling party is the Government of Sri Lanka. Ceylon Petroleum Storage Terminals Ltd. (CPSTL) – 2/3 of its shares owned by CPC and all of 09 Directors of CPSTL 06 Directors appointed by Minister in charge of the subject.

1.4 Date of Authorization for Issue

The Financial Statements of Ceylon Petroleum Corporation for the year ended 31 December 2011 were authorized for issue in accordance with a resolution of the Board of Directors on 02nd March 2012.

2. BASIS OF PREPARATION

The Financial Statements of the CPC encompassing the Balance Sheet, Income Statement, Cash Flow Statement, Statement of Changes in Equity, Accounting Policies and the Notes thereto are prepared in conformity with Accounting Standards issued by The Institute of Chartered

Accountants of Sri Lanka and on the basis of historical cost convention except otherwise stated as required by the above standards, which have been applied consistently with that of the previous year. Except as indicated, the Financial Statements presented in Sri Lankan Rupees have been rounded to the nearest thousand.

Estimates and Management Judgments

The preparation of Financial Statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amount of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances.

The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and/or in future periods if the revision affects future periods too.

Materiality and Aggregations

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

2.1 Statement of Compliance

The Financial Statements of Ceylon Petroleum Corporation have been prepared in accordance with Sri Lankan Accounting Standards (SLAS) and the provisions of the Finance Act No. 38 of 1971 and subsequent amendments thereto.

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 policies have been consistently applied by the Corporation and except for the changes in accounting policy (policies) discussed more fully in relevant Notes with these used in previous year.

2.2 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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.

2.3 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 Income Statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

2.3.2 Taxation

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 Inland Revenue Act No. 10 of 2006 and the amendments thereto. However, current year, no tax liability has arisen due to loss making position of the Corporation.

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

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that 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 realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the income statement.

Sales Tax

Revenues, 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 amounts of sales tax included. The amount of sales tax recoverable and payable in respect of taxation authorized is included as a part of receivables and payables in the Balance Sheet.

Borrowing Costs

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

2.3.3 Inventories

Inventories are valued at the lower of cost and net realisable 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 for using the following cost formulae:-

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

2.3.4 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 Receivables 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.

2.3.5 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.

2.3.6 Property, Plant & 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 derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on DE recognition 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 derecognized.

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

2.3.7 Measurement

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

The cost of self-constructed assets included the cost of materials and direct labor, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring the site on which they are located.

2.3.8 Cost Model

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

2.3.9 Subsequent Costs

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

2.3.10 Restoration Costs

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

2.3.11 Derecognition

The carrying amount of an item of property, plant & equipment is derecognized on disposal or when no future economic benefits are expected from its use or disposal.

The gain or loss arising from the DE recognition of an item of property, plant & equipment is included in the Income Statement when the item is derecognized.

2.3.12 Depreciation

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

Provisioning for depreciation of property, plant & equipment is made on pro-rata basis.

The depreciation on assets is determined using the following estimated useful lives.

Category of Assets	Useful Live Percentage
Freehold Land	**Nil**
Buildings	**2.5**
New Head Office Building	**2**
Refinery Tanks & Pipelines	**2.5**
Refinery Plant & Machinery	**10**
Other Location Tanks	**2.5 or 5**
Other Location Pipelines	**10 or 20**
Plant & Machinery	**10 or 20**
Bowsers & Tank Lorries	**20**
Vans & Coaches	**25**
Fur/Fittings & Office Equip upto 31/12/98	**100**
Fur/Fittings & Office Equip wef 31/12/99	**33 1/3**
SPM Facility – Tank Farm	**2.5**
- Pipelines	**5**
- Buoy	**10**

2.3.13 Capital Work in Progress

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

2.3.14 Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset have been capitalized on as part of the cost of the asset in accordance with the Sri Lanka Accounting Standard No. 20 on 'Borrowing Costs'. Capitalisation of borrowing cost ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed.

3. INVESTMENTS

3.1 Investment in Subsidiaries

Investments in Subsidiaries are accounted for under the cost method of accounting in CPC's Financial Statements in accordance with the Sri Lanka Accounting Standard No. 26 (Revised 2005) on Consolidated and Separate Financial Statements. Accordingly, investments in Subsidiaries are stated in the CPC's Balance Sheet at cost, less impairment losses, if any.

3.2 Investment Properties

3.2.1 Basis of Recognition

Investment property is property that is held to earn rentals or for capital appreciation or both and the future economic benefits that are associated with the investment property but not for sale in the ordinary course of business.

3.2.2 Measurement

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

3.2.3 Depreciation

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

3.2.4 Derecognition

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

4. PROVISIONS & LIABILITIES

4.1 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 in accordance with SLAS 36 When the company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

4.2 Provision of Gratuity

A provision is being made in the financial statement for retirement gratuities from the first year of service for all employees in terms of Sri Lanka Accounting Standard No. 16 (Revised 2006) on employee benefits. CPC has calculated the retirement benefit costs using the projected unit credit method as recommended in SLAS-16 and recognizes this provision in the Income Statement. The Gratuity liabilities are not externally funded.

4.3 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 the Employees' Provident Fund and Employees' Trust Fund respectively.

4.4 Capital Reserve

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

4.5 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 the insurance reserve.

5. INCOME STATEMENT

5.1 Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow intothe 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.

5.2 Sale of Goods

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

5.3 Interest Income & Expenses

Interest expenses and income are recognized on accrual basis.

5.4 Dividends

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

5.5 Rental Income

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

5.6 Profit/(Loss) from Sale of Property, Plant & Equipment

Profit/loss arising from sale of property, plant & equipment is recognized for the period in which the sale occurs and is classified as other income

5.7 Gains or Losses arising from Investment Securities

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

5.8 Operating Expenses

All the expenses payable are recognized on accrual basis in the Income Statement for the relevant period.

6. CONTINGENT LIABILITIES, COMMITMENTS & LITIGATION

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

The CPC in the ordinary course of business faces litigation. Litigation is a process authorized by law, in a Court of Justice or any of the agencies set up by law for the purpose of enforcing a right. It includes a case, dispute or lawsuit. The quantum may vary in a year on year basis.

Apart from the usual Courts, there are labour tribunals, Human Rights Commission, the Parliamentary Ombudsman and the Tax Appeal Commission.

Main litigation involves the recovery process wherein the CPC files cases against the defaulting customers with a view to recover debt through Judicial process.

Most of the labour disputes before the labour tribunals and other agencies like the Human Rights Commission, Parliamentary Ombudsman are amicably settled or mostly decided in favour of the CPC.

In most instances of litigation of CPC is presently handled by the in-house legal officers with the direct assistance from the Attorney General's Department. A few are referred to private counsel.

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

There are three cases filed by CPC in relation to tax related matters as briefly noted below:-

(i) Deemed Dividend Tax matters relating to Year of Assessment 1997/98 are pending before Court of Appeal with regard to the basis of computation of Deemed Dividend Tax.

Decision of the Board of Review was that Deemed Dividend tax shall be computed on the book profit of the Corporation. CPC appealed against the decision of the Board of Review.

(ii) CPC has filed a case in the Court of Appeal against the decision given by the Board of Review. The decision of the Board of Review was that CPC was liable for Turnover Tax for sale of bunker oil for the quarters ending 31.02.1994 to 31.12.1997 for export sales which cannot be considered.

(iii) There is an appeal pending before the Tax Appeal Commission with regard to the basis of the computation of Deemed Dividend Tax for the year 2007/08.

7. DIRECTOR'S INTEREST IN CONTRACTS

No Directors have had direct or indirect interest in the contracts with the CPC & CPSTL except for the disclosures noted below :-

CPC has appointed following three Directors to the Board of CPSTL of which CPC has a two third of share interest.

