Perhaps the most prized drop of liquid in the world today.

The challenge before the world to manage this precious resource across global frontiers, for the good of mankind. The challenge before Sri Lanka to keep this energy source viable and affordable for the good of the Nation.

Ceylon Petroleum Corporation

Annual Report 2007

Our Vision

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

Our Mission

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

Contents>

About Us

The Ceylon Petroleum Corporation was set up as a State Enterprise under an Act of Parliament No. 28 of 1961 and further amendments to the Act carried out subsequently. The Corporation's main objectives are "to carry on business as an importer, exporter, seller, supplier and distributor of petroleum products, to carry on the business of exploring for, exploiting, producing and refining petroleum products and to carry on such businesses as may be incidental or conductive to the attainment of these objectives".

With the intention of conserving foreign exchange, the Corporation built a 38,000-bpd refinery in 1968, whose capacity was subsequently increased to 50,000-bpd.

In 1969, the Corporation's lubricating-oil blending plant commenced operations in Kolonnawa. CPC entered the businesses of aviation refuelling and bunkering in 1971, following further amendments to the CPC Act, and also entered the agricultural-chemicals business in competition with the private sector.

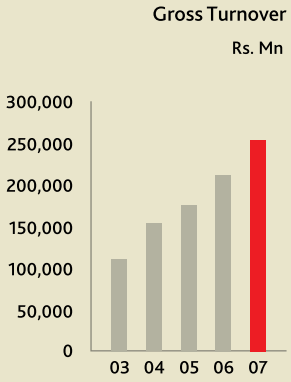
In line with Government privatisation policies, Ceylon Petroleum Storage Terminals Limited was incorporated in year 2003 to own and operate the storage and distribution facilities of CPC. The Corporation currently owns one-third of the shares of this Company.

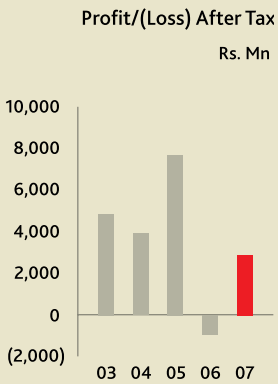
CPC's Board of Directors reflects its State ownership. It comprises Government nominees who are professionals from a variety of disciplines. The Ministry of Finance is also represented on the Board.

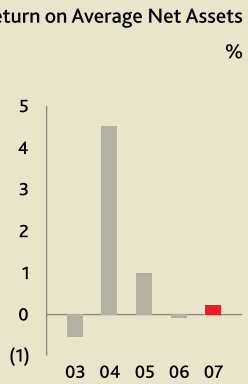
In 2007, the Corporation had 2,686 permanent and 245 casual employees.

CPC is the leader in petroleum product manufacture and marketing in Sri Lanka. In 2007, the Corporation's refinery operated 350 stream days and processed 1,899,079 metric tons of crude oil. Middle distillate recoveries as a percentage by weight of crude oil intake amounted to 38.7%; own-use and handling losses amounted to 4.3%.

Financial Highlights







	2007 Rs. Mn	2006 Rs. Mn	% Change
Gross Turnover	**253,344.38**	211,012.85	20.06
Gross Profit	**16,640.83**	9,535.66	74.51
Profit/(Loss) before Tax	**3,984.18**	(1,915.03)	308.05
Profit/(Loss) after Tax	**2,862.34**	(946.22)	402.50
Issued Share Capital	**1,000.00**	1,000.00	–
Investment	**2,500.00**	2,500.00	–
Net Current Assets	**15,138.46**	14,519.33	4.26
Earnings/(Loss) per Share - Rs.	**–**	–	–
Net Assets per Share - Rs.	**12.32**	11.87	3.79
Market Value per Share 31st December - Rs.	**–**	–	–
Net Income/(Loss) to Net Turnover %	**0.012**	(0.005)	340
Return on Average Net Assets %	**0.23**	(0.08)	387.50

CPC is determined to guarantee the best possible domestic energy prices while transferring all internally-generated cost advantages to the national economy.

Chairman & Managing Director's Review

Movement of Crude Oil Prices

International oil prices continued rising in 2007, starting from $ 50 per barrel and increasing to $ 90 per barrel. Factors behind this steady increase included the emergence of China and India as super commodity consumers, a weaker US Dollar and its impact on OPEC's pricing strategy, rising geopolitical risks, the increased frequency of extreme weather events and its effect on energy demand, and the migration of new risk capital into commodity markets.

I continue to believe that this upward price trend is influenced in significant proportion by fundamental factors rather than speculation, and the Sri Lankan economy has to be adjusted to accommodate the impact of high oil prices for many years to come.

Financial Performances

The Corporation recorded a profit of Rs. 2.8 Bn in the financial year 2007. Efficient operations at the refinery, effective usage of storage capacity, strategic procurement decisions, timely adjustment of domestic fuel prices and effective management of foreign exchange all contributed to this result.

The refinery contributed in a profit of $50 Mn for the year; however, the discounted rates extended to the Ceylon Electricity Board, as proposed by the Treasury, offset the earnings to the tune of Rs. 5.8 Bn. The sale of kerosene at less than cost created a further revenue loss of Rs. 2.7 Bn.

The mounting debts of the CEB and other Government agencies is a critical issue to CPC; these debts totalled Rs. 26.025 Bn as at 31st December 2007. However, these debts were subsequently settled by intervention of the Treasury.

A positive factor throughout the year was the stability in the Rupee value, which depreciated against the Dollar by only one per cent when compared to the previous year. Effective management of foreign exchange exposure earned an income of Rs. 933 Mn during the year.

As instructed by the Treasury and the Central Bank, CPC has limited foreign exchange outflows to the agreed figure of $ 1.8 Bn while restructuring its debt portfolio.

In total, the Corporation made a massive contribution of Rs. 32 Bn to Government revenue during the year under review.

Serving the Nation

Arising from our vision, CPC is committed to contribute towards the prosperity of our country. In this connection, I am proud to announce that the Corporation maintained steady prices through the last five months of the year despite an international oil price increase of 28% over the same period. In addition to thus protecting the nation from the greatest oil price surge in history, the Corporation also granted a massive discount of Rs. 5.8 Bn to the Ceylon Electricity Board, thus helping maintain steady energy prices for Sri Lankan consumers despite the Board's poor payment patterns. As a Government-owned enterprise, CPC successfully undertook to provide uninterrupted fuel supplies to Sri Lanka Railways and the Armed Forces, helping these organisations discharge their responsibilities to the nation. In addition, the Corporation continued to supply fuel island-wide, even in 'uncleared' areas.

It is also important to note that CPC is the only organisation providing energy for the poor in the form of kerosene. It is sold at a subsidised price, from which the revenue loss in 2007 was Rs. 2.7 Bn.

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

As a responsible corporate citizen, CPC is fully aware of its obligation to minimise environmental pollution and is concerned about environmental safety, especially in terms of the handling and usage of petroleum products. In line with world environmental standards, it has developed plans to modernise the refinery to deliver products at lower environmental impact, as well as to produce low-sulphur diesel and furnace oil.

Strategic Priorities

We have clearly identified our strategic priorities as the effective and efficient operation of the refinery, optimum utilisation of storage facility, the implementation of efficient procurement practices and effective risk management.

In order to provide timely and accurate information to experienced managers who are well aware of their priorities, CPC has embarked on an ERP project in association with Ceylon Petroleum Storage Terminals Limited (CPSTL), the project owner. The new ERP system is planned for operationalisation in early 2009.

Many meetings and discussions have been held with the security personnel, CPC staff, surrounding neighbourhood and the general public with regard to securing CPC's assets.

In January 2007, when the international oil prices were at the lowest for the year, CPC was able to maximise its stock position utilising storage capacities successfully at Muthurajawela Tank Farm.

Our current refinery expansion project is the most critical element in CPC's future sustainability. We are proud to announce that the Government of Iran has come forward to help us finance and implement this project. President Mahmoud Ahmadinejad of the Islamic Republic of Iran visited the Sapugaskanda Refinery on 29th April 2008 to sign a Memorandum of Understanding and to lay the foundation stone for the project.

New Markets

CPC has taken initial steps towards re-entering into the bunkering, lubricant and domestic LPG markets. Commercial operations in all these businesses will

commence in 2008. Our intent is to provide value and generate sufficient margins to enable us to cross-subsidise our mainstream customers.

We have also planned to revitalise our agrochemical business by the introduction of more farmer friendly pricing scheme for our products and opening a number of CPC owned outlets in the farming areas

New CPC Head Office Building

In the year under review, the Corporation commenced construction of a new state-of-the-art Head Office building at Dematagoda at a cost of Rs. 1.5 Bn. The project is planned for completion in 2010.

Corporate Governance

In our efforts to enhance corporate governance, we have empowered our internal audit function with professionals and experts in finance and the oil industry. These experts are currently working to develop stronger internal controls and help us increase operational and financial transparency.

An Audit Committee, which consists of three Board Members, has been appointed to bring our corporate governance in par with global standards.

A new Transfer Committee has also been set up to look into personnel issues pertaining to staff transfers and make appropriate suggestions to management.

Corporate Social Responsibility

Corporate Social Responsibility is our main focus of attention and all attempts are made to meet the needs of the entire nation at the least possible cost to the consumer.

As mentioned above, fuel supplies are made even to 'uncleared areas' in the Northern and Eastern Provinces and also guarantee uninterrupted fuel supplies to Government institutions at any cost.

We are currently in the planning process to enter a joint venture with a foreign technical provider that will convert garbage polythene to bunkering fuel. The raw material will be unprocessable garbage polythene which is a serious environmental threat. The project is proposed to commence in 2009.

Looking Ahead to 2008

As mentioned previously, we eagerly look forward to the implementation of the refinery expansion project. We are also in the process of preparing a 10-year plan in line with the national budget strategy.

It is very likely that fuel oil market in Sri Lanka will be much competitive in the coming year. However, with our committed and experienced management team, with clear market leadership and a knowledgeable and experienced workforce, there is every reason to believe that the coming year too will be yet another outstanding year for CPC.

Acknowledgements

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

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

Ashantha L.F. De Mel
Chairman & Managing Director
30th September 2008

Board of Directors

Mr. Ashantha L.F. De Mel
Chairman

Mr. Methsiri Wijegoonawardane
Director

Mrs. Kanthi Wijetunge
Director

Mr. Saliya Rajakaruna
Director

Mr. D. Charitha Gooneratne
Director

Captain Nihal Keppetipola
Director

A.L.F. de Mel

Mr. Ashantha de Mel gained world renown representing Sri Lanka in international cricket. He is also a professional bridge player, and has represented his country internationally at this game as well.

Before he assumed duties as Chairman at Ceylon Petroleum Storage Terminals Limited in June 2006, he served as General Manager at industrial plants belonging to the Hoodvian Group, a business conglomerate based in the south of Sri Lanka, and subsequently as Managing Director of Asia Couture, a subsidiary of Asia Capital.

Mr. de Mel is currently Chairman of the National Selection Committee of the Sri Lanka Cricket Board.

S. Rajakaruna

MBA (Cranfield) UK, MCIM (UK)

Mr. Rajakaruna worked for over 30 years at the London Offices of Citibank, taking on various roles relating to corporate banking, risk management, finance and marketing with customers in Scandinavia, the UK and Europe. He has also undertaken various assignments covering audit, product management and treasury activities relating to Citibank portfolios in the US, South Africa and Asia. He joined Bank of Ceylon as Chief Financial Officer in August 2006 with a mandate to manage all financial aspects and strategic issues impacting the Bank. He was appointed to the Board of the Ceylon Petroleum Corporation in May 2007.

M.D. Wijegoonawardane

FIFS (UK), MCIM

An accountant by profession and a member of the Chartered Institute of Management, Mr. Wijegoonawardane has been a Director of the Ceylon Petroleum Corporation and of Ceylon Petroleum Storage Terminals Limited from April 2004. Between 1975 and 1990, he occupied key positions in accounting and financial management in a number of Government Corporations and companies under the Ministries of Industries, Agriculture, Food and Defence. Moving thereafter to the private sector, he held key general management and corporate affairs positions in leading private sector companies. He holds a postgraduate diploma in international trade law and practices relating to shipping, aviation, international contracts and logistics (University of Colombo).

K. Wijetunge

Mrs. Wijetunge is a senior officer of the Sri Lanka Administrative Service and currently functions as Additional Secretary to the Ministry of Petroleum and Petroleum Resources Development. She is a science graduate with a Master's degree in public administration and was a recipient of the prestigious Hubert H. Humphrey Fellowship, funded by US State Department, under which she followed a year-long professional enrichment programme in the United States. She has held a number of senior managerial positions in key Ministries including Labour and Employment, Women's Affairs, Economic Reforms, Science and Technology and Media and Information and has represented Sri Lanka in several important international forums.

Mrs. Wijetunge has served on the boards of management of several public enterprises and academic institutions, among them the Development Lotteries Board, Open University of Sri Lanka and National Institute of Library and Information Science. She has published a number of papers under different themes and authored the book *Women and Human Rights,* published in 1999.

She was appointed to the Board of the Ceylon Petroleum Corporation in February 2006.

Capt. Nihal Keppetipola

A Master Mariner, Capt. Keppetipola is President of the Sri Lanka Branch of the Nautical Institute, an international body headquartered in UK and Additional Managing Director of the Sri Lanka Ports Authority.

Capt. Keppetipola was appointed to the Board of the Ceylon Petroleum Corporation in July 2007.

D.C. Gooneratne

CIMA (UK, Associate)

Mr. Gooneratne worked for a period of three years as head of finance and audit at Citibank, Colombo, and thereafter joined the Development Finance Corporation of Ceylon, which later became DFCC Bank. He has served as a consultant to the Ministry of Environment and Natural Resources and was a member of the Council of the Central Environment Authority. He was a recipient of a Presidential Award for Excellence in 2005 for the wildlife sector.

He is currently a Director of Lanka Cement Limited. He was appointed to the Board of the Ceylon Petroleum Corporation in February 2006.

The Cycle of Light...

It all began with the humble kerosene powered bottle lamp. Today, we've come full circle... with oil powered generation of electricity that helps him study... in the light of the electric lamp.