Mr. MethsiriWijegunawardena	-	Director
Ms. Champika D. Amarasekera	-	Director
Mr. B. Saman Kumara	-	Director

CPSTL is a company which engages in storage and distribution of liquid petroleum products within Sri Lanka. CPC has paid throughput charges amounting to Rs. 9.9 Bn. in the year 2011 to CPSTL. The Director's fees payable are made in terms of the provisions / contents in the Public Enterprises Circular No. PED 58 dated 29 April 2011.

8. HEDGING TRANSACTIONS

There were two cases filed against CPC in connection with hedging transactions.

(i) Citi Bank NA vs. CPC Arbitration in London

The claim of the Citi Bank NA was for two derivative transactions between July 2007 and July 2008 made by reference to a master agreement.

Citi Bank claimed US$.195,458,092.67 as a principal sum due from CPC with interest.

The award delivered was on 31.07.2011. Accordingly, to award transactions numbered 1 – 16 made by Citi Bank between 11.07.2007 and 16.07.2008 by reference to master agreement are each declared to have been and to remain legally null and void as being ultra vires and beyond the capacity of Respondent (CPC)

The CPC was liable to pay to CPC US$.17,926,300 together with interest. Citi Bank was liable to pay to CPC a sum of US$. 16,723,750 together with interest. The net amount payable by CPC was Rs. 1,202,550.

Both parties are entitled to interest on each payment made to the other from the date of payment to date of re-payment.

The interest calculation made upto 21.11.2011 after setting off interest receivable from Citi Bank NA is US$. 164,168.29. The total amount payable by CPC to Citi Bank is US$.1,202,550 + 164,168.29 totaling US$.1,366,718.29.

The Arbitration Tribunal issued the final award on 15.12.2011. Accordingly, Citi Bank should pay to CPC, a total sum of US$.2,705,760.43 as legal cost.
Accordingly, CPC received US$. 1,339,042.14 as net settlement (LKR – 153,458,915.90)

(ii) Standard Chartered Bank vs. CPC

Standard Chartered Bank (SCB) claimed US$.161,733,500 plus interest being the sum allegedly due under two derivative transactions entered into with CPC on 28.05.2008 and 09.07.2008 (Transactions 08 & 09).

CPC made a counter claim and the Courts concluded that SCB's claim in respect of transaction 08 & 09 succeeds and that CPC's counter claim be dismissed. The Court ordered that CPC should pay SCB a sum o fUS$.166,476,281.77 in addition to 50% of cost to be paid at GBP.2,963,546.02. Hon. Attorney General legally represented CPC. CPC appealed against the ruling given to Court of Appeal in U.K. The decision is pending.

9. SEGMENTAL REPORTING

Segmental information is presented in respect of the class of customer based on purpose of fuel consumed and types of products.

Business segments provide products and services whose risks and returns are different from those of other business segments. These segments comprise all categories of products traded.

10. CASH FLOW AND CASH AND CASH EQUIVALENTS

The cash flow has been prepared by using the indirect method.

11. COMPARATIVE FIGURES

Where necessary, amounts shown for the previous year have been reclassified to facilitate comparison.

12. EVENTS AFTER THE BALANCE SHEET DATE

Where necessary, all the material events after the Balance Sheet date have been considered and appropriate adjustments/disclosures have been made in the Financial Statements. Post balance sheet events relating to hedging transaction is stated under item No. 8.

13. DIRECTOR'S RESPONSIBILITY STATEMENT

The Board of Directors takes the responsibility for the preparation and presentation of these Financial Statements.

	CPC 2011 Rs. Mn	CPC 2010 Rs. Mn	GROUP 2011 Rs. Mn	GROUP 2010 Rs. Mn
1. REVENUE				
Sales of Petroleum Products	356,442.364	256,329.157	356,442.364	256,329.157
Terminal Charges and other income	-	-	311.676	326.005
	356,442.364	256,329.157	356,754.040	256,655.162

1.1 SALES OF PETROLEUM PRODUCTS

DOMESTIC SALES	2011 QTY. M.Ltrs	2011 Value Rs. Mn	2010 QTY. M.Ltrs	2010 Value Rs. Mn
90 Octane Petrol	705.146	85,601.359	614.561	62,597.481
95 Octane Petrol	35.003	4,897.416	21.661	2,560.429
Auto Diesel	2,185.038	165,800.157	1,680.888	122,360.422
Super Diesel	16.634	1,587.576	13.434	1,170.271
Kerosene	214.992	12,804.332	210.159	10,711.003
Furnace Oil	880.967	39,167.429	1,199.515	28,862.219
Furnace Oil Low Sulper	197.455	10,823.085	116.605	6,929.799
Naphtha	67.131	4,331.758	78.455	4,228.518
Avn. Gasoline	0.286	90.528	0.256	71.185
Avn. Turbine Fuel	234.729	22,070.832	215.811	14,102.174
Asphalt	101.183	9,299.621	81.124	7,117.022
Lub Oil	0.860	1,436.235	0.743	1,019.117
Agro Chemicles	0.279	129.773	0.315	152.883
Solvent	4.893	496.512	3.952	392.424
L.P.G. (K.G.)	24.268	2,314.274	22.782	1,921.262
Total Domestic sales	4,668.864	360,850.887	4,260.261	264,196.210
EXPORTS				
a) Indirect Exports				
Avn.Turbine Fuel	163.620	15,998.479	131.341	10,026.077
Naphtha	56.247	3,647.344	40.811	2,328.684
Furnace Oil 1500 "	26.884	1,771.722		
	246.751	21,417.545	172.152	12,354.760
Total Sales		382,268.434		276,550.970
Less : Ex Duty		(25,826.070)		(20,221.814)
		356,442.364		256,329.157

1.2 SEGMMENT 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	2011 - CPC Sales Value Rs. Mn	2011 - CPC Cost of sales Rs. Mn	2011 - CPC Gross Profit/(Loss) Rs. Mn	2010 - CPC Sales Value Rs. Mn	2010 - CPC Cost of sales Rs. Mn	2010 - CPC Gross Profit Rs. Mn
a) Transport	203,710,812	238,472,407	(34,761,595)	160,321,509	149,404,171	10,917,338
	203,710,812	238,472,407	(34,761,595)	160,321,509	149,404,171	10,917,337.719
b) Power Generation	74,140,069	101,008,718	(26,868,649)	41,852,901	58,327,325	(16,474,424)
	74,140,069	101,008,718	(26,868,649)	41,852,901	58,327,325	(16,474,424)
c) Aviation	38,159,839	37,516,090	643,749	24,199,435	23,338,934	860,501
	38,159,839	37,516,090	643,749	24,199,435	23,338,934	860,501
d) Others	35,012,577	44,926,306	(9,913,729)	27,626,629	32,215,381	(4,588,752)
	35,012,577	44,926,306	(9,913,729)	27,626,629	32,215,381	(4,588,752)
e) Naphtha Export	5,419,067	6,147,050	(727,983)	2,328,684	2,317,951	10,731
	5,419,067	6,147,050	(727,983)	2,328,684	2,317,951	10,731
Gross Profit/loss As Per Income statement	356,442,364	428,070,571	(71,628,208)	256,329,157	265,603,764	(9,274,607)

2. COST OF SALES.

	CPC 2011 Rs. Mn	CPC 2010 Rs. Mn	GROUP 2011 Rs. Mn	GROUP 2010 Rs. Mn
As per Gross Margin Statement	429,165.159	269,082.735	429,165.159	269,082.735
Operation Loss/Gain	284.552	233.496	284.552	233.496
Exchange Variation (Crude/Bulk)	7,843.352	(3,712.467)	7,843.352	(3,712.467)
Interest CEB/IPP/Aviation Customers	(9,222.491)	0.000	(9,222.491)	0.000
	428,070.572	**265,603.764**	**428,070.572**	**265,603.764**

3. OTHER OPERATING INCOME

	2011 Rs. Mn	2010 Rs. Mn	2011 Rs. Mn	2010 Rs. Mn
Dividend Income	0.003	0.112	0.003	0.112
Fines Recovered from Contractors	0.000	1.392	0.000	1.392
Sundry Income	126.221	294.795	212.859	458.577
Rent Income	6.504	5.934	6.504	5.934
	132.728	**302.233**	**219.366**	**466.015**

3.1 SELLING & DISTRIBUTION EXPENSES

	2011 Rs. Mn	2010 Rs. Mn	2011 Rs. Mn	2010 Rs. Mn
Selling and Distribution Cost	9,753.276	8,616.509	2,239.990	3,419.88
Aviation Cost	816.123	863.300	816.123	863.300
Deprecation	292.066	236.274	443.706	236.274
	10,861.465	**9,716.083**	**3,499.819**	**4,519.442**

3.2 ADMINISTRATION EXPENSES

	2011 Rs. Mn	2010 Rs. Mn	2011 Rs. Mn	2010 Rs. Mn
Administration Cost	4,520.072	3,845.166	8,845.061	8,788.271
Exchange Variation	(1,040.082)	(2,239.088)	(1,040.082)	(2,239.088)
	3,479.990	**1,606.078**	**7,804.979**	**6,549.183**

A sum of Rs 230.124 million was incurred as legal & other related expenses in connection with two hedging cases during the year, included under administrative expenses.

FINANCE COST AND INCOME

3.3 FINANCE COST

	CPC 2011 Rs. Mn	CPC 2010 Rs. Mn	GROUP 2011 Rs. Mn	GROUP 2010 Rs. Mn
Interest on Long Term Loans	2,847.863	3,278.926	2,499.175	3,957.853
Interest on Bank Overdrafts	100.951	149.053	100.951	149.053
Interest on Foreign Bills Payables & Other Bank Loans	6,051.757	3,430.919	6,051.757	3,430.919
Others	-	-	94.639	137.144
	9,000.571	**6,858.899**	**9,746.523**	**7,674.969**

3.4 FINANCE INCOME

	CPC 2011 Rs. Mn	CPC 2010 Rs. Mn	GROUP 2011 Rs. Mn	GROUP 2010 Rs. Mn
Treasury Bill Interest Income	282.189	230.614	282.189	230.614
Interest on R.F.C. A/C	22.266	0.000	22.266	0.000
Sundry Interest income	0.000	0.000	65.901	67.630
	304.455	**230.614**	**370.356**	**298.244**

3.5 INCOME ON INVESTMENT PROPERTY

	CPC 2011 Rs. Mn	CPC 2010 Rs. Mn	GROUP 2011 Rs. Mn	GROUP 2010 Rs. Mn
Rental from Flower Rd,Thurstan Rd. & Filling Station	**24.657**	**0.000**	**24.657**	**0.000**

4. PROFIT / (LOSS) FOR THE YEAR

	2011 Rs. Mn	2010 Rs. Mn
stated after charging /(Crediting)		
Included in Cost of Sales		
Written Down of Inventories valued at net Realizable Value as per S. L. S 05	1,063.645	16,203.335
Depreciation -Refinery	125.246	132.359
Exchange Differences-(Gain)/Loss	7,843.352	(3,712.467)
Included in Administrative Expenses		
Employees Benefits including following		
-Defined Benefit Plan Costs – Gratuity	(76.862)	44.593
-Defined Contribution Plan Costs-EPF & ETF	248.967	208.536
Exchange Differences-(Gain)/Loss	(1040.820)	(2239.088)
Profit on Disposal of Property, Plants and Eqp.	39.225	1.154
Auditors Remuneration	1.000	2.000
Depreciation – Head Office	292.113	236.274
Hedging Expenses	423.723	0.000

5 INCOME TAX

	2011 Rs.Mn	2010 Rs.Mn
Current Tax Expense on Ordinary Activities for the year (5.1)No Income Tax is Provided Due to Loss Making Position		

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

	2011	2010
Accounting Profit /(Loss) before Tax	(94,508.394)	(26,922.819)

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

	2011	2010
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	
	2011 Rs.Mn	2010 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)**

6. PROPERTY, PLANT & EQUIPMENT

6.1 Gross carrying Amounts

Cost	Land & Buildings Rs.Mn	Vested Property Rs.Mn	2011 CPC Plant, Mach & Equip Rs.Mn	SPM Facility Rs.Mn	Motor Vehicles Rs.Mn	Furn/Fittings Off. Equip & Other Assets Rs.Mn	Total Rs.Mn	2011 GROUP Rs.Mn
Bal as at 01/01/2011	1,619.945	1.016	3,879.116	2,142.422	369.942	1,536.831	9,549.272	28,406.200
Additions	68.698	-	60.932	-	3.304	46.151	179.085	1509.855
Additions HO New Building	1,540.595		32.934			192.922	1,766.451	1766.451
Disposals	(1.746)	-	-	-	(1.307)	(0.022)	(3.076)	(12.208)
Bal as at 31/12/2011	**3,227.491**	**1.016**	**3,972.982**	**2,142.422**	**371.939**	**1,775.882**	**11,491.732**	**31.670.298**
6.2 Depreciation								
Bal as at 01/01/2010	209.194	0.369	2,515.885	1,290.634	207.940	1,088.155	5,312.177	11,135.469
Charge for the Year	43.440	0.010	294.955	-	14.996	63.957	417.357	1234.451
Disposals	(0.301)	-	-	-	(1.307)	(0.019)	(1.627)	(10.760)
Bal as at 31/12/2010	252.333	0.379	2,810.840	1,290.634	221.629	1,152.093	5,727.907	12,359.161
Net Book Value as at 31.12.2011	**2,975.158**	**0.637**	**1,162.142**	**851.788**	**150.310**	**623.789**	**5,763.825**	**19,311.138**
Cost as at 31.12.2010	1,619.945	1.016	3,879.116	2,142.422	369.942	1,536.831	9,549.272	29,253.824
Accede as at 31.12.2009	209.194	0.369	2,515.885	1,290.634	207.940	1,088.155	5,312.177	11,135.469
Net Book Value l as at 31.12.2010	**1,410.751**	**0.647**	**1,363.231**	**851.788**	**162.002**	**448.676**	**4,237.095**	**18,118.355**

6.3 Assets and Capital Project in Progress

	CPC 2011 Rs.Mn	CPC 2010 Rs.Mn	GROUP 2011 Rs.Mn	GROUP 2010 Rs.Mn
Refinery Expansion project(SOREM)	808.884	585.735	808.884	585.735
Buildings	1.363	1,223.207	1.363	1,223.207
Plant & Machinery	2,098.766	2,127.395	2,098.766	2,127.395
Storage Facility	54.262	11.447	54.262	11.447
Re-structuring of Filling Stations	19.540	50.225	19.540	50.225
Others	103.731	44.982	6,992.990	6,086.614
	3,086.547	**4,042.991**	**9,975.803**	**10,084.621**

6.4 Net Book Values

	CPC 2011 Rs.Mn	CPC 2010 Rs.Mn	GROUP 2011 Rs.Mn	GROUP 2010 Rs.Mn
Property Plant & Equipment	5,763.825	4,237.095	19,311.138	18,118.355
Assets & Capital Projects in Progress	3,086.547	4,042.991	9,975.803	10,084.621
Total Carrying Amount of Property , Plant & equipment	**8,850.372**	**8,280.086**	**29,286.940**	**28,202.974**

6.5 The useful lives of the assets is estimated as follows

	2011	2010
Freehold Land	Nil	Nil
Buildings	40 Years	40 Years
New Head Office building	50 Years	
Refinery Tanks & Pipelines	40 Years	40 Years
Refinery Plant & Machinery	10 Years	10 Years
Other Location Tanks	40 or 20 Yrs.	40 or 20 Yrs.
Other Locations Pipelines	10 or 5 Yrs.	10 or 5 Yrs.
Plant & Machinery	10 or 5 Yrs.	10 or 5 Yrs.
Bowsers & Tank Loı	5Years	5Years
Vans & Coaches	4Years	4Years
Furniture/Fittings & Office equipment's up to 31.12.199ŧ	Fully	Fully
Furniture/Fittings & Office Equipment 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