Ceylon Petroleum Corporation

Corporate Management Team


1


2


3

1. Mr. B.C. Jayawardene - *Refinery Manager*
2. Mr. Lalith Karunaratne - *Deputy General Manager (Finance)*
3. Mr. S.K. Cyril - *Deputy General Manager (Administration)*

Senior Management Team

1. Ms. Geetha Fonseka - *Chief Legal Officer* 2. Mr. Sunil Gamage - *Operations Manager (Aviation)* 3. Mr. Nihal Goonasekera - *Head of Secretariat*

4. Mr. Justin Silva - *Marketing Manager (Retail)* 5. Mr. A.R. Abel - *Manager (Marketing & Business Development)*

6. Mr. Hemantha Samarawickrama - *Manager (Engineering & Premises)* 7. Mr. Sarath Kottahachchy - *Commercial Manager*

8. Mrs. H. Seneviratne - *Manager (Supplies)* 9. Mr. Samantha Vithana - *Personnel Manager* 10. Mr. Sarath Perera - *Internal Audit Manager*

11. Mr. A. Lambiyas - *Manager (Agro Chemicals)* 12. Mr. K.S.K. Ettipola - *Deputy Refinery Manager (Electrical)*

13. Mr. Neil Jayasekera - *Deputy Refinery Manager (Maintenance & Projects)* 14. Mr. Nihal Fernando - *Deputy Refinery Manager (Technical Services)*

15. Mr. E.M. Piyasena - *Deputy Refinery Manager (Manufacturing Operations)* 16. Mr. A. Abeywardena - *Manager (Economics & Scheduling)*

17. Mrs. R.T.A. Dabare - *Finance Manager* 18. Maj. M.R.S.P. Samarasinghe - *Manager (Security)*

19. Mr. Wasantha Abeysekera - *Deputy Operations Manager (Sapugaskanda Terminal)*


13000M3

A Gargantuan Tale...

Our refinery produces 163,291 metric tons of petrol, 444,593 metric tons of diesel, 97,409 metric tons of kerosene, 771,667 metric tons of furnace oil and 318,712 metric tons of miscellaneous fuels... per year.

Ceylon Petroleum Corporation



Crude Distillery Unit

Business Review

Industry Overview

2007 was a volatile year for the oil industry. In spite of this, CPC performed well, recording a profit of Rs. 2.8 Bn.

The year saw sharp increases in international oil prices. This was due largely to continuing geopolitical tensions and supply uncertainties. Refining margins were unpredictable but improved throughout the year. Global refining capacity remained tight.

Worldwide, oil demand increased by 1.2% to 85.7 Mn bpd, up from 84.7 Mn bpd in 2006. This worldwide increase in energy demand was due in part to the burgeoning economies of China and India, which are entering a more energy-intensive phase of their development, and partly to the natural consequences of a growing world population. Increasing demand means that conventional supplies of oil and gas will be taxed and greenhouse gas emissions will continue to rise in the future.

Refinery Operations

The most important strategic initiative undertaken by the Corporation in 2007 was to convince the Government to make timely adjustments to domestic product prices. This enabled CPC to cover its operating costs through domestic sales. The initiative was undertaken in line with Government policy following the abolition of the fuel subsidy in July 2006. As a result, CPC made a profit of Rs. 2.8 Bn over the financial year 2006 despite the need to continue supplying fuel to the Ceylon Electricity Board at very concessionary rates in line with Treasury direction, at a cost to CPC of Rs. 5,858 Mn.

Other moves, too, contributed to make 2007 a successful year for the refinery. The decision to change the throughput crude mix to optimise profitability was very successful. Had all storage tanks been in usable condition, it would have been possible to increase profitability even further by exploiting the procurement advantages of timely purchase.

Expansion Programme

The CPC refinery currently processes 50,000 barrels of crude oil per day. Once the expansion programme currently envisaged is carried out, this throughput will increase to 100,000 barrels per day, or some 90% of the country's refined-product requirement. Based on current figures, this would save Sri Lanka some US$ 75 Mn in foreign exchange every year. Other savings could be effected through improved value addition at the present refinery. There is, in fact, significant potential for this.

The expansion programme will also make better use of existing resources, such as the Corporation's offshore pipeline and the buoy, storage infrastructure and water intake, as well as undeveloped land at the Sapugaskanda Refinery. Investing in refinery operations is the Corporation's top priority: funds for this have already been earmarked from the financial and technical assistance package offered to Sri Lanka by the Government of Iran.

With improved refining capacity, profitability would be further increased if domestic crude oil resources are discovered and developed under the oil exploration programme conducted by Ministry of Petroleum and Petroleum Resources Development. With the success of this programme, the refinery would be able to draw on relatively less-costly domestic supplies.

CPC's planned expansion includes investment in a new, state-of-the-art head office complex at Dematagoda. The need for a new head office is vital: the current location is a rented property in the centre of the city, which is not only expensive but also provides unsatisfactory access to the Corporation's storage facilities at Kolonnawa and Muthurajawela. Dematagoda is the ideal location from which to co-ordinate these two facilities.

Muthurajawela Terminal

2007 was a volatile year for the oil industry. In spite of this, CPC performed well, recording a profit of Rs. 2.8 Bn.

Also planned is a programme of modernisation for CPC fuel marts all over the country, a necessary step in the face of competitor activity.

The Corporation will also re-enter the lubricant, LPG and bunkering markets in 2008. Ceylon Petroleum Storage Terminals Limited, a profitable subsidiary company, is expected to invest around US$ 120 Mn in two major pipeline projects in the coming year.

Supply - Chain Operations

CPC imports most of its crude oil requirements from Iran, while refined products are obtained mainly from India and Singapore. In 2007, the following quantities were purchased:

Product	Mn Barrels
Crude Oil	14.20
Gas Oil	7.49
Gasolene	1.78
Jet A-1	1.43
Furnace Oil	1.91

The critical supply issue currently facing the Corporation concerns access to the Colombo Harbour for product ships, slow unloading capacities and inefficient pipeline networks. Inadequate pipelines also prevent the Corporation from making full use of its storage capacity and result in product losses by way of downgrading.

Another issue arises from the isolation of the Muthurajawela storage facility. In order to optimise capacity utilisation, the new tank farm at Muthurajawela needs to be connected with Kolonnawa and the Port of Colombo. This project will also reduce the risk of shortages and environmental threats arising from damages to the old pipeline system.

Agrochemical Sales

CPC began distributing and marketing agricultural chemicals some three decades ago. The Corporation's motive in doing so was not profit but a desire to facilitate improvements in farming methods.

The Corporation's Agrochemical Sales Unit currently markets six insecticides, five weedicides and four fungicides island-wide using several distribution channels. Ceypetco Glyphosate weedicide performed particularly well this year; there is increasing demand for this product.

In accordance with the *Api Wavamu Rata Nagamu* national agricultural programme launched by the Government, CPC plans to establish several new sales outlets in agricultural districts of the island, beginning with outlets at Ampara and Polonnaruwa. These outlets will issue products to farmers at wholesale prices, reducing

Roadrunners...

499 bowsers take 1,471,890,555 litres of petroleum over 20,646,773 kilometres of Sri Lanka's road network... reaching every nook and corner of the country.

Ceylon Petroleum Corporation

Katunayake Aviation Section

Orugodawatta Tank Plant

costs for the farming community. A new sales outlet in Kandy, which opened in 2006, is now successfully carrying out marketing activities there.

In 2007, CPC reduced prices on all its agrochemical products in order to support the farming community. These discounted prices had corollary effects on competitors' product pricing, which has resulted in CPC becoming a market stabiliser.

Training sessions and workshops on promoting agrochemical products among the farming community were held during the year for the Corporation's field staff. CPC also targets educational efforts at the farmers themselves, with the aim of encouraging them to purchase the Corporation's own agrochemical products.

It is planned to obtain ISO approval for the Corporation's Agrochemical Plant during the coming year.

Aviation Fuel Sales

CPC's Aviation Sales Unit markets and supplies fuel to international and domestic flights and also to military air bases in Sri Lanka. With over thirty years' experience in aviation fuel sales, the Corporation has built a solid reputation as a reliable supplier.

In the year under review, major aviation-fuel operations were carried out at the Katunayake and Ratmalana airports and military installations. However, the country's political problems prevented CPC from handling operational activities at domestic airports and military air bases in the North and East. At present, these activities are being conducted by the Sri Lanka Air Force (SLAF). CPC continues to supply fuel, train SLAF staff and maintain the quality of products and equipment at airports in the North and East.

Aviation fuel sales accounted for 9% of CPC's overall sales in the year under review. Sales volumes remained constant, with zero variance between 2006 and 2007. The Corporation made profits of Rs. 585 Mn from aviation sales in 2007.

Aviation-fuel handling in Sri Lanka is currently carried out under a technical-service agreement with Chevron Global Aviation, Dubai. CPC's Aviation unit follows Chevron Global Standards; its operations are in line with the highest international standards.

Diesel

This product category generated the largest sales volume in the year under review, constituting 43% of CPC's overall sales. In all, 1,719.73 Mn litres of diesel were sold in 2007 as compared to 1,578.37 Mn in 2006. Sales thus rose by 9%. This increase, which follows a dip in sales volumes in 2005 and 2006, can be attributed to low rainfall in 2007, which markedly reduced the hydroelectric generating capacity on which the national grid partly relies.

However, since diesel prices are subsidised, these high sales actually made a loss of Rs. 1,974 Mn for the Corporation.

Despite the subsidy, it was necessary to raise domestic diesel prices from Rs. 60/- to Rs. 75/- per litre over the course of 2007 in order to cover the increase in import prices. Diesel prices in Sri Lanka during 2007 were lower than in India, Bhutan or the Maldives, though higher than in Bangladesh and Pakistan.

The breakdown of diesel sales according to district remained consistent with previous years. Sales volume was significantly higher in Colombo than in any other district, with Gampaha, Kurunegala, Kandy and Kalutara all performing well.

Petrol

CPC's petrol sales trends saw a 4% increase between 2006 and 2007. 502 Mn litres of petrol were sold in the year under review, thus accounting for 12% of CPC's overall sales by volume. As CPC

LPG Filling Operation

Bitumen Filling

makes a profit of Rs. 6.75 per litre of petrol, the overall profit generated by petrol sales was Rs. 3.39 Bn.

Colombo predictably saw the highest sales volume of petrol, with 141,943,762 litres sold in 2007, while Gampaha fared well with a total volume of 76,099,330 litres. Notably, there was a marked drop in the sales volume of petrol in both Jaffna and Vavuniya.

Petrol prices in Sri Lanka are currently higher than those in Bhutan, Bangladesh, Pakistan and the Maldives, though still considerably lower than in India.

Kerosene

Kerosene constituted 5% of CPC's overall volume sales in 2007.

Towards the latter half of the year, international prices rose considerably, reaching heights of US$ 116.94 per barrel. These high world market prices had their inevitable effect on domestic prices.

Partly due to these price increases, 2007 saw a 14% drop in kerosene sales. The closure of ground routes to Northern and Eastern Provinces where kerosene is used as an alternate source of energy, also contributed to the decline.

In Colombo, volume sales of kerosene fell from 50,089,011 litres in 2006 to 34,372,620 in 2007, the lowest in three years. Vavuniya, conversely, saw a 4 Mn-litre increase in kerosene sales between 2006 and 2007.

Fuel Oil

Fuel oil sales accounted for 25% of CPC's overall sales in 2007. The Corporation sold 1,039 Mn litres of fuel oil compared to 960 Mn litres in 2006, an 8% increase. This growth in sales was due in part to low rainfall in 2007, which led to greater use of generators.

Other Fuel-Related Products

Sales of other fuel-related products - namely furnace oil and naphtha - made up 6% of CPC's total sales in the year under review. Like diesel, these are subsidised products. Thus, despite the high sales figure of 194 Mn litres in 2007, the Corporation made a loss of Rs. 2,156 Mn on furnace oil sales; similarly, naphtha sales of 123 Mn litres brought the Corporation a loss of Rs. 1,585 Mn.

They also Serve who Stand and Wait...

When you have 981 fuel stations across the nation… when a great many of them operate a 24 hour service... you'll not find many customers 'waiting at the pump'.

Ceylon Petroleum Corporation

Financial Review

Results of Operations

CPC achieved a net profit of Rs. 2,862 Mn compared to the previous year's loss of Rs. 946 Mn (restated). This profit was consequent to improved refining profits, timely revision of domestic prices and effective usage of storage facilities to secure a strategic stock position, especially at the beginning of the year. An exchange gain of Rs. 933 Mn (net) also contributed to improved profitability in year 2007.

Results reported in 2007 and comparative figures for 2006 are provided below:

Income Statement	**2007 Rs. Mn**	2006 (Restated) Rs. Mn
Revenue	**238,364.361**	196,766.550
Cost of Sales	**(221,723.535)**	(187,230.902)
Gross Profit	**16,640.826**	9,535.658
Other Operating Income	**1,789.244**	1,289.835
Selling & Distribution	**(10,052.825)**	(8,290.821)
Administrative Expenses	**(1,288.705)**	(2,068.991)
Finance Charges	**(3,104.359)**	(2,380.710)
Profit/(Loss) for the year	**3,984.181**	(1,915.029)
Taxation	**(1,121.844)**	968.809
Profit/(Loss) after Taxation	**2,862.337**	(946.220)

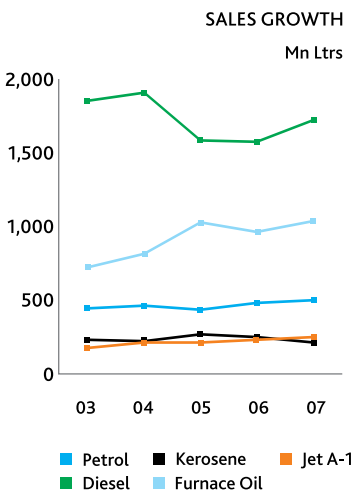
Sales Growth

Product	2003 Mn Ltrs	2004 Mn Ltrs	2005 Mn Ltrs	2006 Mn Ltrs	**2007 Mn Ltrs**
Petrol	444.03	460.31	438.99	483.01	**502.05**
Diesel	1,853.80	1,908.83	1,586.08	1,578.37	**1,719.95**
Kerosene	235.03	218.78	266.60	250.24	**214.45**
Furnace Oil	724.22	813.93	1,025.96	960.92	**1,039.11**
Jet A-1	174.45	214.66	215.91	234.68	**251.55**

CPC's pricing policy is to achieve break-even profitability while shielding consumers to the best extent possible.

Sales Volumes

Product	**2007 Mn Ltrs**	2006 Mn Ltrs	Increase/ (Decrease)
Petrol	**502.05**	483.01	4%
Diesel - Power Plants	**427.50**	242.50	12%
- Transport	**1,292.45**	1,335.87	(3%)
Kerosene	**214.45**	250.24	(14%)
Fuel Oil	**1,039.11**	960.92	8.1%
Jet A-1	**251.55**	234.68	–



It was noticed that petrol and diesel consumption for transportation had increased by four per cent. Rainfall was the main factor affecting diesel and furnace consumption. The closure of the ground route to Jaffna through Kilinochchi was partly responsible for the drop in kerosene usage.