	2011		2010	
	Rs .Mn At Cost	Rs .Mn Value	Rs .Mn At Cost	Rs .Mn Value
7.1 Non-Current				
a) Investment in Subsidiary Company Unquoted				
Ceylon Petroleum Storage Terminals Ltd.*	5,000.000	5,000.000	5,000.000	5,000.000
	5,000.000	**5,000.000**	**5,000.000**	**5,000.000**

	2011		2010	
	Rs .Mn At Cost	Rs .Mn Market Value	Rs .Mn At Cost	Rs .Mn Market Value
b) Other Investments				
Quoted				
Lanka Cement Ltd.	50.500		50.500	31.250
5,000,000 Ordinary Shares of Rs.10/= each Fully paid. Less				
Allowance for decline in value	(19.250)	-	(19.250)	-
	31.250	**0.000**	**31.250**	**31.250**

Unquoted

	2011		2010	
	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 Cooperative Petroleum association				
5,499 Shares of Us $ 100/= each fully paid Incorporated in USA	5.086	5.086	5.086	5.086
	5.626	**5.626**	**5.626**	**5.626**

	2011	2010
7.2 Current		
Investments in Fixed Deposit	5.000	5.000
	5.000	**5.000**
Total	**41.876**	**41.876**

8 . TRADE & OTHER RECEIVABLE

	CPC 2011		CPC 2010		GROUP 2011		GROUP 2010	
	Rs. Mn With in one Year	Rs. Mn After one Year	Rs. Mn With in one Year	Rs. Mn After one Year	Rs. Mn With in one Year	Rs. Mn After one Year	Rs. Mn With in one Year	Rs. Mn After one Year
Trade Receivables	115,027.437	-	77,764.748	-	115,027.437	-	77,764.748	-
Other Receivables	2,234.689	2,404.271	848.772	5,054.175	3,437.184	-	1,893.450	1,911.424
Deposits	13.291	200.141	23.360	30.064	17.649	195.237	27.790	30.064
Advance	961.718	-	1,206.802	-	1,046.208	-	1,261.581	-
Prepayments	105.926	-	136.753	-	122.979	-	146.610	-
Loans & Advances to Employees	41.876	1,518.188	41.872	1,615.746	1,336.410	1,518.188	1,593.583	1,615.746
	118,384.937	**4,122.600**	**80,022.307**	**6,699.985**	**12,0987.867**	**1,713.425**	**82,687.763**	**3,557.235**

9. INVENTORIES

	CPC 2011	CPC 2010	GROUP 2011	GROUP 2010
	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn
Crude Oil	9,471.725	12,763.153	9,471.725	12,763.153
Other Raw material	912.660	724.625	912.660	724.625
Finished Products	25,151.528	26,713.894	25,151.528	26,713.894
Other Materials & Supplies	1,910.181	1,573.349	2453.564	2,151.978
Less: Provision for Non Moving Items	(341.912)	(341.912)	(513.753)	(513.753)
	37,104.182	**41,433.110**	**37,475.724**	**41,839.897**

10. CASH AND CASH EQUIVALENTS

Components of Cash and Cash Equivalents

Cash & Bank Balances	12,686.986	13,312.111	12,771.737	13,515.036
Treasury Bills	-	-	-	-
	12,686.986	**13,312.111**	**12,771.737**	**13,515.036**

11. CONTRIBUTED CAPITAL

	2011 Rs.Mn	2010 Rs.Mn
Initial Contribution in Pursuance of Section 23 of Act No 28 of 1961	10.000	10.000
Voted by Appropriation Act no 23 of 1964	4.000	4.000
Voted by Appropriation Act no 15 of 1967	20.000	20.000
Contribution to Capital in 1976	60.000	60.000
Contribution to Capital in 1979	13.110	13.110
Contribution to Capital in 1980	10.710	10.710
Total Contributed by Govt.of Sri Lanka	117.820	117.820
Transferred from General Reserve in 1987	750.000	750.000
Transferred from Retained Profits in 1987	132.180	132.180
	1,000.000	**1,000.000**

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

11.1 1/3 rd of CPSTL Company Shares held by the General Treasury was transferred	2,500.00	0.00
to CPC after Cabinet decision.	**2,500.00**	**0.00**

12. CAPITAL RESERVE

	CPC		GROUP	
	2011	**2010**	**2011**	**2010**
	Rs.Mn	**Rs.Mn**	**Rs.Mn**	**Rs.Mn**
Balance as at 01st January	4,992.686	4,992.686	4,992.686	4,992.686
Balance as at 31st December	**4,992.686**	**4,992.686**	**4,992.686**	**4,992.686**

* In 2003, the transfer of assets to CPSTL had been done at book values. Subsequently it had been decided to record the above 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

	2011	**2010**	**2011**	**2010**
	Rs.Mn	**Rs.Mn**	**Rs.Mn**	**Rs.Mn**
Balance as at 01st January	25.696	25.696	25.696	25.696
Balance as at 31st December	**25.696**	**25.696**	**25.696**	**25.696**

14. INSURANCE RESERVE

	2011	**2010**	**2011**	**2010**
	Rs.Mn	**Rs.Mn**	**Rs.Mn**	**Rs.Mn**
Balance as at 01st January	619.432	610.198	620.524	610.308
Charged to Profit & Loss Account	0.776	9.234	0.776	10.216
Balance as at 31st December	**620.208**	**619.432**	**621.300**	**620.524**

15. RETIREMENT BENEFIT OBLIGATION

	2011	**2010**	**2011**	**2010**
	Rs.Mn	**Rs.Mn**	**Rs.Mn**	**Rs.Mn**
Balance as at 01st January	714.505	703.700	1,562.500	1,322.740
Less: Payments made during the year	42.801	33.789	95.551	87.923
	671.704	669.911	1,466.950	1,234.820
Add: Charge for the year	(60.626)	44.593	(1.457)	272.037
	611.078	714.504	1,465.493	1,506.857
Add: Benefit China Bay /LLL/NYLON/CPSTL Employees	31.833	31.833	31.833	31.833
Add: Charge for the year L.I.O.C. , chinabay	(16.236)		(16.236)	
Add: Interest				55.883
Balance as at 31 st December	**626.675**	**746.337**	**1,481.089**	**1,594.572**

	CPC 2011 Rs.Mn	CPC 2010 Rs.Mn	GROUP 2011 Rs.Mn	GROUP 2010 Rs.Mn
16 INTREST BEARING LOANS & BOROWINGS				
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.	645.655	721.615	645.655	721.615
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	0.000	184.335	0.000	184.335
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	1,999.932	2,571.342	1,999.932	2,571.342
16.3 B.O.C Long Term Loan	25,000.000	25,000.000	25,000.000	25,000.000
16.4 Peoples Bank Term Loan			2,363.404	2,822.885
	27,645.587	28,477.292	30,008.991	31,300.177
Compensation Payable to Former Owners of properties vested in CPC	0.902	0.902	0.902	0.902
	27,646.489	**28,478.194**	**30,009.893**	**31,301.079**

17. TRADE & OTHER PAYABLES

	CPC 2011 Rs.Mn	CPC 2010 Rs.Mn	GROUP 2011 Rs.Mn	GROUP 2010 Rs.Mn
Foreign Bills Payable	152,532.169	122,297.904	152,532.169	122,297.904
Other Creditors				
- Amount due to Inland Revenue & Custom Dept.	1,892.467	261.449	1,892.467	261.449
- Accrued Expenses	1,996.824	20,628.685	6,272.258	23,994.210
- Refundable Deposits & Others	7,948.758	2,393.666	8,160.265	2,574.567
- Amount due to Related Parties	2,661.888	50.710	451.060	50.710
	167,032.106	**145,632.415**	**169,308.219**	**149,178.841**