Administrative Expenses

An exchange gain of Rs. 743.21 Mn compared to the exchange loss of Rs. 1,019.40 Mn in 2006 is the main reason to show reduced administrative expenses.

Pricing Policy

The Government withdrew subsidies on domestic petroleum processing on 1st July 2006, following which CPC was obliged to set domestic fuel prices with the concurrence of the Ministry of Petroleum and Petroleum Resources Development.

For political reasons, it is difficult for CPC, a State-owned entity, to cover the ever increasing cost of production and distribution by retail sales. In cognisance of this, CPC has maintained stable domestic price levels, even during the second half of 2007, when oil experienced its highest-ever international price surge (from 29th July 2007 to 13th January 2008). In thus taking CPC the brunt of these increases, shielding consumers from them, the Corporation has been forced to absorb considerable financial loss.

CPC's pricing policy is to achieve break-even profitability while shielding consumers to the best extent possible.

Liquidity

Working-capital management plays a vital role in the business of refining and marketing petroleum products.

CPC's stock position and receivables increased by Rs. 26 Bn, financed by increased supplier's credit and the renegotiation of importing loans. CPC understands that the country cannot afford to run out of petroleum product stocks. The Corporation recognises and accepts its basic responsibility to guarantee the energy security of the country. However, Government debts to the Corporation have now risen to a level that seriously threatens CPC's liquidity position and thus its ability to maintain sufficient product stocks to maintain energy security.

Institution	**Outstanding as at 31.12.2007 Rs. Bn**	Outstanding as at 31.12.2006 Rs. Bn
Ceylon Electricity Board	**20.0**	11.6
Sri Lanka Railways	**1.8**	0.9
Armed Forces	**4.0**	2.4
Total	**25.8**	14.9

In total, debts from the State sector rose by Rs. 10.9 Bn during the financial year.

We maintain constant dialogue with the Treasury over this issue; the Treasury has promised that outstanding from the Armed Forces and Sri Lanka Railways will not be allowed to increase before the end of 2008 and that remittances from CEB will improve significantly as a result of recent tariff increases.

More recently, enhanced diplomatic relations with the Government of Iran also helped improve CPC's liquidity position, when the government of that country extended supplier credit on crude oil by another 90 days. This facility improved our liquidity position by US$ 450 Mn.

Risk Management

CPC currently purchases between US$ 150 Mn and US$ 200 Mn monthly, mainly from the two State banks. Proceeds from sales are mainly in Rupees, a fact that exposes the Corporation to foreign-currency risk. CPC's strategy is to convert the greatest possible sum of Rupees into Dollars daily in consultation with the Central Bank and the Treasury. In this operation, CPC acts under a double responsibility, supporting the Central Bank while using the flexibility of CPC's Dollar requirements to manage the exchange rate.

We track opportunities for Rupee/ Dollar swaps, which have recently been authorised by the Central Bank. However, this market is not large enough to meet our requirements.

Getting them "Up Where They Belong"...

Hundreds of litres of our aviation fuel... powering the phenomenal thrust of jet engines... put countless aircraft, carrying thousands of passengers... in the sky.

Ceylon Petroleum Corporation

Sustainability Report

Corporate Social Responsibility

Ceylon Petroleum Corporation is committed to guarantee the energy security of the country and to fulfil the fuel requirements of every citizen, delivering the best possible value while doing so. As part of this commitment, CPC will shortly undertake a planned upgrade and expansion of its refinery, saving foreign exchange on the country's fuel bill and passing the benefits on to consumers.

While the Corporation does not undertake specific projects under the banner of corporate social responsibility, it delivers a prime national and social benefit of universal value. Social responsibility is thus at the very core of the enterprise.

Distribution of Kerosene at a subsidised price

Kerosene is the energy source of the poorest Sri Lankans. CPC meets the entire national demand for this product, writing off the massive cost of doing so (Rs. 2,558 Mn in FY 2007) against refinery profits in order to keep kerosene affordable for this consumer group.

Providing Fuel to the CEB at fixed prices

In an effort to keep Sri Lankans' electricity bills as low as possible, the Corporation agreed in 2007 to provide fuel to the Ceylon Electricity Board at prices fixed in January of that year - a year that saw oil prices reach an all-time high. However, thanks to this measure, the CEB was able to keep electricity tariffs unchanged in the year 2007, at a cost of Rs. 5,858 Mn to CPC.

Agro Products

We market agricultural chemicals at very reasonable prices, acting as a price stabiliser in this competitive market. With more agricultural chemicals outlets opening in the Eastern and North-Central Provinces soon, CPC is putting new resources into its objective of providing farmers with quality products at very reasonable prices.

Supplier Relations

The Corporation has a dedicated Procurement Division, which is responsible for maintaining uninterrupted fuel supplies to the nation. Procurement procedures are conducted according to guidelines set by the National Procurement Agency. CPC maintains registers of suppliers and contractors and bids are sought formally from registered suppliers.

Public notices and press advertisements are issued for the supply of required goods and services. Bids are opened at a specified time by our authorised officer in the presence of the bidders' authorised representatives. A minimum of three bids are called as part of the selection procedure and suppliers are assessed on their financial position, quoted price and ability to undertake the contract efficiently. Unsuccessful bidders are informed that their bids have been scrutinised and the award made on the basis of the relative merits of the offers received.

CPC has maintained good relationships with suppliers of crude oil and refined petroleum products over many years. As a result, the Corporation is able to obtain attractive terms and longer credit periods, both of which help the country maintain stable exchange rates.

Creating Wealth for the Nation

CPC is a large commercial entity wholly owned by the Government of Sri Lanka. Commercial demands and Government ownership imply a dual responsibility to operate profitably, so that the Corporation might be self-sustaining over the longer term, equitably serving the interests of the State as well as its own customers, employees, suppliers, the general public and the economy at large.

Product Quality Testing

Main Control Room

In 2007, CPC contributed Rs. 31,282 Mn to the Government in terms of VAT, Excise Duty, PAL and Turnover Tax.

	Rs. Mn
VAT	9,213
Excise Duty	13,766
Turnover Tax	2,294
PAL & Customs Duty	6,009
Income Tax/Deemed Dividends	1,214
Total	**32,496**

In addition to these direct payments to the Government, CPC supports the nation in a variety of other ways:

a. Many employees trained by the Corporation find work on short and medium contract terms in the energy industry overseas, earning foreign exchange for Sri Lanka;

b. CPC supplies the Government machine (mainly the Armed Forces and Railways) irrespective of settlement of dues on account of the national importance of these entities; and

c. CPC also maintains comparatively low fuel prices at Bandaranaike International Airport in order to attract more airlines to Colombo.

Customer Relations

Good customer relations is the prime focus of CPC's business strategy. It is the leading petroleum-product marketing organisation in Sri Lanka, serving over 2,800 customers. Consistent monitoring of good customer relations is an essential requirement; and the only way to stay abreast of our competitors.

To ensure good customer relationship, CPC is investing substantially in the development of information technology. A well designed programme is already on the way and nearing completion. The latest development will facilitate managers with timely and accurate information, assisting them in effective decision making. The system will provide vital customer information up to date of the account balances, credit facilities available which would result in making the ordering process smooth and trouble-free.

The Customer Care Unit was set up to identify, monitor and meet customer needs with almost priority. Unit staff meets periodically with petroleum-product dealers and traders; matters arising from these meetings are immediately attended to. The Sales and Marketing team visits all filling stations in the country on a monthly rotation basis to assist with distribution work. Meanwhile, the Maintenance Unit works round the clock to serve the Corporation's customers.

Nine Area Offices are located island-wide to attend to urgent customer issues.

Pyrolysis Project

An Important Sustainability Initiative from CPC

The Energy Potential of Thermoplastic Waste

As population and consumption increase, waste disposal has become a key issue in many countries. Sri Lanka is no exception. However, what looks like a problem when viewed from one angle can be the solution to another problem when looked at differently. This is the thinking behind a new sustainability initiative from CPC in which plastic waste is made use of to solve another burning issue - that of providing energy for a growing economy and population. With the help of technology sourced from one of the world's leading providers, the Corporation intends to turn waste into energy through a process called closed-loop pyrolysis.

Scrap thermoplastic material, including natural and synthetic rubber, is traditionally disposed of in landfill. We now know, however, that this method of disposal can have bad long-term environmental consequences. A better solution is needed.

Pyrolysis - the use of very high temperatures to change materials - has been with us since the middle ages. In the last century, it was used to produce coke, a domestic solid fuel, and 'town gas' for heating, lighting and cooking.

More recently, it has gained prominence as an accepted method for the disposal of plastic and rubber waste by turning it into fuel. Historically, commercial pyrolysis has been a limited technology because of:

- environmentally unfriendly emissions from the process
- availability of the easy option - landfill disposal
- cheap oil
- inadequate technology

Nowadays, sophisticated emissions - 'scrubbing' technology has made it possible for pyrolysis plants to clean their emissions to a standard superior to that of incinerators. National environment agencies are now recognising pyrolysis as a clean option. It is certainly much cleaner than disposing of plastics in landfill, where they remain for decades and even centuries, undergoing degradation and damaging the environment.

The recent surge in crude oil prices has made oil recovery from waste thermoplastic materials through pyrolysis commercially realistic (pyrolysis currently becomes economically competitive when crude oil rises in price above US$ 35 a barrel). It also helps save precious fossil-fuel resources, which the world is now consuming at the rate of 80 Mn barrels per day.

Previously, pyrolysis technologies were limited both in terms of the processes used and in their ability to produce saleable outputs. These obstacles have been overcome through innovative control systems, resulting in improved performance and yields.

The Problems of Plastic Waste Disposal in Sri Lanka

For Sri Lanka, with its dense rural and urban population, waste is a serious issue. This is especially true of Greater Colombo, where the disposal system is neither very sophisticated nor effective; the city has faced serious waste disposal problems in the recent past, and mountains of garbage are sometimes seen disfiguring parts of the city. Other towns and cities in the country face similar problems. Urban and municipal councils are left with little choice when it comes to the disposal of solid waste.

In Colombo, there are two main collection points for solid waste. One is at Kolonnawa, the main landfill site outside Colombo, while the other is in Colombo itself, at Bloemendhal Road. It has been estimated that 6,000 tonnes of thermoplastic waste is disposed of in these landfills every day, consisting mostly of:

- post-consumer plastic waste
- scrap tyres and other rubber waste
- coconut husk

Symphony Environmental Technologies PLC is a world leader in oxo-biodegradable plastic technology, developing and supplying environmentally-responsible d2w® pro-degradant additives as well as d2w® oxo-biodegradable plastic film and rigid packaging products. It has a diverse and growing customer base in the UK and distribution agreements with over 20 other countries worldwide. Its d2w® products can already be found in more than 50 countries.

Turning Mass into Energy

The Government and the Ceylon Petroleum Corporation have now begun collaboration on a project intended to convert this mass of waste matter into energy. For this purpose, the Corporation has entered into contractual partnership with a UK company, Symphony Environmental Technologies PLC, which will develop a closed-loop pyrolysis facility to process Colombo's thermoplastic waste.

Symphony is an innovative environmental-plastics technology company and the world leader in 'totally degradable' plastics. Its expertise in environmental technology won it a recent grant and contract from the UK Government[1]. Building on its experience in the field, Symphony is now moving to develop environmental technologies linked to plastics and other polymers. The Company sees - huge opportunity in the planned project, which will turn Sri Lanka's mountains of dirty, unsorted waste plastics from a national liability into a valuable energy resource.

Safety and Environmental Issues

Since the planned plant will be in the heart of Colombo, safety is a prime concern. This concern has been paramount in all aspects of plant design. In particular, the plant will be protected by:

- built-in high-temperature compensators
- progressive lock-out mechanisms to achieve fail-safe status and prevent inherently dangerous restart situations
- high-quality operator training

Advantages of the Pyrolysis Process

- Complete recovery
- Mixed plastics
- Proven technology
- EPA approved
- Continuous feed system

Minimal Environmental Impact, Maximal Quality

Although most of the output of the plant will be usable oil, the pyrolysis process does result in the production of some waste as well. The plant will minimise this waste and manage it with minimum environmental impact. The following standards will be met at all times:

- stack emissions cleansed to EPA standards
- no discharges to watercourses
- no solid-residue disposal requirements
- 125% tank farm bunding
- self-generating power supply

For validation as a quality output meeting the standards of the industry, the following quality assurance and control measures will be undertaken:

- random grab sampling of liquid and solid yields
- tank balancing to standardise stocks.
- tank footprint testing prior to shipment
- data logging and transfer

Additionally, project objectives include certification and ongoing compliance with ISO 9000 and ISO 14000 quality standards.

[1] 'UK rubber recovery project wins grant', PRW.com, http://tinyurl.com/5d2gak

Benefits to Sri Lanka

The benefits to the nation from this CPC initiative may be categorised under three headings: Environmental, Financial and Social.

On the Environmental side, the pyrolysis project will help reduce the ever-growing mountain of waste that blights the beautiful landscape of Sri Lanka. Internationally, Sri Lanka will be able to publicise this innovation and strengthen its position in environmental forums. Another environmental benefit is the reduced need for landfill sites.

Financially, the revenue both generated and saved by recycling valuable resources will benefit both the Corporation and the national economy. Even more important, turning waste into oil by pyrolysis will help reduce oil imports, saving foreign exchange.

On a Social level, the project will contribute towards a cleaner and friendlier environment for the inhabitants of Colombo. Additionally, it will employ some 42 people and, indirectly, generate employment opportunities for many more.

Risk Management

Financial Risks

Foreign Exchange Management

CPC currently purchases approximately US$ 150-200 Mn monthly, mainly from the two State banks to settle suppliers of crude and refined petroleum products. Its sales proceeds are mainly in Sri Lanka Rupees. Therefore, the Corporation is exposed to foreign-currency risks. To mitigate this risk CPC has adopted a strategy to convert, on a daily basis, as many Sri Lanka Rupees as possible into US Dollars in consultation with the Central Bank and the Treasury. In this operational process, CPC acts with dual responsibility, supporting the Central Bank while using the flexibility of CPC's US-Dollar requirements to help manage the exchange rate.

The Corporation has been looking into the opportunities arising from Rupee/ Dollar swaps, which have only recently been authorised by the Central Bank. However, the market is not yet large enough to meet CPC's requirements.