18. INTEREST BEARING LOANS AND BORROWINGS WITHIN 01 YEAR

Bank & Other loans				
- Wholly Repayable within one year	122,975.749	3,127.539	122,975.749	3,127.539
- Bank Overdrafts	0.000	15,019.912	0.000	15,019.912
- Bank Temporary Loan	0.000	0.000	0.000	0.000
- Short Term Working Capital Loans	0.000	0.000	0.000	0.000
	122,975.749	**18,147.451**	**122,975.749**	**18,147.451**

19. EMPLOYEES

19.1 Staff Cost

	CPC 2011 Rs.Mn	CPC 2010 Rs.Mn
Salaries & Wages	1,776.346	2,056.067
Bonus	248.967	252.098
Provident & Trust Fund contribution	248.967	208.536
Gratuity Provision	(60.626)	44.593
	2,213.654	**2,561.294**

19.2 No. of Employees

	CPC 2011	CPC 2010
Administration & Marketing	933	1,191
Manufacturing	1,183	985
Security	466	485
	2,582	**2,661**
19.3 Contract & Casual Employees	**28**	**83**

20. COMMITMENTS FOR CAPITAL EXPENDITURE

	2011 **Rs.Mn** Amount Approved	**2010** **Rs.Mn** Amount Spent Up to 31.12.2010
Fuel Quality Improvement & Storage Facilities at Refinery	28.373	33.716
Refinery Main Plant (Minor modifications)	-	10.260
Other Capital Expenditure	2,143.854	2,148.483
Construction of Head Office New Building	385.618	1,214.573
Construction of Filling Yard	-	50.224
	2,557.845	**3,457.256**

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கணக்காய்வாளர் தலைமை அதிபதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT

මගේ අංකය / எனது இல. / My No: EH/B/CPC/FA/11

ඔබේ අංකය / உமது இல / Your No.:

දිනය / திகதி / Date: 24 October 2013

The Chairman
Ceylon Petroleum Corporation

Report of the Auditor General on the Consolidated Financial Statements of the Ceylon Petroleum Corporation and its Subsidiary for the year ended 31 December 2011 in terms of Section 14(2)(c) of the Finance Act, No. 38 of 1971

The audit of consolidated financial statements of the Ceylon Petroleum Corporation (CPC) and its subsidiary for the year ended 31 December 2011 comprising the consolidated statement of financial position as at 31 December 2011 and the consolidated statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act No. 38 of 1971 and Section 31 of the Ceylon Petroleum Corporation Act No. 28 of 1961. My comments and observations which I consider should be published with the annual report of the Corporation in terms of Section 14(2)(c) of the Finance Act appear in this report. My detail report in terms of Section 13(7)(a) of the Finance Act will be issued in due course.

1.2 Management's Responsibility for the Financial Statements

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

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatements.

අංක 306/72 පොල්දූව පාර, බත්තරමුල්ල, ශ්‍රී ලංකාව
இல. 306/72, பொல்துவ வீதி, பத்தரமுல்லை இலங்கை
No.306/72, Polduwa Road, Battaramulla, Sri Lanka
දුරකථනය / தொலைபேசி / Telephone: 2887028 -34
ෆැක්ස් අංකය / பக்ஸ் இல / Fax No.: 2887223
ඉලෙක්ට්‍රොනික් තැපැල් / ஈ- மெயில் / E-mail.: oaggov@sltnet.lk

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

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

1.4 Basis for Qualified Audit Opinion

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

2 Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects on the financial statements of the matters referred to in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the Ceylon Petroleum Corporation as at 31 December 2011, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

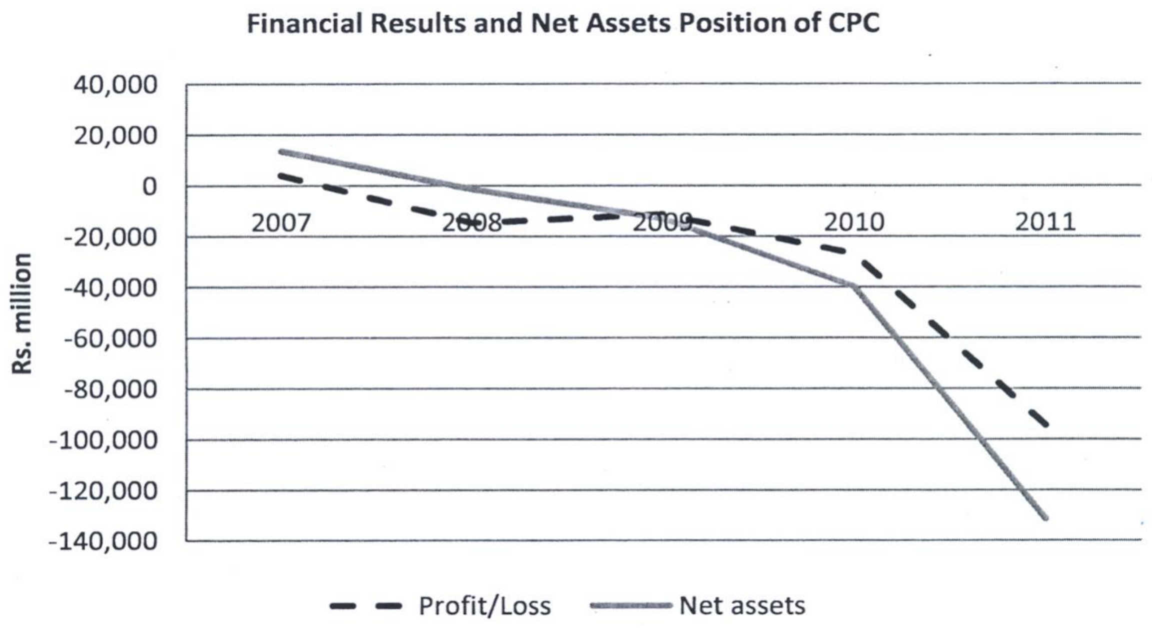
In my opinion, except for the effects on the consolidated financial statements of the matters referred to in paragraph 2.2 of this report, the consolidated financial statements give a true and fair view of the financial position of the Ceylon Petroleum Corporation and its subsidiary as at 31 December 2011 and their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Appropriateness of Going Concern Assumption

The Corporation had sustained a loss of Rs. 94,508 million (without tax adjustment) for the year under review and had a negative net assets position of Rs. 131,324 million as at the end of the year 2011 due to sustain heavy losses for the last four years. 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. Financial

Results and the net assets position of the Corporation for the year under review and last four years are depicted in the chart given below.



2.2.2 Delay in Presentation of Financial Statements

According to the Circular No. PED/12 of 02 June 2003 of the Department of Public Enterprises, the annual accounts should be rendered to the Auditor General within 60 days after the close of the financial year. However, consolidated annual financial statements had been submitted to the Auditor General only on 15 January 2013 for the year under review.

2.2.3 Non-compliance with Sri Lanka Accounting Standards (SLAS)

The following observations are made.

(a) One third of the total shares of the Ceylon Petroleum Storage Terminal Ltd. (CPSTL), held by the General Treasury, had been transferred on 21 October 2009 to the Corporation with effect from 01 January 2009. As a result, the ownership to the Corporation of the total shares of the SPSTL had increased upto 2/3. Accordingly, the Corporation should have prepared and presented consolidated financial statements for the year 2010 and onwards in which it should consolidate its investments in subsidiaries in accordance with the Sri Lanka Accounting Standard No.26. However, the Corporation had prepared consolidated financial statements for the year 2011 based on unaudited financial statements of the CPSTL.

(b) The Corporation had not revalued its property, plant and equipment to ensure that the carrying amounts did 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. 3,130 million, which continued to be used by the Corporation had not been revalued.

(c) The Corporation had not adopted appropriate procedures to identify impairment indicators for its property, plant and equipment amounting to Rs. 10,891 million as required by SLAS 41 – Impairment of Assets.

(d) It was observed that bad debt provision amounting to Rs.43.4 million had not been shown in the face of the balance sheet as stipulated in SLAS 3, instead of setting off against trade receivable balances. In addition, the bad debt provision of the carrying amount at the beginning and the end of the year had not been disclosed as required by SLAS 36 – Provisions, Contingent Liabilities and Contingent Assets.