Political Risks

Our Kolonnawa and Muthurajawela installations were bombed on 29th April 2007 by the LTTE. This action highlighted CPC's vulnerability to political risks. The Corporation's installations at Katunayake international Airport, Sapugaskanda and Orugodawatta are all at risk in this manner; according to reports of the national security agencies, these installations carry very high terrorist risks.

Comprehensive insurance cover has been obtained on the storage, refining and transportation of oil (by both land and sea) by the process of public tender.

Despite this coverage, CPC participates in regular meetings with security personnel assigned to protect our installations, along with Senior Police Officers of the area. Vigilance Committees have been raised in nearby villagers and networks set up to educate the inhabitants on the importance of alertness and on the procedures and methodology to follow when they notice unusual behaviour and incidences.

The Corporation's pipelines are now subject to rigorous night patrols, while the offshore buoy is secured by the Armed Forces who have been assigned to protect our installations with its neighbours.

Rehearsals are conducted frequently to educate employees on the course of action they should follow if installations are attacked.

Pump to Pump...

With a network of 981 filling stations set up over the years, there are more filling stations per kilometre than ever before... which means the distance from 'pump to pump' is reducing year on year.

Ceylon Petroleum Corporation

Corporate Governance

As the major supplier of fuel, one of the key intermediary products of the Sri Lankan economy, the Ceylon Petroleum Corporation affects the lives of all individuals and institutions in the country. Considering the stakeholder groups, the Board of Directors believe in and are 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 reappointment, the Directors have initial tenures not exceeding a period of three years on the Board. In taking decisions, the Board obtains relevant information from corporate management and if required obtains information from external professionals.

The 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.

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

Compliance and Transparency

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

Audit Committee

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 clearly defined Terms of Reference given by Public Finance Circular No. PF/PE 7, dated 15th March 2000.

During 2007, the Audit Committee was appointed by the Board of Directors. Mr. Saliya Rajakaruna (Treasury/ Finance Representative) was appointed as the Chairman and Mr. Methsiri Wijegoonawardene and Mr. M.U.M. Ali Sabry were made members.

The Secretary to the Audit Committee is the Manager of internal audit. All key managers may attend the Audit Committee meetings by invitation.

In order to assure that a sound system of internal controls is maintained, the Audit Committee ensures that the Annual Audit Programme, covering the Head Office and all operational areas, is prepared on an annual basis. Internal and external audit reports are reviewed by the Audit Committee on a regular basis and recommendations are made to the Board of the Corporation on the appropriate action to be taken on various issues.

Management Committee

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

Financial Disclosure

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

Internal Controls

The Board of Directors is responsible for maintaining a sound system of internal controls and reviewing its effectiveness. The system is intended to safeguard the assets of the Corporation and to ensure that proper records are maintained and reliable information is produced. This responsibility covers all types of controls, including financial, operational and compliance controls as well as risk management. It is vital to state, however, that any system of internal control can ensure only reasonable and not absolute assurance that errors and irregularities will be presented or detected within a reasonable period of time.

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

Internal Audit

In order to enhance the objectivity and performance of the internal audit function, the Corporation has created a direct reporting line from the internal auditors to the Chairman/Managing Director, the Audit Committee and the Board of Directors.

The internal audit function has established its annual risk-based audit programme for identifying, assessing, monitoring and managing material risk-based activities throughout the Corporation. Under the programme, the risk management system is reviewed regularly, in order to fulfil the objectives stated in the Audit Plan. Financial and operational risks based on audits and reviews of compliance and control procedures as well as assessments of the effectiveness of all mechanisms established to improve efficiency of the Corporation, are all reviewed as part of the risk management system.

The main focus of the internal audit is to provide independent assurance on the overall system of internal controls, risk management and governance processes by evaluating the adequacy, integrity and effectiveness of the internal controls established by the Corporation.

In its annual audit plan the internal auditors included plans to carry out audit investigations relating to stock losses at terminals and bulk depots.

The Chairman/Managing Director established the Stock Control Loss Steering Committee (SCLSC) for identifying, assessing, monitoring and recommending stock-related risks and losses.

The SCLSC comprises members with professional qualifications in diverse fields such as engineering and

technology, finance, audit and security. On the recommendation of the SCLSC, stock control and loss units were established during the year with a view to establishing comprehensive controls to minimise stock losses and the various risks associated with petroleum products, with the aim of designing and implementing workable strategies to minimise stock losses.

The Internal Audit Department undertook 65 audit assignments during the financial year 2007 covering the aforementioned areas. In addition, the department co-ordinated and updated a follow-up review on external audit issues.

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.

Report of the Directors

The Directors of the Ceylon Petroleum Corporation have pleasure in presenting their Report together with the Audited Financial Statements for the year ended 31st December 2007. The Draft Financial Statements were approved by the Board of Directors at the Board Meeting held on 7th February 2008 and submitted to the Auditor General on 25th February 2008. The Audited Financial Statements were authorised to be issued on 4th April 2008.

The Annual Report and Accounts, together with the Auditor General's Report will be submitted to the Minister of Petroleum and Petroleum Resources Development together with following documents:

Principal Activities

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

Review of Business

The Chairman's Review on pages 3 to 5 deals with the year's performance of the Corporation and on the Sri Lanka economy.

Systems of Internal Controls

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

Corporate Governance

The main Corporate Governance practices of the Corporation are given on pages 36 to 38 of this Report.

Human Resources

The Corporation continued to implement appropriate Human Resource Management policies and practices to enhance employees' skills, provide them with new opportunities and to ensure their optimum contribution towards implementing objectives.

Risk Management

Specific measures taken by the Corporation in managing risk are detailed on page 33 of this Report.

Audit Committee

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

Financial Performance Turnover

The turnover for the year had reached Rs. 253.344 Bn with a 20% increase in comparative terms. The total turnover of the Corporation comprises Domestic Sales (97%) and Indirect Exports (3%) for the year. Diesel, Petrol, Kerosene and Furnace Oil are the major components of the domestic sales.

The Corporation was responsible for over 74% of the Petrol and 79% of the Diesel sales in the country.

Profit

The Corporation recorded a tax-free profit of Rs. 3,984.181 Mn showing a significant achievement against the reported loss of Rs. 1,915.029 Mn (restated) in year 2006. Compared to 2006, profit before tax shows an increase of 307%.

The net profit for the year was Rs. 2,862.337 Mn.

The details of our profits are given below:

	2007 Rs. Mn	2006 Rs. Mn
Revenue	**238,364.36**	196,766.56
Cost of Sales	**(221,723.53)**	(187,230.90)
Gross Profit	**16,640.83**	9,535.66
Operating Income	**1,789.24**	1,289.84
	18,430.07	10,825.49
Operating Expenses	**(14,445.90)**	(12,740.53)
Income Tax Expenses	**(1,121.84)**	968.81
Profit for the year	**2,862.33**	(946.22)

Other Income

Other Income which mainly consists of Interest Income on Treasury Bills and Dividend Income received from CPSTL. Income on Treasury Bills increased from Rs. 299.114 Mn to Rs. 785.728 Mn compared to previous year.

Operating Expenses

The total operating expenses increased from Rs. 12,740.52 Mn to Rs. 14,445.50 Mn, 13% increase.

Capital Expenditure

The total Capital Expenditure for the year was Rs. 245.912 Mn (Rs. 457.50 Mn in year 2006).

Donations

During the year, charitable donations amounting to Rs. 0.551 Mn were made by the Corporation.

Contribution to the Government

	2007 Rs. Mn	2006 Rs. Mn
Value Added Taxes	**8,110**	11,992
Excise Duty	**13,757**	13,888
Social Responsibility Levy	**149**	138
Dealers' Turnover Tax & Imports Turnover Taxes	**2,314**	1,796
PAL	**5,429**	4,786
Custom Duty	**580**	286
Income Tax	**833**	119
Deemed Dividend	**381**	55
Total	**31,553**	33,060

Property, Plant & Equipment

Details of Property, Plant & Equipment of the Corporation and their movements are given in Note 6 to the Financial Statements on pages 77 to 78.

Market Value of the Properties

CPC has decided to conduct a survey to evaluate the Market Value of the Corporation's freehold properties during the year 2008.

Reserves

The total reserves of the Corporation stood at Rs. 5,541.46 Mn as at 31st December 2007 (2006 - Rs. 5,520.47 Mn). Movements are given in the Statement of Changes in Equity on page 67.

Contributed Capital

The total Contributed Capital of the Corporation as at 31st December 2007 was Rs. 1,000 Mn.

Board of Directors

The Board comprises 7 Directors including the Chairman. The details of the Directors are given on pages 6 to 7.

The Directors of the Corporation during the year under review were:

Mr. Ashantha L.F. De Mel - *Chairman*
Mr. Methsiri D. Wijegoonawardane
Mr. Saliya Rajakaruna
Mrs. Kanthi Wijetunge
Mr. David Charitha Gooneratne
Mr. M.U.M. Ali Sabry
Capt. Nihal Keppetipola
Mr. S.N.P. Palihena *(resigned with effect from 21st February 2007)*

Directors' Interest in Contracts & Related Party Transaction

Directors' interest in the contracts with the Corporation are referred in Note 21 to the Financial Statements.

Compliance with Laws and Regulations

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

Future Developments

The Corporation is planning to re-enter into Bunkering, Lubricant and LPG business while making all efforts to expand the refinery capacity with the assistance of the Government of the Islamic Republic of Iran.

Environmental Protection

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 obligation to minimise environmental pollution. We are concerned about the environmental safety in handling and usage of petroleum products.

A capital project which enables to reduce sulphur content in diesel to less than 0.5% was commissioned in 2003 in the refinery and the Corporation restricts its diesel sales of more than 0.3% sulphur from 2004 onwards. The sulphur in diesel is restricted to 0.05% from this date.

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.

Events Occurring after the Balance Sheet Date

In the opinion of the Directors, no material event of an unusual nature has arisen in the interval between the end of the financial year and the date of this Report, which could affect substantially the results of the operation of the Corporation for the financial year in respect of which the Report is prepared. Note 22 to the Financial Statements carries no such material events.

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.

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

Ashantha L.F. De Mel
Chairman
30th September 2008
Colombo, Sri Lanka

Financial Reports

Report of the Auditor General

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கணக்காய்வாளர் தலைமை அதிபதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT

මගේ අංකය / எனது இல / My No } LP/D/CPC/FA/07

ඔබේ අංකය / உமது இல / Your No. }

දිනය / திகதி / Date } 30 September 2008

The Chairman
Ceylon Petroleum Corporation

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENT OF THE CEYLON PETROLEUM CORPORATION FOR THE YEAR ENDED 31ST DECEMBER 2007 IN TERMS OF SECTION 14 (2) (C) OF THE FINANCE ACT NO. 38 OF 1971

The audit of Financial Statements of the Ceylon Petroleum Corporation (CPC) for the year ended 31st December 2007 was carried out under my direction in pursuance of provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13 (1) of the Finance Act No. 38 of 1971. In carrying out this audit, I was assisted by a firm of Chartered Accountants in public practice. My comments and observations, which I consider should be published with the Annual Report of the Corporation in terms of Section 14 (2) (c) of the Finance Act, appear in this report. A detailed report in terms of 13 (7) (a) of the Finance Act was issued to the Chairman of the Corporation on 1st September 2008.

1.2 Responsibility of the Management for the Financial Statements

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

1.3 Scope of Audit and Basis for Opinion

My responsibility is to express an opinion on these Financial Statements based on my audit. Audit opinion, comments and findings in this report are based on review of the Financial Statements presented to audit and substantive tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards to obtain reasonable assurance as to whether the Financial Statements are free from material misstatements. The audit includes the examination on a test basis of evidence supporting the amounts and disclosures in Financial Statements and assessment of accounting principles used and significant estimates made by the management in the preparation of Financial Statements as well as evaluating their overall presentation. I have obtained sufficient information and explanations which to the best of my knowledge and belief were necessary for the purpose of my audit. I therefore believe that my audit provides a reasonable basis for my opinion. Sub-sections (3) and (4) of the 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.

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2. FINANCIAL STATEMENTS

2.1 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the Ceylon Petroleum Corporation had maintained proper accounting records for the year ended 31st December 2007 and except for the effects on the Financial Statements of the matters referred to in paragraph 2.2 of this report, the Financial Statements have been prepared in accordance with Sri Lanka Accounting Standards, and give a true and fair view of the state of affairs of the Ceylon Petroleum Corporation as at 31st December 2007 and the financial results of its operation and cash flows for the year then ended.

AUDITOR GENERAL'S COMMENTS	CHAIRMAN'S OBSERVATIONS
2.2 Comments on Financial Statements	
2.2.1 Sri Lanka Accounting Standards (SLAS)	
The following instances of non-compliances with SLAS were observed in audit:	
(a) The Corporation had not revalued the assets to ensure that the carrying amount does not differ materially from which would be determined using fair value at the Balance Sheet date, as stipulated in SLAS 18 - Property, Plant & Equipment.	Noted In the process of revaluing the Assets.
(b) The investment made in the Associate Company amounting to Rs. 2,500 Mn had not been accounted by using equity method and the summarised financial information of the Associate, including the aggregated amounts of assets, liabilities, revenue and profit or loss had not been disclosed in the Financial Statements as required by SLAS 27 - Investments in Associates.	Noted
2.2.2 Accounting Policies	
Even though the provision for bad and doubtful debts had been made on a specific provision basis it had not been disclosed in the Financial Statements.	Noted as an omission and will be adjusted in year 2008.
2.2.3 Accounting Deficiencies	
The following accounting deficiencies were observed in audit:	
(a) The risk and returns of the petroleum business with the Corporation vary according to the class of customer. Hence, segmental analysis as required by SLAS 28 - Segment Reporting, should be disclosed segmental information based on the class of customer for revenue, cost of sales and gross profit. However, the segmental information had not been properly disclosed in the Financial Statements as required.	Noted Sector-wise information is available.
(b) A sum of US$ 222,068 equivalent to Rs. 24 Mn payable to two Charter Parties based on arbitration awards relating to the dispute of deducting the out-turn losses from freight charges had not been provided or disclosed in the Financial Statements.	Outcome cannot be ascertained yet, hence not provided.

AUDITOR GENERAL'S COMMENTS	CHAIRMAN'S OBSERVATIONS
(c) Salaries and wages relating to the employees of the Agrochemical Section of the Corporation had been charged to the Income Statement of the Agrochemical up to 2006. However, in 2007 a sum of Rs. 29 Mn comprising salaries and wages of Agrochemical business had been charged to the Income Statement of the overall operations of the Corporation. Consequently, the net operating result from Agrochemical business had reflected a net profit of Rs. 6 Mn instead of a net loss of Rs. 23 Mn.	In order to present a more realistic picture of Agro Division with comparable to industry a better classification of expenditure has been adopted.
2.2.4 Accounts Receivable and Payable	
The following observations are made:	
(a) The Corporation had not obtained Bank Guarantees from three aviation contract customers whose outstanding balances were Rs. 207 Mn as at 31st December 2007. Further, the recoverability of Rs. 6 Mn outstanding from another three aviation contract customers for a period of more than seven years is doubtful due to absence of Bank Guarantees.	Outstanding amount of Rs. 207 Mn has already been settled and provision has been made in relation to doubtful debt of Rs. 6 Mn.
(b) Fuel supply agreements with two aviation customers, whose outstanding balances as at 31st December 2007 amounted to Rs. 102 Mn, had expired on 29th June 2005 and 31st December 1998. In addition to that, another aviation customer whose agreement (commencement date of the agreement was 1st August 1985) had not indicated the date of expiry but outstanding balance as at 31st December 2007 amounted to Rs. 5 Mn. However, the Corporation continued to supply fuel to those customers on credit basis according to the said agreements.	Outstanding of Rs. 5.0 Mn has already been realised and further action will be taken to strengthen the fuel supply agreement.
(c) The Corporation had sold fuel to its 195 dealers on five days credit period on Bank Guarantees obtained as security (Bank Guarantee commissions of Rs. 9 Mn paid on account of the Corporation). However, audit checks revealed that 19 of those dealers had been supplied with fuel exceeding their Bank Guarantees. Those excesses were ranging between 25%-102%. Sales to the value of Rs. 6,081 Mn made by the Corporation to a dealer against a Bank Guarantee of Rs. 3 Mn could be cited as an example. Total outstandings from those 19 dealers as at 31st December 2007 amounted to Rs. 107 Mn against the Bank Guarantee value of Rs. 69 Mn. The number of dealers as at 31st August 2007 was 978 and out of them only 195 had used this facility.	A Bank Guarantee is obtained from a dealer to cover the credit risk. Debts of Petroleum Dealers being unrecoverable has been very remote in the last couple of years. In a competitive environment, it is not practical to expect 100% Bank Guarantee coverage at all time from a dealer who is in this petroleum business for many years while investing quite a large sum of money for infrastructure. Moreover, it is difficult for him to switch over to competitor without settling dues. This type of deviation has a minimal impact on the operation of CPC. However, credit on Bank Guarantee is offered only to around 25 dealers who were operating this facility satisfactorily in the year 2008.

AUDITOR GENERAL'S COMMENTS	CHAIRMAN'S OBSERVATIONS
(d) The Corporation had sold its products to its dealers giving 30 days credit period without any/adequate securities and credit limits. Penalty charges had also not been imposed on customers' delays.	A dealer who handles uncleared areas are given this facility on temporary basis and it has been partially settled. Another customer is also given two loads of diesel under this credit scheme and the outstanding has also been recovered partially.
(e) Total amount outstanding from Government institutions other than Ceylon Electricity Board (CEB) as at 31st December 2007 amounted to Rs. 5,940 Mn and 59% of that was outstanding for a period exceeding three months. The amount outstanding from CEB and Private Power Producers as at 31st December 2007 amounted to Rs. 20,035 Mn (Rs. 12,818 Mn was outstanding for more than three months) and Rs. 3,134 Mn (Rs. 121 Mn was outstanding for more than two months) respectively. Despite the liquidity problems faced by the Corporation, it had not derived any additional income from those outstandings as no interest had been charged thereon. **In this regard, the Chairman stated as follows:** ***"The Corporation has constant dialogues with the Treasury over the outstanding of CEB and other Government institutions. In the year 2007, Treasury has set off Rs. 9,673 Bn Corporation's Taxes against the outstandings of CEB and other Government institutions. This has been the methodology adopted by the Treasury to settle these dues. Corporation does not charge interest from Government institutions on overdues."***	
(f) Aggregate Bank Guarantees of three aviation customers amounted Rs. 29 Mn only whereas; their aggregated outstanding balance as at 31st December 2007 amounted to Rs. 481 Mn.	CPC has not called Bank Guarantees from companies like British Petroleum, Caltex, Petronas & Emirates/Government of Sri Lanka (SriLankan Airlines) while extending credit to those customers at Katunayake Bandaranaike International Airport where CPC is the sole fuel supplier.
2.2.5 Lack of Evidence for Audit The following items in the Financial Statements could not be satisfactorily vouched in audit due to non-availability of required evidence as indicated:	
(a) No sufficient evidence were made available to verify that the Corporation had carried out procedures required to identify any impairment of property, plant & equipment amounting to Rs. 4.3 Bn (carrying value) as required by SLAS 41 - Impairment of Assets.	Noted The process of revaluing assets is in progress.

AUDITOR GENERAL'S COMMENTS	CHAIRMAN'S OBSERVATIONS
(b) No sufficient evidence were made available regarding the property, plant & equipment which included assets amounting to Rs. 1,934 Mn (gross value) purchased prior to 31st December 2002. Hence, the existence and the completeness of such assets could not be ascertained.	Noted The process of revaluing assets is in progress.
(c) No sufficient evidence were made available to determine the recoverability of the Excise Duty amounting to Rs. 713 Mn receivable from General Treasury included under Trade and Other Receivables.	Noted
(d) No direct confirmation had been received by audit from the Oil Company relating to its debt balance amounting to Rs. 37 Mn included under Trade and Other Receivables.	Request for confirmation has been sent, awaiting response.
(e) Although independent confirmations had been called for, the Government departments and other Government agencies included under Trade and Other Receivables amounting to Rs. 11,375 Mn had not confirmed their balances.	Same as above.
(f) A sum of Rs. 640 Mn included under Trade and Other Receivables (current assets) due from the Associate Company had not been confirmed.	Same as above.
(g) Details regarding the provision of Rs. 479 Mn made for contractors' payments, employees' income tax, PAYE tax and other payables for Muthurajawela Project in the past and brought forward from year after year had not been made available to audit. Further, that provision had not been reviewed at the Balance Sheet date and adjusted to reflect the current best estimate as required by SLAS 36 - Provisions, Contingent Liabilities and Contingent Assets.	It is noted that this provision has been made based on estimates and connected liabilities are yet to be materialised. Therefore, this provision would be adjusted in the Financial Year 2008.
(h) The loans granted to purchase equipment, interest on overdue balances, etc., which had not been considered as 'trade debts' had been included under trade debtors and as such the Age Analysis made available for audit could not be considered as accurate.	Noted Debtors' schedule and its connected Age Analysis were made available to auditors and CPC maintains one account for each dealer to record trade and other transaction.
(i) The Corporation had failed to produce Title Deeds relating to five blocks of land valued at Rs. 68 Mn of the Sapugaskanda Mini Terminal.	Noted
(j) A Board of Survey to cover verification of all the assets of the Corporation after the restructure made in 2003 had not been carried out. Instead, only the assets of the Head Office had been verified in 2005 and 2007. It was also noted that the Corporation did not have formal procedure for the verification of its Fixed Assets.	Fixed Assets at Refinery and Head Office are being verified once in three years and the Fixed Assets at Area Offices and Circuit Bungalows are being verified annually.

AUDITOR GENERAL'S COMMENTS

CHAIRMAN'S OBSERVATIONS

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

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

Reference to Laws, Rules, Regulations and Management Decision	Non-Compliance	
(a) Department of Public Enterprises Circular No. PED/12 of 2nd June 2003		
(i) Paragraph 3.2	The Board of Directors of the Corporation did not contain at least one member in the field of petroleum, which is the main subject of the Corporation.	Noted
(ii) Paragraph 6.1	Draft Annual Report for the year under review had not been submitted to the Auditor General.	Noted
(iii) Paragraph 8.3.4	The specified limits on telephone expenses which should be maintained by the Corporation according to the hierarchy of the officers had been increased without the approval of the General Treasury.	Awaiting reply from Treasury.
(iv) Paragraph 8.3.5	Officers who were not entitled to assigned motor vehicles had been assigned with motor vehicles on the approval of the Board of Directors or the Chairman contrary to the Circular instructions. Fuel limits for such assigned motor vehicles had been decided either by the Board or by the Chairman. In addition to that, the Chairman had granted approval to certain officers to claim reimbursement of the value of 100-120 litres of fuel per month for travelling between their residences and office in their private motor vehicles.	Has been decided on a case-by-case basis in order to maintain the smooth functioning of the organisation.
(v) Paragraph 8.7	The Corporation had paid a sum of Rs. 579 Mn as at 31st December 2007 as PAYE tax on behalf of the employees contrary to the Circular instructions.	Noted
(b) Department of Public Enterprises Circular No. 130 of 18th March 1998	Rate of interest on staff loans had been reduced from 7.2% to 4.2% without the authority of the General Treasury. The amount under recovered for the year under review amounted to Rs. 24 Mn.	This amendment has been made with Board approval.
(c) Letter dated 19th February 1990 issued by the Ministry of Policy Development and Implementation	Services of private Lawyers at a higher rate had been obtained without obtaining prior approval of the Attorney General. The amount so paid to the private Lawyers during the year under review amounted to Rs. 5 Mn.	CPC has obtained the services of private Lawyers in certain cases where legal expertises are required on an urgent basis.

AUDITOR GENERAL'S COMMENTS	CHAIRMAN'S OBSERVATIONS
2.2.7 Transactions Not Supported by Adequate Authority	
Following observations are made:	
(a) The Corporation had paid an additional bonus of Rs. 5,000/- per employee since 2005 without obtaining Cabinet approval. The amount so paid for 2005 and 2006 amounted to Rs. 12 Mn (approximately) and Rs. 11 Mn respectively and the additional payment for 2007 could not be identified separately. However, total amount paid up to December 2007 amounted to Rs. 80 Mn. In addition to that, the Board of Directors had approved to increase the 2007 Bonus to its employees to two months salary or Rs. 50,000/- which ever is higher; vide Decision No. 37/1071 of 18th March 2008 and also the Board decided that a one month's salary or a minimum of Rs. 25,000/- which ever is higher be paid in April 2008 and the arrears of the 2007 Annual Bonus to be paid with the 2008 Bonus without obtaining Cabinet approval.	In the process of obtaining Cabinet approval.
(b) Even though the approval of the Cabinet of Ministers had been received in 2005 to transfer the land situated in Colombo, the historical cost of which was Rs. 1.9 Mn (the valuation of the Government Valuer made in 1994 was Rs. 280 Mn) and writing off the asset from the Balance Sheet without obtaining documentary evidence with regard to transfer of asset to the Government (non-availability of Gazette Notification in respect of transfer of the land to the Government).	This land has been written off after obtaining the Board approval in 2008.
2.2.8 Apparent Irregularities/Irregular Transactions	
As mentioned in my previous audit reports, an employees' welfare association (Ceylon Petroleum Corporation Thrift Society) had functioned from the donations made by the Corporation from time to time. The following observations are made in this connection:	
(a) A sum of Rs. 39 Mn had been released to the Society during the year under review to implement the Medical Scheme of the Corporation which could have been done by the Corporation itself. The above contribution had been made to the Society in addition to the medical allowance of Rs. 3,000/- per annum paid to each employee with their monthly salary to meet the outdoor treatments.	Corporation has entrusted the Society to operate Medical Scheme at an Annual Premium since 1984. On evaluation of continuous successful operation of this scheme the annual payment was made.

AUDITOR GENERAL'S COMMENTS	CHAIRMAN'S OBSERVATIONS
(b) The balance outstanding from the loans granted to the members of the society by the Corporation out of the Corporation funds as at 31st December 2007 amounted to Rs. 53 Mn and out of the income received from those loans a sum of Rs. 2.3 Mn had been granted to the Society.	Loan has been granted to employees of CPC on an individual basis, who are also members of the Society. On this scheme employees agree to pay additional interest of 1.8% and to contribute it to the Society. During the year 2008, employees have contributed Rs. 2.3 Mn. In this nature of loan, CPC charges interest of 4.2% and the additional fund been transferred to society by CPC as agreed by the employees. Therefore, no additional expenses have been incurred by CPC.
(c) The Corporation had paid a sum of Rs. 85 Mn as a special grant to the Society in 2002 to pay the dues (gratuity and refund the membership contribution collected from the members), who had opted to retire under the Voluntary Retirement Scheme. As directed by the Audit Committee held on 1st October 2003, the Society had refunded a sum of Rs. 10 Mn from the above mentioned Rs. 85 Mn since it had not been utilised for the purpose. However, a sum of Rs. 17.5 Mn which had been directed to be refunded by the Audit Committee at its 21st meeting held on 7th November 2003 had not been refunded to date.	Noted but no such decision has been taken at the Audit Committee meeting held on 7th November 2003.
(d) A sum of Rs. 0.5 Mn granted to the Ceylon Petroleum Corporation Retired and Retirement Pending Employees' Welfare Association in 2005 had not been recovered as directed by the Committee on Public Enterprises.	Repeated requests had been made for the refund but no response from this Society. Further, steps will be taken to recover same.

3. FINANCIAL AND OPERATING REVIEW

3.1 Financial Review

3.1.1 Financial Results

According to the Financial Statements presented, the working of the Corporation for the year under review had resulted in a pre-tax net profit of Rs. 3,984 Mn as against the pre-tax net loss of Rs. 1,915 Mn in the preceding year, thus indicating an overall improvement of Rs. 5,899 Mn in the financial result. This improvement was mainly due to increase in the selling price. The overall sales volume of the year under review had also slightly increased as compared with the previous year.

AUDITOR GENERAL'S COMMENTS

3.1.2 Analytical Review of the Financial Result and Financial Position

The following observations are made:

(a) The Liquidity Ratio of the year under review indicated 1.22 times as compared with 1.32 times for the preceding year thus showing a slight improvement while the Acid Test Ratio of the year under review had dropped from 0.73 times to 0.64 times thus showing a deterioration of 0.09 times.

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

(i) The debtors turnover ratio indicated 6.96 times as compared with 12.37 times for the preceding year thus showing 42% decrease. Hence, the debt collection period had increased to 52 days as compared with 30 days for the preceding year.

(ii) Stock residence period had been 66 days as against 43 days for the previous year thus showing an increase of 23 days.

(iii) As compared with the previous year credit period of 69 days, the additional period taken to settle the dues for the year under review was 34 days.

(iv) As a result of the above three factors, the operating cycle of the year under review had increased by 11 days as compared with 4 days for the preceding year.

(c) Loan Capital of the year under review as a percentage of equity when compared with the preceding year had decreased by 59%, even though as a percentage of total assets it had decreased by 10%.