2.2.4 Accounts Receivable and Payable

The details of the long outstanding receivable balances of the Corporation as at the Balance sheet date were as follows.

Item	**Total dues as at 31December 2011**
	Rs.
Dealers	790,349,862
Aviation	14,710,932,214
Power Plants	8,974,762,742
Government Consumers	90,024,815,525
Private Consumers	263,130,856
Agro Chemical	22,917,925
Others	283,926,228
Total	**115,070,835,353**

The following observations are made in this regard.

(a) Details of age analysis relating to the above mentioned dues were not made available to audit even though called for several times. Accordingly, it was observed that such information had not be3en maintained properly by the Corporation.

(b) It was observed that the Corporation had provided credit facilities aggregating Rs.25.1 million to four private dealers, a private power plant customer and a private aviation customer, and Rs.24 million to three Government customers exceeding their bank guarantees.

(c) The amount receivable from the Ceylon Electricity Board (CEB) as at 31 December 2011 was amounted to Rs. 67,259 million and out of that Rs. 50,500 million had been recovered from the Treasury Bond given to Corporation on 04 January 2012.

(d) The Corporation normally calls confirmation from debtors for all outstanding balances available as at the end of each year. Out of the total outstanding balance of Rs. 115,070.8 million (before bad debt provision) as at 31 December 2011, a sum of Rs.69,132 million due from 114 debtors were not conformed to the amount confirmed by respective debtors. Accordingly, it was observed a difference ofRs. 87,700 million between the ledger balance and the balances confirmed by respective debtors. Details are as follows.

No. of Debtors	Ledger Balance	Balance confirmed by debtors	Difference between the ledger balance and the confirmed balance
	Rs. million	**Rs. million**	**Rs. million**
49	47,220	Nil	47,220
38	1,753	1,402	351
27	20,159	60,288	40,129
Total			**87,700**

(i) Out of Rs. 47,220 million of ledger balance relating to 49 debtors, by whom the balances had been confirmed as nil, there was a difference of Rs. 4.5 million relating to 06 dealers due to an implementation error of the Enterprise Resource Planning/ System Applications and Products for Data Processing (ERP/SAP) system.

(ii) Further, out of the above total dues, there was a dispute regarding a balance of Rs. 8 million due from two other institutions.

(iii) Out of 38 debtors who had confirmed their balances below the amount in the ledger balances of the Corporation, there was a dispute relating to the balances of two debtors aggregating Rs. 2.7 million.

(iv) 27 customers had confirmed their balances over the ledger balances by Rs. 40,129 million.

(e) It was observed that 41 per cent of debtor balances amounting to Rs. 1,725 million as at 31 December 2011 were remained outstanding for a period ranging from one year to eighteen years, included in the total debtor balances of Rs. 115,070.4 million (before bad debt provision) shown in the financial statements as at 31December 2011.

(f) According to the operating system (SAP) of the Corporation, hard cash customers were allowed to make payments in cash at the point of sale and no credit facilities were provided to them. However, there was an outstanding balance of Rs. 21.6 million of such customers as at 31 December 2011.

2.2.5 Lack of Evidence for Audit

The following items in the accounts could not be satisfactorily vouched in audit due to the non-availability of required evidence as indicated below;

(a) 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 Vesting Orders made available to establish the ownership of the land.

(b) Adequate evidence had not been made available to examine the recoverability and existence of the excise duty amounting to Rs. 714 million receivable from the General Treasury and included under Trade and Other Receivables.

(c) Poor maintenance of records relating to the motor vehicles

(i) According to the information made available, the Corporation had not maintained proper records relating to the fleet of vehicles owned by the Corporation. Also, following information had not been made available to audit even after requesting several times. Therefore, expenditure incurred by the Corporation could not be satisfactorily vouched in audit.

- Losses on accidents occurred during the year
- Details of group transportation provided by the Corporation
- Details of officers who were entitled for and provided group transport facilities by the Corporation.
- Details of vehicles acquired on lease basis.

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

Following instances of non-compliance with Laws, Rules, Regulations and Management Decisions were observed in audit.

Reference to Laws, Rules, Regulations and Management Decisions.	Non - compliance
(a) Public Enterprises Circular No. PED/12 of 2 June 2003 on Public Enterprises Guidelines for Good Governance.	
(i) Section 3.2	The Board of Directors of the Corporation did not include at least one member in the field of Petroleum industry.
(ii) Section 4.2.2	Board Meetings of the Corporation had not been held during January, March, May, July, August and November of the year 2011.
(b) Circular No. 124 dated 24 October 1997 of the Ministry of Finance and Planning	Even though, covering up duties of a vacant post should be limited to a period of 03 months, five employees had been covering up duties of vacant posts for periods ranging from 4 to 14 months up to the end of the year under review.

2.2.7 Transactions not Supported by Adequate Authority

In terms of Section 8.3.3 of the Public Enterprise Circular No. PED/12 of 2 June 2003, bonus could be paid to employees out of the profit earned by the Corporation. Nevertheless, the Board of Directors had approved and paid bonus amounting to Rs.147 million, Rs. 148 million, Rs. 179 million and Rs. 175.6 million in the years of 2008, 2009, 2010 and 2011 respectively despite the losses occurred to the Corporation in these respective years.

2.2.8 Hedging Transactions

According to the minutes of the Board of Directors of the Corporation, arbitration proceedings were being conducted at the London Court of International Arbitration. The Corporation was cited as a party in the arbitration proceeding pertaining to hedging contracted entered into with several commercial banks. Pending the outcome of these proceedings at the London Court of International Arbitration, the Corporation had not recognized any resultant liability. *"As per the Chairman of the Corporation, US$ 60 million had been paid to the Standard Chartered Bank (SCB) with the approval of the*

Board of Directors and the Cabinet of Ministers under the Deed of settlement entered between parties and the payment had been remitted to SCB on 03 June 2013."

3 Financial and Operating Review

3.1 Financial Review

3.1.1. Financial Results

According to the financial statements presented, the operation of the Corporation for the year under review had resulted in a pre-tax net loss of Rs. 94,508 million as compared with the corresponding pre-tax net loss of Rs. 26,923 million for the preceding year, thus indicating a further deterioration of Rs. 67,585 million in the financial results. The main reasons for the deterioration were, provision of fuel to Srilankan Airlines Ltd and Mihin Lanka (Pvt.) Ltd at concessionary rates, inefficiencies in procurement process of petroleum products of the Corporation, provision of furnace oil at subsidized rate to CEB, lack of proper Stock level maintenance program and storage facilities, demurrages etc.

3.1.2 Analytical Review of the Financial Results and Financial Position

The following observations are made.

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

(i) The current ratio as at the end of the year under review indicated 0.58 times as compared with 0.82 times of the preceding year and had shown a slight downward move while the acid test ratio had decreased from 0.57 time to 0.45 times at the end of the year under review. This position clearly shows that the liquidity position of the Corporation was in an adverse position.

(ii) The debtor turnover ratio for the year indicated 3.7 times as compared with 3.4 times for the preceding year and the debt collection period had decreased to 99 days as compared with 108 days for the preceding year, which shows that the performance of the debt collection had slightly improved.

(iii) The stock residence period had decreased to 34 days as against 46 days for the preceding year thus showing an improvement in the stock turnover.

(iv) The creditor turnover ratio for the year indicated 3.1 times as compared with 2.3 times for the preceding year and the credit payment period had decreased to 117 days as compared with 158 days for the preceding year.

(v) The cash operating cycle had increased to 15 days as against 5 days of the preceding year thus showing an increase of 20 days, and it might result in the increase of the working capital difficulties.

(vi) Debt to equity capital portion of the year under review had increased up to 151:(131) as compared with 47:(37) for the year 2010. Accordingly, the negative amount of the total equity had increased by Rs. 94 billion when compared with the previous year.