(d) The Corporation's net outflow of funds decreased by 76% but, short-term borrowings had increased by 70%.

(e) Total quantity sold during the year under review had increased by 171,794 metric tons (MT) and represented a 5% increase as compared with the previous year.

(f) The gross profit margin for the year under review as compared with 4.8% for the preceding year had increased to 7%.

CHAIRMAN'S OBSERVATIONS

In our view, these ratios have to be compared with in relation to the Oil Industry norms, volatility of the International Oil Prices and the impact of domestic oil prices, exchange rates, Government fiscal policies and the economic growth rate of the country.

AUDITOR GENERAL'S COMMENTS	CHAIRMAN'S OBSERVATIONS
3.2 Operating Review	
3.2.1 Performance	
The following observations are made:	
(a) According to the Settlement Agreement entered into between the Government and Lanka Indian Oil Company Limited (LIOC) in 2007, the Corporation has the right to deliver not more than 5% of the country's throughput of petroleum products from its Sapugaskanda Terminal with effect from 1st January 2007. However, without considering this arrangement, the Corporation had continued to allow to utilising the facilities provided by the CPSTL and LIOC for storage and distribution of petroleum products. Since that Terminal belonging to the Corporation and all its operational and maintenance expenditure is being incurred by the Corporation, no arrangement had been made to charge at least a rental from CPSTL other than continuously allowing it to draw the above income on sales made through that Terminal since 2003. The total amount paid to the CPSTL based on the deliveries made through that Terminal during the year under review as Terminal Charges, Profit Margin and Loan Interest Charges were Rs. 328 Mn, Rs. 171 Mn and Rs. 29 Mn respectively which can be treated as losses to the Corporation. In addition to that, the Corporation had paid a sum of Rs. 33 Mn to the CPSTL as slab recovery charges on petroleum products transferred from that Terminal to the Depots which are owned by that Company on their requests. However, since the Corporation had empowered the delivery right by the above mentioned Settlement Agreement; it should be an income of the Corporation.	Noted and action is been taken to reconcile and decide the correct throughput charges payable to CPSTL.
(b) As pointed out in my previous audit reports, the solvent had been continuously sold the stockists till September 2007 at a discount of 7% where the margin of that product was lesser than the discount offered. Hence, the gross loss occurred to the Corporation during 2007 was Rs. 90 Mn.	Solvent prices had been revised since September 2007.

AUDITOR GENERAL'S COMMENTS	CHAIRMAN'S OBSERVATIONS
(c) (i) As pointed out in my Audit Report for the previous year, the Corporation sells two types of kerosene with same quality at different prices as Lanka Kerosene (LK) for domestic use and Lanka Industrial Kerosene (LIK) for industrial use. The Corporation had sold LK at a concessionary price and therefore, its price per litre up to 25th December 2006, 28th June 2007 and 13th January 2008 was Rs. 2.30, Rs. 10.30 and Rs. 1.00 lower than the price per litre of Lanka Industrial Kerosene respectively. Further, the LIK had also been sold at Rs. 20/- per litre lower than the landed average cost of the year under review and reasons for the lower price was not made available for audit. However, it was observed that the expenses such as financial cost of working capital, storage terminal charges, CPSTL profit margin, marketing and distribution cost, Turnover Tax (both Corporation and Dealer), dealer discount etc., had not been added to the selling price of that product. **In this regard, the Chairman stated as follows:** ***"The present price difference between LIK and LK is 5%. However, the same product could be used similarly for domestic and industrial purposes. In line with the Government policy to provide energy requirement of the poorest of the poor CPC maintain subsidised prices for domestic kerosene. Despite our effort to control this subsidy is being misused by various parties. It is our view that maintaining a significant price difference between LIK and LK would not be practical since this difference would encourage abusing the subsidy given to LK. However, CPC is in the process of introducing a mechanism to curb the misuse of subsidy given for LK."***	
(ii) Due to the lapses mentioned above the Corporation had incurred a gross loss of Rs. 498 Mn (gross loss of the previous year was Rs. 896 Mn) from kerosene sales during the year under review. Due to the increased gap between the prices of the two products, the loss of the year 2007 as compared with the previous year had been reduced by 44%. However, a sum of Rs. 345 Mn of the above mentioned gross loss of Rs. 498 Mn was the CPSTL charges which had not been recovered from the sales prices of kerosene.	On the instructions of the Treasury the price of kerosene was kept low. However, it was increased by Rs. 20/- (42%) during the year 2007.
(iii) Further, the Corporation had not taken action to restrict the issuing of Lanka Kerosene to industries as well.	

AUDITOR GENERAL'S COMMENTS

(d) The Corporation had incurred a loss of Rs. 132 Mn during the year under review (previous year loss was Rs. 243 Mn) by downgrading of 21,198,416 litres of Aviation Turbine Fuel to Lanka Kerosene as the average price difference between the two products was Rs. 6.24 per litre.

In this regard, the Chairman stated as follows:

"For transfer of kerosene as well as the aviation fuel, the Corporation used a common pipeline. It is an industry practice to flush the pipeline before transferring Aviation Turbine Fuel and to downgrade the certain quantity of aviation fuel to kerosene. All cost has been accounted when the Corporation achieved the annual profit of Rs. 2.8 for the year 2007."

However, it was proved that the above mentioned loss was not because of the reason mentioned by the Chairman of the Corporation but because of poor stock control.

(e) The Corporation had sold Liquid Petroleum Gas (LPG) to a private company at FOB price per Metric Ton (MT) according to Saudi Aramco Fuel Prices which in certain instances had not only been lesser than the Refinery gate price but it had been lesser than the Crude price per MT as well. Nevertheless, the Corporation had incurred a gross loss of Rs. 28 Mn and Rs. 24 Mn from LPG sales during the year under review and previous year respectively because sales value was lesser than its cost of sales.

In this regard, the Chairman stated:

"That the above mentioned arrangement had been agreed in line with Treasury directives."

(f) Fuel supply quantity of LFO 1500 Cst., LFO 3500 Cst., LAD and Naphtha of the year under review had sharply increased by 100%, 9%, 102% and 63% respectively as compared with the previous year quantity of 188 Mn litres of LFO 3500 Cst., 114 Mn litres of LAD and 87 Mn litres of Naphtha. Since the Corporation had sold those products to CEB at very concessionary prices without profit margins and interest for capital tied up due to non-settling the long outstanding, the Corporation had not received any benefit from those transactions.

CHAIRMAN'S OBSERVATIONS

AUDITOR GENERAL'S COMMENTS	CHAIRMAN'S OBSERVATIONS
3.2.2 Transactions in Contentious Nature The following observations are made:	
(a) The Corporation had allowed the dealers to carry out fuel business in its 195 filling stations scattered island-wide free of charge. However, the expenditures such as lease rentals, rates and other rental payable to municipalities and other local bodies etc. on those properties are borne by the Corporation. Expenditure on maintenance of the infrastructure at outlets is also borne by the Corporation. In addition to that, the Corporation had given them the permission to use those properties for carrying out other businesses as well with the approval of the Corporation at a nominal rent. Even though most of the dealers had not paid the rental for several years, no action had been taken by the Corporation against them. However, on request of the Dealers' Association, the Board of Directors had approved to write-off the outstanding rentals receivable amounting to Rs. 13 Mn and Rs. 12 Mn as at the end of the year under review and previous year respectively.	As agreed with Dealers' Association, some service both rentals which were overdue and amounting to Rs. 25 Mn has been written-off as per Board decision. and current rentals as at 31st December 2007 has been settled.
(b) The Corporation had sold Lanka Auto Diesel (LAD), Lanka Furnace Oil (LFO) and Naphtha to the Ceylon Electricity Board (CEB) during the first eleven months of the year under review at very concessionary prices but they had settled the dues at fixed rates of Rs. 55/-, Rs. 30/- and Rs. 40/- per litre of each product respectively. The total invoiced value for that period was Rs. 28,743 Mn but only Rs. 11,655 Mn of that had been settled at the end of 2007 on the above basis. Since the recoverability of Rs. 5,715 Mn out of the balance sum of Rs. 17,088 Mn is doubtful, the Board of Directors had decided to waive off it. As a result, the expenditure such as Turnover Tax (TT), Value Added Tax (VAT) and CPSTL charges with VAT amounted to Rs. 537 Mn incurred by the Corporation on over invoiced sales value of Rs. 5,715 Mn appears to be irrecoverable. On the same basis, the recoverability of a sum of Rs. 38 Mn of the above mentioned expenditures incurred by the Corporation in respect of the over invoiced sales value of Rs. 990 Mn for the month of December 2007 also appears to be irrecoverable. **In this regard, the Chairman stated as follows:** ***"The Corporation being a Government organisation has a dual responsibility on guaranteeing the energy security of the country while functioning as a financial independent organisation. In line with Government policy on domestic energy prices and as guided by Treasury, Board of Directors has offered a discount of Rs. 5,715 Mn to CEB while maintaining a net profit of Rs.2.8 Bn for the financial year 2007. All connected taxes in relation to this transfer will be claimed."***	

AUDITOR GENERAL'S COMMENTS

3.2.3 Utilisation of Corporation's Resources by Other Government Institutions

According to Paragraph 8.3.9 of the Public Enterprises Circular No. PED/12 of 2nd June 2003, public enterprises are not entitled to incur expenditure or deploy its resources (including human resources) under any circumstances, on behalf of the Ministry or any other Government institutions.

Further, the Paragraph 9.4 of the same Circular has emphasised that an employee of an enterprise should not be released to a Ministry or any other institution, without the approval of the Cabinet of Ministers and the enterprise should not pay any emoluments to the released employees during such period. However, the Corporation had contravened those circular instructions in the following instances:

(a) Five motor vehicles had been used by two Ministers and two other Government institutions while maintenance cost had been paid by the Corporation. The details of the expenditure incurred by the Corporation for those vehicles were not made available to audit. In addition to that, another two vehicles had been released to the Ministry and the former line Ministry of the Corporation.

CHAIRMAN'S OBSERVATIONS

(a) 1. Vehicle No. GG 9351 Jeep Defender type

A pool vehicle of CPC has been released for the Minister's Security. As this vehicle is one of CPC's vehicles the maintenance and repairs are done by CPC.

2. Vehicle No. 59-529 Pick-up

Released to the Ministry of Petroleum and Petroleum Resources. The maintenance and repairs are done by the Ministry.

3. Vehicle No. 65-3667 Jeep Defender type

Released to the Ministry of Power & Energy since 2004. Maintenance and repairs are done by the Ministry.

Four vehicles released to the Ministry of Petroleum and Petroleum Resources Development and one to the Ministry of Power and Energy. Two Defender type jeeps were released to the Ministry of Power and Energy another two Defender type jeeps are in the custody of the Courts. Another cab was released to the Ministry of Petroleum and Petroleum Resources Development. Altogether five vehicles had been released to the line Ministry and the former line Ministry.

AUDITOR GENERAL'S COMMENTS	CHAIRMAN'S OBSERVATIONS
(b) 17 employees had been released to the Ministry and three other Government institutions while all perks were borne by the Corporation. In this connection a sum of Rs. 6 Mn had been spent during the year under review.	These employees were released to the line Ministry. At present some employees who were released to the Ranaviru Seva Authority have reported back to work.
(c) Another six employees had been released to two other institutions based on reimbursement of the cost without Cabinet approval as required.	The total cost is being reimbursed from the relevant Ministries.
(d) The office of the Ministry of Petroleum Resources housed in a floor area of 822 square feet of the rented premises of the Corporation and the expenditure incurred by the Corporation for that was Rs. 0.700 Mn. In addition to that, it had been provided with eleven telephones, a facsimile and furniture by the Corporation on its own costs.	A request has been made for reimbursement from the Ministry of Petroleum and Petroleum Resources Development.

3.2.4 Identified Losses

Following observations are made:

(a) According to the tender conditions, the out-turn loss is 0.5% of the Bill of Lading (BL) quantity and if it exceeds, the Corporation has the full right to claim the loss from the shipper. However, the out-turn loss of the shipment No. CR/01/07 was 0.853% and the total loss estimated was US$ 193,894 equivalent to Rs. 21 Mn. However, due to the report issued by the independent inspectors, the Corporation could not claim the total loss other than sharing it equally with the shipper. Due to this the Corporation hasd sustained a loss of Rs. 10.5 Mn.	It was settled amicably where the ship owner agreed to bear 50% of the loss.
(b) The practice followed by the Corporation is to keep the Own Use and Process Loss figure per month at 5% of crude oil input while keeping a 0.5% evaporation allowance for each transfer between two locations. However, it was observed that a loss of Rs. 8,554 Mn had been occurred due to evaporation, processing, operation and stock handling, product transferring, etc. during the year 2007.	

In this regard, the Chairman stated as follows:

"Storing and distribution of fuel is the responsibility of the Common User Facility (CUF). As marketing companies agreed with the CUF for an allowance of 0.5% for storing and delivering the variance which are measured monthly and are within the tolerance limit. Based on the configuration of Sapugaskanda Refinery it has been noticed that 5% (approximately) from throughput has been used for internal heating purpose in Refinery. CPC is continuously and consistently following the standard as benchmark and looking for all possible measures to maximise the productivity at refinery. However, Refinery Operations has been very effective in the year 2007 and it saves foreign exchange amounting to 50 Mn US$."

AUDITOR GENERAL'S COMMENTS

CHAIRMAN'S OBSERVATIONS

3.2.5 Management Inefficiencies

The following observations are made:

(a) The aviation fuel was being sold to a particular airline company at a concessionary price as compared with the prices charged for the contract customers, VIP flights and Military flights even after the restructuring of that airline company due to inability to revise the terms and conditions in the agreement already entered with the predecessor of the company. Since the management had not taken corrective action in time, the Corporation had incurred a loss of approximately Rs. 147 Mn during the first nine months period of the year under review.

In this regard the Chairman stated as follows:

"CPC has given a US$ 3 cts. discount to SriLankan Airlines of which 50% is owned by Government of Sri Lanka and 50% by Emirates. SriLankan Airlines is the largest aviation customer who buys 50% of CPC's Aviation Turbine Fuel. These prices were continuously negotiated with SriLankan Airlines and finally agreed to reduce the discount from US$ 10 cts. to US$ 3 cts. with effect from 16th October 2006. Therefore, CPC was able to carry on aviation operations at a profit."

(b) It was observed that sixteen cargoes were discharged through the Colombo Harbour even though there were adequate storage facilities in Muthurajawela Terminal, thus depriving the possibility of saving of US$ 1,685 Mn approximately equivalent to Rs. 185 Mn as harbour dues. It was also observed that requirement of the Ceylon Electricity Board and others within the Colombo area could have been fulfilled through locally refined products stored in Kolonnawa.

In this regard the Chairman stated as follows:

"This decision has been arrived by evaluating demand infrastructure facilities of CUF. 'Ullage' (empty space of the storage tanks) and functionalities of infrastructure are also critical factors. In addition, Kolonnawa and Muthurajawela Tank Farms are not connected with pipelines and due to bad road conditions bowser transfers for Muthurajawela to Kolonnawa is also difficult. Therefore, cargoes were planned based on above constraints."

AUDITOR GENERAL'S COMMENTS	CHAIRMAN'S OBSERVATIONS
(c) The Corporation had permitted a private company to sell lubricants in its dealer network on payment of a commission of 2% on the lubricant sales. According to the agreement entered into between the Corporation and the private lubricant company, the Corporation reserves the right to audit the sale of lubricants through the Corporation dealer network. However, without implementing a proper procedure to evaluate the correctness of lubricant sales reported by the lubricant company. The Corporation relies on the commission paid by that company on its own calculation. **In this regard the Chairman stated as follows:** ***"At present commission was accounted based on the sales report submitted by Lubricant Operators. The fuel stations and the lubricant agent are two entities where CPC does not have direct authority to access their records. However, a suitable procedure will be adopted in due course."***	
(d) The Corporation had made a bad debts provision of Rs. 21 Mn for imports as a result of non-claiming vessel charges from suppliers on a timely basis. Nevertheless, such provision had not been made in respect of vessel surcharges amounting to Rs. 24 Mn in respect of thirteen supplies and outstanding for over one year due to the same reason. Further, it was observed that no action had been taken to recover a sum of Rs. 3 Mn on six vessel surcharges outstanding for less than one year.	Noted, appropriate actions would be taken in relation to six vessel surcharges.
(e) A proper system to monitor the transactions such as storing, distributing, order accepting, invoicing, cash collecting, processing of transactions in computer, providing information etc., handled by the Ceylon Petroleum Storage Terminal Limited (CPSTL) had not been introduced. **In this regard the Chairman stated as follows:** ***"Appropriate measures have already been taken to establish the appropriateness of the information provided by the CPSTL on storing and distribution of Petroleum Products."*** However, other than the action taken to establish a Loss Control Unit, no other alternative measures had been taken by the Corporation to monitor the other activities mentioned in the paragraph.	

AUDITOR GENERAL'S COMMENTS

CHAIRMAN'S OBSERVATIONS

3.2.6 Uneconomic Transactions

The following observations are made:

(a) The investments amounting to Rs. 56 Mn made in Ordinary Shares of quoted and unquoted companies had not yielded any return for more than five years.

(b) The Corporation had to be paid an interest amounting to Rs. 4 Mn, relating to the loans assigned to the Terminal Company under restructuring of the Corporation. However, the Corporation did not derive any economic benefit out of those loans.

This payment has been made in accordance with agreement No. PR 0030400220. However, this loan has already been settled.

3.2.7 Idle Assets

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

Nature of the Asset	Value (Rs. Mn)	Comments
(a) Wanathamulla Halgahakumbura Land	10.563	This land is being illegally occupied by squatters since 1973. There are about 623 families living in this land. **In this regard the Chairman stated as follows:** ***"The above property since acquiring in 1974 has been encroached. As per the advice given by the Hon. Attorney General and the approval given by the Board of Directors, CPC is in the process of initiating legal action against encroachers."***
(b) Mahahena Land	0.624	This land is being used by the previous owner since 1986. **In this regard the Chairman stated as follows:** ***"The Divisional Secretary has initiated legal action against the occupants of this land as per the Land Acquisition Act and the vacant possession of this land will be handed over to CPC after implementing the Court Order."***

AUDITOR GENERAL'S COMMENTS			CHAIRMAN'S OBSERVATIONS
Nature of the Asset	Value (Rs. Mn)	Comments	
(c) Furnace Oil Stock at China Bay	21.416	1,581,493 litres of Furnace Oil which had been fully - provided for in the Financial Statements had been lying idle in the custody of an outside party for a very long period. However, when the Corporation had called for tenders to dispose this stock in 2005, it was revealed that the quality of this stock was good and had a commercial value. Since then the Corporation had not even confirmed the existence of the stock in the annual stock verification. **In this regard the Chairman stated as follows:** ***"Asset verification has been carried out and due to the political situation prevailing in that area it is difficult to transport the product in order to realise its value."***	

3.2.8 Human Resource Management (HRM)

The following weaknesses in the HRM were observed in audit:

(a) There was no realistic cadre. However, the Corporation was in the process of getting extensions to the temporary approval given by the Strategic Enterprises Management Agency (SEMA) for the actual cadre prevailed in 2005 which was in excess to the requirement of the Corporation.

In this regard, the Chairman of the Corporation stated:

"That an extension of the cadre until 31st December 2008 had been approved by the SEMA and Management Services Department (MSD)."

(b) There was no permanent record (or a Database) to ascertain the actual cadre to a specified date. Therefore, the total number who was paid salaries in 2007 could not be checked with the records maintained by the HRM Section of the Corporation.

The total number of employees who were as at 31st December 2007 is 2,686.

(c) The scheme of recruitment and promotion had not been updated.

The revision of the scheme of recruitment and promotion is being processed.

AUDITOR GENERAL'S COMMENTS	CHAIRMAN'S OBSERVATIONS
(d) Recruitments and promotions had not been effected systematically in line with the realistic cadre position and had not been reviewed periodically.	This has been continuously reviewed at the Monitory Committee Meetings held in the Ministry.
(e) There was no Effective Performance Appraisal System (EPAS) in order to maximise productivity for efficient cadre management and the Head of Division had done the appraisal of performance of employees.	The appraisal of performance of employees is done by the Head of Function.
(f) According to the Succession Plan of the Corporation, suitable successors for the posts identified as key posts should be selected and trained two years before such posts fall in vacant. But, this plan had not been properly implemented and the posts such as Refinery Manager, Security Manager and Manager (Shipping) can be cited as examples.	The new Security Manager has been recruited. The recruiting of Refinery Manager and Manager (Shipping) are being processed. (Refinery Manager's position is pending under Supreme Court decision.)
3.2.9 The Corporate Plan	
Following observations are made:	
(a) According to Paragraph 5.1 of the Public Enterprises Circular No. PED/12 of 2nd June 2003, the Corporate Plan had not been reviewed and updated annually. Also, it had not been forwarded to the Ministry, Department of Public Enterprises and the Auditor General at least 15 days before the commencement of each financial year. The Corporate Plan of the Corporation for the period 2006-2010 had been sent to the Auditor General only on 6th July 2007 without properly reviewed by the Board of Directors.	It was reviewed by the Board subsequently in detail.
(b) The Corporate Plan for the periods 2007-2011 and 2008-2012 had not yet been updated.	Noted
3.2.10 Audit Committee	
The Audit Committee had met only once in the year 2007 contrary to Paragraph 7.4.1 of the Public Enterprises Circular No. PED/12 of 2nd June 2003.	Noted
3.2.11 Internal Audit	
The management had not taken proper action on the internal audit queries made and the number of unanswered internal audit queries as at 31st December 2007 was 58.	Action is being taken to provide replies for same.

AUDITOR GENERAL'S COMMENTS

3.2.12 Budgetary Control

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

CHAIRMAN'S OBSERVATIONS

Budget has been mainly based on the forecast of international oil prices which has drastically changed due to the geopolitical situations in the world, unexpected demand pattern and above normal climatic changes. Therefore, CPC has revised it in June 2007. Furthermore, there were no payments made without an appropriate budget.

4. SYSTEMS AND CONTROLS

Deficiencies observed 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 & Equipment

(b) Debtors and Other Receivables

(c) Trade Creditors and Other Payables

(d) Accounting

(e) Investments

(f) Inventories

(g) Loans and Advances

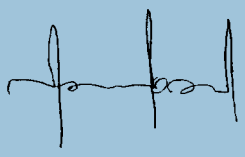
(h) Manufacturing

(i) Utilisation of Motor Vehicles

(j) Human Resource Management

(k) Capital Budgeting

(l) Contract Administration



S. Swarnajothi

Auditor General

Income Statements

Year ended 31st December	Notes	**2007** **Rs. Mn**	2006 (Restated) Rs. Mn
Revenue	1	**238,364.361**	196,766.560
Cost of Sales		**(221,723.535)**	(187,230.902)
GROSS PROFIT		**16,640.826**	9,535.658
Other Operating Income	2	**1,789.244**	1,289.835
Selling & Distribution Expenses		**(10,052.825)**	(8,290.821)
Administrative Expenses		**(1,288.705)**	(2,068.991)
Finance Charges	3	**(3,104.359)**	(2,380.710)
Profit/(Loss) Before Tax	4	**3,984.181**	(1,915.029)
Income Tax Expense	5	**(1,121.844)**	968.809
PROFIT/(LOSS) FOR THE YEAR		**2,862.337**	(946.220)

E.P.S. - (Please refer Note 24 to the Financial Statements.)

Accounting Policies on pages 69 to 73 and Notes on pages 74 to 87 are an integral part of these Financial Statements.

Balance Sheet

Year ended 31st December	Notes	**2007** **Rs. Mn**	2006 (Restated) Rs. Mn
ASSETS			
Non-Current Assets			
Property, Plant & Equipments - At Cost	6	**4,374.649**	4,460.920
Investment in Subsidiary/Associated Companies	7	**2,500.000**	2,500.000
Other Investments	7	**46.876**	53.126
Trade and Other Receivables - More than one year	8	**5,087.803**	5,773.463
Deferred Tax Asset	5	**689.623**	978.681
		12,698.951	13,766.190
Current Assets			
Inventories	9	**40,193.145**	26,844.124
Trade & Other Receivables - Due within one year	8	**34,236.898**	20,745.833
Cash & Cash Equivalents	10	**10,744.471**	12,926.064
		85,174.514	60,516.021
Total Assets		**97,873.465**	74,282.211
EQUITY AND LIABILITIES			
Capital and Reserves			
Contributed Capital	11	**1,000.000**	1,000.000
Capital Reserve	12	**4,992.686**	4,992.686
Revaluation Reserve	13	**25.696**	25.696
Insurance Reserve	14	**523.079**	502.088
Accumulated Profit/(Loss)		**7,026.349**	4,545.476
Total Equity		**13,567.810**	11,065.946
Non-Current Liabilities			
Retirement Benefits/Obligations	15	**541.367**	514.348
Interest Bearing Loans & Other Payables	16	**13,728.234**	16,705.229
		14,269.601	17,219.577
Current Liabilities			
Trade and Other Payables	17	**66,508.923**	42,446.223
Current Portion of Interest Bearing Borrowings	18	**3,145.667**	3,494.706
Provision for Deemed Dividend		**381.464**	55.759
		70,036.054	45,996.688
Total Equity and Liabilities		**97,873.465**	74,282.211

Ashantha L.F. De Mel
Chairman

Lalith Karunaratne
DGM (Finance)

R.T.A. Dabare
Finance Manager

4th April 2008

Statements of Changes in Equity

Year ended 31st December 2007	Contributed Capital Rs. Mn	Capital Reserve Rs. Mn	Revaluation Reserve Rs. Mn	Insurance Reserve Rs. Mn	Acc. Profit/(Loss) Rs. Mn	Total (Restated) Rs. Mn
Balance as at 31st December 2005 as previously stated	1,000.000	4,992.686	25.696	482.210	6,172.863	12,673.455
Correction of Prior Period Errors Prior to 1st January 2006						
(a) Reversal of Over Provision made to Thrift Society in 2004	–	–	–	–	100.000	100.000
(b) Provisioning for Non-Recoverable ACT	–	–	–	–	(376.000)	(376.000)
(c) Recognition of Deferred Taxation	–	–	–	–	(109.380)	(109.380)
Balance as at 31st December 2005 (Restated)	1,000.000	4,992.686	25.696	482.210	5,787.483	12,288.075
Accounting Period 2006						
(e) Correction of the Excess Finance Cost to Accounting Period 2006	–	–	–	–	(82.416)	(82.416)
(f) Correction of Non-Provisioning for Arrears in Turnover Tax related to the accounting period 30th September 2003 to 30th September 2005	–	–	–	–	(158.803)	(158.803)
Deemed Dividend	–	–	–	–	(54.568)	(54.568)
Surplus during the year	–	–	–	19.878	–	19.878
Net Profit/(Loss) for the period	–	–	–	–	(946.220)	(946.220)
Balance as at 31st December 2006 (Restated)	1,000.000	4,992.686	25.696	502.088	4,545.476	11,065.946
Surplus during the year	–	–	–	20.991	–	20.991
Net Profit/(Loss) for the period	–	–	–	–	2,862.337	2,862.337
Deemed Dividend	–	–	–	–	(381.464)	(381.464)
Balance as at 31st December 2007	**1,000.000**	**4,992.686**	**25.696**	**523.079**	**7,026.349**	**13,567.810**

Note 1 - Deemed Dividend - Provision is made as per Section 53 (1) (d) of Inland Revenue Act No. 38 of 2000.