(vii) The gross profit margin for the year under review had decreased to negative 20.1 percent as compared with negative 3.6 percent for the preceding year. Accordingly, the gross loss had increased by Rs. 62.3 billion (71.6 – 9.3) during the year under review when compared with the previous year.

(viii) The return on capital-employed ratio showed a negative position during the year under review as well as previous year.

(ix) The return on total assets ratio indicated a negative of 51 per cent of the year under review as compared with the negative of 18 per cent in the preceding year.

(x) Interest coverage ratio had increased to negative of 9.5 times during the year under review as compared with negative of 2.9 times for the preceding year.

3.2 Operating Review

3.2.1 Performance

Following observations are made.

(a) The agreement entered into between a private gas company and Ceylon Petroleum Corporation in respect of liquid petroleum gas sales had expired on 20 October 2006. However, the Corporation had supplied liquid petroleum gas to that company continuously without entering into a fresh agreement or renewing the agreement. Instead, the supply of gas had been continued on a letter given by the Minister of Petroleum Industries. In addition, the Corporation had supplied liquid petroleum gas to another private company without entering into an agreement.

(b) Some of the products of the Corporation had been sold at prices less than the production cost. It appears that those loss making products had attributed for the huge net loss significantly as well as for the negative net assets position of the Corporation as at the end of the year under review. *As per the Chairman of the Corporation, Majority of the products were sold at subsidized prices due to Government Policy.*

The details are given below.

Product	Sales Value Rs. Mn.	Cost of Sales Rs. Mn.	Gross Loss Rs. Mn.	Net Profit at the year-end 2011
Fuel Oil 3500 (power)	165,800	200,392	34,592	
Fuel Oil 1500 (power)	10,823	19,197	8,374	Net Loss (Before Tax) for the year ended 31 December 2011 amounted toRs. 94,509 million. Power generation fuel oil and Lanka Auto Diesel had attributed for a gross loss of Rs. 27,783 Mn. and Rs. 34,592 Mn. respectively
Fuel Oil (others)	25,458	44,867	19,409	
Agro Chemicals	13,710	19,888	6,179	
LPG	2,319	2,463	144	
Kerosene	12,804	19,541	6,736	
Fuel Oil (Bunkering)	3,647	4,065	417	
Naphtha	4,331	4,829	498	

3.2.2 Utilization of Corporation's Resources by Other Government Institutions

Following observations are made.

(a) As per Section 9.4 of the Public Enterprises Circular No. PED/12 of 02 June 2003, an employee of an enterprise should not be released to the Ministry or any other institution, without the approval of the Cabinet and the enterprise should not pay any emolument to the released employee during such period. However, in contrary to such instructions, 28 employees had been released to six Government Institutions without the approval of the Cabinet of Ministers.

(b) As per Section 8.9.3 of the Public Enterprises Circular No. PED/12 of 02 June 2003, public enterprises are not permitted to incur expenditure or deploy its resources under any circumstances, on behalf of the line Ministry or any other Government institutions. It was revealed that, a number of motor vehicles had been released to the line Ministry and other institutions during the year under review in contrary to the above circular provision and provisions in Letter No. CSA/P1/140 of 04 January 2006 issued by His Excellency the President and the Public Enterprise Circular No. 116 of 24 January 1997.

3.2.3 Identified Losses

The following observations are made.

(a) The Corporation had made bunkering business through a private company in April 2008 with the intention of carrying out that business in the 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 of 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 sustained losses amounting to Rs. 85.2 million andRs. 125 million (approximately) respectively from the bunkering business. However, the Corporation had not engaged in bunkering business since April 2009 and value of stocks as at 31st December 2011 amounting to Rs. 2.17 million (approximately) had been held at the Jaya Container Terminal Oil Bank.

(b) According to the pricing policy of the Corporation, Aviation Turbine Fuel had been sold at spot customer price as well as contract customer price, which was lower than the spot customer price. Even though Srilankan Airlines Ltd. and Mihin Lanka (Pvt.) Ltd. were the contract customers, fuel had been issued to them at concessionary rates which were lower than the contract customer price. Concessionary prices offered for the above two companies had been calculated on the basis of deducting special rates (amounts) from the fixed cost (freight, insurance, storage and marketing). Details are as follows.

Name of the Company	**Amounts deducted from the Fixed cost of Fuel per barrel US$**
Srilankan Airlines Ltd.	0.13
Mihin Lanka (Pvt.) Ltd.	0.03

Accordingly, when compared with the contract customer price, the Corporation had occurred losses of Rs. 470.41 and Rs. 548.49 during the years of 2010 and 2011 respectively, on the sale of Aviation Turbine Fuel to Srilankan Airlines Ltd. and Mihin Lanka (Pvt.) Ltd. at concessionary rates. Furthermore, it was observed that there were long outstanding balances due from the said companies as at the end of the year under review and the previous year. Details are as follows.

Name of the Company	**Outstanding balance as at**	
	31 December 2011	**31 December 2010**
	Rs.	**Rs.**
Srilankan Airlines Ltd.	12,351,426,871	541,542,674
Mihin Lanka (Pvt.) Ltd.	1,227,020,419	361,235,191

Accordingly, it was observed that despite losses sustained and negative equity position since the year 2008, the Corporation had provided Aviation Turbine Fuel to the above two private companies at concessionary rates, even though such companies were within a default risk position and making continuous losses.

3.2.4 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 the Ceylon Petroleum Storage Terminal Ltd. 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 made with the assistance of experts in the field of Enterprise Resource Planning System. Further, it was observed that there was no agreement or a Memorandum of Understanding amongst the Corporation, Ceylon Petroleum Storage Terminal Limited and Lanka Indian Oil Company with regard to their respective responsibilities under this project before the implementation. It was also important to have an agreement/memorandum as a precautionary measure, taking into account the significant outlay of capital and human resources utilized by the Corporation to upgrade its equipment etc. to be compatible with the Enterprise Resource Planning System introduced by the Ceylon Petroleum Storage Terminal Limited.

(b) The Corporation had made major investments amounting to Rs. 5,037 million (including the investment of Rs. 5,000 million in the CPSTL) in various portfolios. However, no considerable income (only Rs. 3,000) had been generated on these investments as at 31 December 2011. Accordingly, it was observed that proper attention had not been paid on the return on investment (ROI) before investing funds of the Corporation.

(c) According to the agreement entered into with the Lanka Indian Oil Company, the Government of Sri Lanka and the Corporation in the year 2003 relating to the taking over of possession and related matters of the China Bay installation, the Corporation had agreed to lease the storage facilities and the land to the said Company 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 had not yet entered into any lease agreement, and no related lease rentals had been received from the company for the usage of this storage facility, although the Company had already been using the facility since February 2003.

(d) A sum of US$ 795,393.7 had been spent by the Corporation as demurrage charges on finished petroleum products during the year under review.

3.2.5. Procurement of Petroleum Products

I have conducted a special audit on procurement of petroleum products by the Corporation during the period from 01 June 2011 to 30 June 2012 under the direction made by the Chairman of the Committee on Public Enterprises and the report had been tabled in Parliament in June 2013.

Accordingly, it was observed that the Corporation had sustained an estimated loss of Rs. 5.1 billion during the short period of 07 months from 01 June to 31 December 2011 due to inefficiencies such as lack of a comprehensive procurement plan, weaknesses in the procurement procedure, failure to carry out reliable laboratory tests on time, lack of coherence communication and preparedness to meet the challenge of a volatile market, overpayments, delays in planning orders for procurement of petroleum products, uneconomical blending of high and low octane petrol, etc. Such issues had created a negative impact on the reputation of the Corporation as well as the economy of the Country.

A brief summary of major issues highlighted in the above report relating to the year under review is given below.

Description	Value			
	GBP	US$.	Ex. Rate * Rs.	Rs.
Arbitration claims and legal cost payable due to cancellation of agreement entered into with a foreign ship broker	-	750,246.83	127.1608[1]	95,401,987
- Do -	6,590	-	205.4728[1]	1,354,066
Loss sustained by the Corporation as a result of allowing the supplier (A Singapore based oil company) to use "Platts" prices for any five days in B/L month (BK/52/2011, BK/53/2011, BK/56/2011, BK/58/2011, BK/59/2011)	-	6,798,029.39	114.1444[2]	775,957,089
Loss sustained by the Corporation due to deducting outturn quantity losses from invoice value of supplier (BK/10/2011)	-	-	-	10,097,359
Demurrage claimed by the suppliers due to operational inefficiencies and terminal constraints of Corporation	-	795,393.71	127.1608[1]	101,142,900
Demurrage claimed by other ships which had arrived on time but unable to discharge due to delays in discharging process of the Corporation	-	96,933.20	127.1608[1]	12,326,103
Payment for procurement of contaminated Gasoline (92 Octane) (BK/17/2011)	-	20,293,127.00	114.8172[2]	2,330,000,000
Payment made for damaged vehicles due to usage of contaminated fuel released to the market by the Corporation (BK/17/2011)	-	-	-	28,000,000

Loss sustained by the Corporation due to delays in signing agreement with the selected supplier to import of Fuel Oil, and as a result procurements made from other suppliers on urgent basis at higher premium to avoid power cuts. (BK/49/2011)	-	521,500.00	127.1608[1]	66,314,357
Loss sustained by the Corporation as a result of changing of quantity basis Air to Vacuum basis (BK/011/062)	-	36,134.27	127.1608[1]	4,594,863
Loss sustained by the Corporation due to delays in making a decision for issuing Low Sulphur Fuel Oil (BK/45/2011)	-	-	-	37,224,000
Loss sustained by the Corporation due to sale of Auto Diesel instead of Low Sulphur Fuel Oil	-	-	-	1,114,344,000
Loss on under-estimation of six months fuel requirement and as a result of the procurement from the suppliers	-	1,515,968.00	127.1608[1]	192,771,704
Loss sustained by the Corporation due to non-compliance with the Cabinet decision to import petrol under term contracts and importing petrol on spot bid basis in which bid premium was much higher than the average premium of the previous couple of months.	-	2,422,571.00	127.1608[1]	308,056,066
The Corporation had sustained an estimated loss as a result of the cancellation of the first offer and refloating the bid.	-	43,213.33	127.1608[1]	5,495,042
Total				**5,083,079,536**

* Exchange rates:

Exchange rates according to the Central Bank Reports as at 31 December 2012

(Daily Indicative Rates of World Currencies – 31.12.2012)

Country	***Currency***	***Indicated Rate (Rs.)***
UK	*Pounds*	*205.4728*
USA	*Dollars*	*127.1608*

2. *Actual rates*

3.2.6 Assets Management

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

	Nature of the Asset	Observation
(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 for the purpose up to 31 August 2013.
(b)	Mahena Land	According to the correspondence made available, the Corporation had paid a sum of Rs. 0.625 million for the acquisition of this 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 Budget

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

(a) Property, Plant and Equipment

(b) Debtors and Other Receivables

(c) Trade Creditors and Other Payables

(d) Accounting

(e) Compliance with Laws, Rules, etc.

(f) Procurements

(g) Utilization of Resources

(h) Human Resources Management

(i) Assets Management

(j) Payment of Bonus

W.P.C.Wickramaratne
Acting Auditor General

TEN YEAR SUMMARY

(A) VALUE										
Petrol	18,514.43	22,461.27	28,761.37	28,633.66	36,677.34	46,579.62	**66,433.73**	**60,055.14**	65,157.91	90,498.78
Auto Diesel	52,668.93	52,084.77	74,520.99	78,104.77	92,474.65	113,737.17	**151,070.45**	**119,046.26**	122,360.42	165,800.16
Super Diesel	1,902.58	1,698.72	1,711.53	725,285	349.805	467.764	**885.25**	**866.145**	1,170.27	1,587.58
Kerosene	5,938.39	5,683.44	7,775.14	11,430.28	13,209.91	12,459.33	**14,000.05**	**9,754.54**	10,711.00	12,804.33
Furnace Oil	15,126.84	16,238.84	20,135.72	30,165.89	36,421.65	43,941.11	**66,220.15**	**33,157.15**	35,792.02	49,990.51
Total	94,151.16	98,167.04	132,904.73	149,059.89	179,133.35	217,184.99	**298,609.63**	**222,879.22**	235,191.62	320,681.36
(B) QUANTITY - Thousand Metric Tons										
Petrol	286.1	337.9	350.3	334.1	367.6	382.1	**383.75**	**415.667**	636.222	740.149
Auto Diesel	1,728.30	1,523.00	1,583.30	1,330.10	1,335.30	1,449.70	**1,371.32**	**1,427.33**	1,680.888	2,185.038
Super Diesel	46.9	39.5	31.6	11.7	4.7	5.4	**7.19**	**8.548**	13.434	16.634
Kerosene	228.8	184.6	171.8	178	196.6	168.5	**151.31**	**150.69**	210.159	214.992
Furnace Oil	757.6	648.3	771.7	972.8	911.1	985.2	**994.55**	**1,095.73**	1,316.120	1,078.422
Total	3,047.70	2,733.30	2,908.70	2,826.70	2,815.30	2,990.90	**2,908.11**	**3,097.97**	3,856.823	4,235.235
(C) RETAIL SELLING PRICES IN PETROLEUM PRODUCTS										
(Colombo Spot Price in Rs. Per Litre as at 31st December)										
Super Petrol	49.00	53.00	70.00	80.00	95.00	92.00	**120.00**	**115.00**	115.00	125.00
Auto Diesel	30.00	32.00	44.00	50.00	92.00	60.00	**70.00**	**73.00**	73.00	76.00
Super Diesel	31.80	35.30	49.30	55.30	65.30	65.30	**85.30**	**88.30**	88.30	98.30
Kerosene	24.00	25.50	25.50	30.50	48.00	48.00	**50.00**	**51.00**	51.00	61.00
Furnace Oil										
Furnace Oil 1000"	21.20	23.20	24.70	31.40	44.40	44.40	**33.90**	**34.90**	40.00	52.20
Furnace Oil 1500"	20.70	22.30	24.30	30.30	43.30	43.30	**31.70**	**32.70**	40.00	50.00
Furnace Oil 3500"	18.90	20.70	22.00	28.00	41.00	41.00	**25.00**	**26.00**	40.00	50.00
INCOME & EXPENDITURE										
Gross Income										
Less Taxes	80,114.00	85,900.00	121,540.00	161,852.00	196,767.00	238.364	**341.67**	**236,332.00**	256,329.16	356,442.36
Income from Investment	1118	162	-	-	-	-	-	-	-	-
Cost of Sales	67,211.00	75,471.00	106,750.00	144,501.00	187,231.00	221,724.00	**338,514.00**	**233,250.00**	(265,603.76)	(428,070.57)
Margin	12,903.00	10,429.00	14,789.00	17,350.00	9,536.00	16,641.00	**1,835.04**	**3,082.00**	521,932.92	(71,628.21)
Extraordinary Item	2,530.00	-	-	-	-	-	-	-	-	
Working & Establishment Exppenses including Interest	6,765.00	5,715.00	10,344.00	7,510.00	7,621.00	12,657.00	**16,570.00**	**15,424.77**	17,648.21	22,880.19
Kerosene Subsidy and other Levis paid to the treasury	-	-	-	-	-	-	-			
Profit/(Loss) Before Tax	9,786.00	4,874.00	4,445.00	9,840.00	(1,915.00)	3,984.00	**(14,735.00)**	**(12,342.64)**	504,284.71	(94,508.39)

** Retail prices revised monthly as per Formulae from February 2002*
*** Taxes comprise provisional, TT, Excise Duty*
& SRL

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
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
CPSTL	-	Ceylon Petroleum Storage Terminals Ltd.,
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