Cash Flow Statements

Year ended 31st December	**2007 Rs. Mn**	2006 Rs. Mn
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/(Loss) Before Tax	**3,984.181**	(1,915.029)
Adjustment for:		
Depreciation	**323.622**	304.290
Foreign Currency Translation	**(198.335)**	(491.467)
Investment Income	**(437.500)**	(125.100)
Interest Received	**(954.070)**	(781.634)
Provision for Insurance Reserve	**20.991**	19.878
Provision for Stores Non-Moving Items	**27.408**	(30.762)
Provision for Bad & Doubtful Debts & Recoveries	**(4.309)**	5.352
Interest Expenses	**3,104.359**	2,380.710
Adjustment for Valuation of Shares	**6.250**	12.500
Provision for Retirement Obligation	**48.999**	146.356
Profit on Sale of Property, Plant & Equipment	**(9.216)**	(8.278)
Operating Profit/(Loss) Before Working Capital Changes	**5,912.381**	(483.184)
Changes in Working Capital		
(Increase)/Decrease in Inventories	**(13,321.526)**	(9,184.440)
(Increase)/Decrease in Trade and Other Receivables	**(13,098.772)**	(2,852.640)
Increase/(Decrease) in Trade and Other Payables	**23,813.340**	11,099.326
Cash Generated from/(used in) Operating Activities	**3,305.423**	(1,420.938)
Interest Paid	**(3,104.359)**	(2,380.710)
Retiring Gratuity Paid	**(21.981)**	(9.389)
IT/WHT paid	**(142.140)**	(3,223.008)
Net Cash Generated from Operating Activities	**36.943**	(7,034.045)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of Property, Plant & Equipment	**(249.305)**	(260.019)
Proceeds from Sale of Property, Plant & Equipment	**23.723**	15.318
Income from Investment	**437.500**	125.100
Interest Received	**954.070**	781.634
Net Cash used in Investing Activities	**1,165.988**	662.033
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of Long-Term Loans	**(3,326.039)**	(2,478.143)
Net Cash from/(used in) Financing Activities	**(3,326.039)**	(2,478.143)
Net Increase/(Decrease) in Cash & Cash Equivalents	**(2,123.108)**	(8,850.155)
Cash & Cash Equivalents at beginning of the year	**12,083.497**	20,933.652
Cash & Cash Equivalents at end of the year	**9,960.389**	12,083.497
Note 1		
Cash & Cash Equivalent as at beginning of the year		
Cash & Bank Balances	**12,926.064**	21,102.941
	12,926.064	21,102.941
Bank Overdraft	**(304.959)**	(128.088)
Cash & Cash Equivalents before Adjusting the Foreign Currency Translation	**12,621.105**	20,974.853
Adjustment for Foreign Currency Translation	**(537.608)**	(41.201)
Cash & Cash Equivalents after Adjusting the Foreign Currency Translation	**12,083.497**	20,933.652
Note 2		
Cash & Cash Equivalent as at end of the year		
Cash & Bank Balances	**10,744.471**	12,926.064
	10,744.471	12,926.064
Bank Overdraft	**(48.139)**	(304.959)
Cash & Cash Equivalents before Adjusting the Foreign Currency Translation	**10,696.332**	12,621.105
Adjustment for Foreign Currency Translation	**(735.943)**	(537.608)
Cash & Cash Equivalents after Adjusting the Foreign Currency Translation	**9,960.389**	12,083.497

Accounting Policies

1. CORPORATE INFORMATION

1.1 General

Ceylon Petroleum Corporation is a Public Corporation incorporated under Ceylon Petroleum Corporation Act No. 28 of 1961 and domiciled in Sri Lanka. The registered office of the Corporation is located at No. 109, Galle Road, Colombo 03.

1.2 Principal Activities and Nature of Operations

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

1.3 Parent Entity and Ultimate Parent Entity

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

1.4 Date of Authorisation for Issue

The Financial Statements of Ceylon Petroleum Corporation for the year ended 31st December 2007 were authorised for issue in accordance with a resolution of the Board of Directors on 7th February 2008.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

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

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

2.1.1 Statement of Compliance

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

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 Note 25 consistent with those used in the previous year.

2.2 Summary of Significant Accounting Judgements, Estimates and Assumptions

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

Deferred Tax Assets

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

2.3 Summary of Significant Accounting Policies

2.3.1 Foreign Currency Translation

The Financial Statements are presented in Sri Lankan Rupees, which is the Corporation's functional and presentation currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the Balance Sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is 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 relevant tax legislations.

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 or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or taxable profit or loss.

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

The carrying amount of deferred income tax assets is reviewed at each Balance Sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

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 recognised directly in equity is recognised in equity and not in the Income Statement.

Sales Tax

Revenues, expenses and assets are recognised 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 recognised as a part of the cost of the asset or part of the expense items as applicable and receivable and payable that are stated with the amount of sales tax included. The amount of sales tax recoverable and payable in respect of taxation authorities is included as a part of receivables and payables in the Balance Sheet.

2.3.3 Borrowing Costs

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

2.3.4 Inventories

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

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

Raw Materials	At Purchase Cost on first-in first-out basis.
Finished Goods (a) Refined Products	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

(By Location)
Net realisable value is the estimated selling price in the ordinary course of business, less estimated cost of completion and estimated costs necessary to make the sale.

2.3.5 Trade and Other Receivables

Trade receivables are stated at the amounts they are estimated to realise net of allowances for bad and doubtful receivables.

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

2.3.6 Cash & Cash Equivalents

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

2.3.7 Property, Plant & Equipment

Plant & 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 & equipment when that cost is incurred, if the recognition criteria are met.

Land and buildings are measured at cost less depreciation on buildings.

Depreciation is calculated on a straight-line basis over the useful life of the assets. Depreciation rates are as follows:

	Percentage
Freehold Land	Nil
Buildings	2.5
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
Furniture/Fittings & Office Equipment up to 31.12.98	100
Furniture/Fittings & Office Equipment w.e.f. 01.01.99	33 1/3
SPM Facility - Tank Farm	2.5
- Pipelines	5
- Buoy	10

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

An item of Property, Plant & Equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset), is included in the Income Statement in the year the asset is derecognised.

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

2.3.8 Investments

(a) Initial Recognition:

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

(b) Measurement:

Current Investment

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

Long-Term Investments

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

Investments in Associate Companies

Investments in Associate Companies are stated at Cost.

Disposal of Investment

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

2.3.9 Provisions

Provisions are recognised when the Corporation has a present obligation (legal or constructive), as a result of a past event, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of a provision to be reimbursed, the reimbursement is recognised 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 recognised as an interest expense.

2.3.10 Retirement Benefit Obligations

(a) Defined Benefit Plan - Gratuity

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

The gratuity liability is not funded nor actuarially valued.

Defined Contribution Plans - Employees' Provident Fund and Employees' Trust Fund

Employees are eligible for Employees' Provident Fund contributions and Employees' Trust Fund contributions in line with the respective statutes and regulations. The Corporation contributes 15% and 3% of gross emoluments of employees to Employees' Provident Fund and Employees' Trust Fund respectively.

2.3.11 Capital Reserve

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

2.3.12 Insurance Reserve

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

2.3.13 Revenue Recognition

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

Revenue is measured at the fair value of consideration received or receivable net of trade discounts and sales taxes. The following specific criteria are used for the purpose of recognition of revenue:

(a) Sale of Goods

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

(b) Interest

Revenue is recognised on a time proportion basis that takes into accounts the effective interest rate on asset.

(c) Dividends

Dividend income is recognised when the shareholders' right to receive the payment is established.

(d) Rental Income

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

(e) Others

Other income is recognised on an accrual basis.

2.3.14 Segment Information

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

Notes to the Financial Statements

1. REVENUE

	2007 Qty. M. Ltrs.	2007 Value Rs. Mn	2007 US$ Mn	2006 Qty. M. Ltrs.	2006 Value Rs. Mn	2006 US$ Mn
DOMESTIC SALES						
90 Octane Petrol	**474.673**	**43,967.826**		459.647	34,812.391	
95 Octane Petrol	**27.380**	**2,611.795**		23.367	1,864.951	
Auto Diesel	**1,713.540**	**113,737.174**		1,572.776	92,474.646	
Super Diesel	**6.410**	**467.764**		5.594	349.805	
Kerosene	**214.451**	**12,459.330**		250.243	13,209.914	
Furnace Oil	**1,039.112**	**43,941.105**		960.922	36,421.645	
Naphtha	**141.382**	**5,675.573**		86.916	3,519.323	
Avn. Gasoline	**0.217**	**51.021**		0.207	35.176	
Avn. Turbine Fuel	**251.549**	**16,253.594**		234.675	13,142.666	
Others	**93.924**	**5,914.513**		94.604	4,038.837	
Total Domestic Sales		**245,079.695**			199,869.354	
EXPORTS						
(a) Direct Exports						
Naphtha		**–**	**–**	62.86	2,429.445	23.090
		–	**–**		2,429.445	23.090
(b) Indirect Exports						
Avn. Turbine Fuel	**129.523**	**8,264.684**	**75.276**	150.298	8,714.047	84.540
		8,264.684			8,714.047	
Total Sales		**253,344.379**			211,012.846	
Less: T.T. Ex Duty		**(14,980.018)**			(14,246.286)	
		238,364.361			196,766.560	

** VAT amounting to Rs. 9,637.357 Mn included in the sales has been removed to show the actual sales of Ceylon Petroleum Corporation.

*** Sales amounting to Rs. 5,857.983 Mn made to Ceylon Electricity Board at subsidised rates has been removed in arriving at the recorded sales figure in the Income Statement for the year 2007.

SEGMENT INFORMATION & REVENUE

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

	2007 Sales Value Rs. Mn	2007 Cost of Sales Rs. Mn	2007 Gross Profit Rs. Mn	2006 Sales Value Rs. Mn	2006 Cost of Sales Rs. Mn	2006 Gross Profit Rs. Mn
Class of the Customers						
(a) Transport	**112,949.719**	**(102,238.408)**	**10,711.311**	96,613.465	(93,057.636)	3,555.829
	112,949.719	**(102,238.408)**	**10,711.311**	96,613.465	(93,057.636)	3,555.829
(b) Power Generation	**65,236.585**	**(64,451.613)**	**784.972**	46,915.269	(43,234.185)	3,681.084
	65,236.585	**(64,451.613)**	**784.972**	46,915.269	(43,234.185)	3,681.084
(c) Aviation	**24,569.477**	**(22,776.566)**	**1,792.911**	21,891.888	(21,394.565)	497.323
	24,569.477	**(22,776.566)**	**1,792.911**	21,891.888	(21,394.565)	497.323
(d) Others	**35,608.580**	**(32,256.948)**	**3,351.632**	31,345.938	(29,544.516)	1,801.422
	35,608.580	**(32,256.948)**	**3,351.632**	31,345.938	(29,544.516)	1,801.422
Gross Profit as per Income Statement	**238,364.361**	**(221,723.535)**	**16,640.826**	196,766.560	(187,230.902)	9,535.658

	2007 Rs. Mn	2006 Rs. Mn
2. OTHER OPERATING INCOME		
Treasury Bill Interest Income	**785.728**	299.114
Interest on R.F.C. A/C	**168.342**	482.521
Dividend Income	**437.500**	125.100
Interest on Credit Invoice	**77.100**	185.139
Fines Recovered from Contractors	**169.157**	–
Sundry Income	**95.284**	152.464
Rent Income	**11.730**	11.050
Comm. on Lubricants Sales	**44.403**	34.447
	1,789.244	1,289.835
3. FINANCE CHARGES		
Interest on Long-Term Loans	**2,954.092**	167.921
Interest on Bank Overdrafts	**–**	0.523
Interest on Foreign Bills Payables & Other Bank Loans	**150.267**	2,212.266
	3,104.359	2,380.710

	2007 Rs. Mn	2006 Rs. Mn
4. PROFIT/(LOSS) FOR THE YEAR		
Stated after Charging/(Crediting)		
Included in Cost of Sales		
Gain/(Loss) on Derivative Financial Instruments	**106.669**	–
Written down of Inventories to Net Realisable Value	**797.684**	588.614
Included in Administrative Expenses		
Chairman's Remuneration	**1.333**	1.233
Directors' Remuneration	**0.071**	0.093
Auditors' Remuneration	**1.500**	1.125
Depreciation	**323.622**	304.290
Defined Benefit	**48.995**	131.499
Donation to Sri Lanka Sumithrayo	**0.551**	0.396
5. INCOME TAX		
Current Tax Expense on Ordinary Activities for the Year (Note 5.1)	**821.616**	117.531
Social Responsibility Levy	**11.170**	1.721
Under/(Over) Provision of Current Taxes in respect of prior years	–	–
	832.786	119.252
Deferred Income Tax		
Deferred Taxation Charge/(Reversal)	**289.058**	(1,088.061)
Income Tax Expense reported in the Income Statement	**1,121.844**	(968.809)
5.1 Reconciliation between Current Tax Expense and the Product of Accounting Profit		
Accounting Profit (Profit Before Tax)	**3,973.611**	(1,602.374)
Aggregate Disallowed Items	**434.404**	494.607
Aggregate Allowable Expenses	**(1,702.506)**	(1,313.709)
Adjustment of Income/(Loss) not subject to Tax	–	2,421.476
	2,705.509	–
Other Source of Income - Interest Income	**905.989**	516.622
Less: Utilisation of brought forward Tax Losses	**(1,264.024)**	(180.818)
Taxable Profits	**2,347.474**	335.804
Tax on Profit from Operations		
Operating Income	**504.520**	–
Other Source of Income - Interest Income	**317.096**	117.531
	821.616	117.531
Tax Rate Applicable for Operating Income	**35%**	32.5%
Social Responsibility Levy	**1%**	1%
Deemed Dividend Tax	**25%**	25%
Income Tax	**821.616**	117.531
Social Responsibility Levy	**11.170**	1.721
	832.786	119.252
Deemed Dividend Tax	**381.464**	54.568

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

	2007 Rs. Mn	2006 Rs. Mn
At the beginning of the year	**(978.681)**	109.380
Transferred from/(to) Income Statement	**289.058**	(1,088.061)
At the end of the year	**(689.623)**	(978.681)

	Balance Sheet 2007 Rs. Mn	2006 Rs. Mn
Deferred Tax Liability		
Accelerated Depreciation for Tax purpose	**989.460**	1,051.164
	989.460	1,051.164
Deferred Tax Assets		
Retirement Obligations	**(189.477)**	(180.022)
Unutilised Tax Losses	**(965.182)**	(1,407.590)
Other Provisions	**(524.424)**	(442.233)
	(1,679.083)	(2,029.845)
Net Deferred Tax (Asset)/Liability	**(689.623)**	(978.681)

6. PROPERTY, PLANT & EQUIPMENT

6.1 Tangible Assets

	Land & Buildings Rs. Mn	Vested Property Rs. Mn	Plant, Mach. & Equip. Rs. Mn	SPBM Facility Rs. Mn	Motor Vehicles Rs. Mn	Furn./Fittings Office Equip. & Other Assets Rs. Mn	Total Rs. Mn
Cost							
Balance as at 1st January 2007	1,104.025	1.016	4,488.003	2,141.322	325.535	290.408	8,350.309
Additions	79.901	–	131.855	–	3.357	30.799	245.912
Disposals	(0.003)	–	(15.200)	–	(2.400)	(4.568)	(22.171)
Adjustment	2.331	–	(0.455)	–	(0.207)	–	1.669
Balance as at 31st December 2007	1,186.254	1.016	4,604.203	2,141.322	326.285	316.639	8,575.719
Depreciation							
Balance as at 1st January 2007	136.984	0.318	2,087.562	1,180.328	246.454	273.943	3,925.589
Charge for the Year	17.073	0.010	240.830	47.868	9.879	7.962	323.622
Disposals	–	–	(0.696)	–	(2.400)	(4.568)	(7.664)
Adjustments	–	–	(0.455)	–	(0.429)	–	(0.884)
Balance as at 31st December 2007	**154.057**	**0.328**	**2,327.241**	**1,228.196**	**253.504**	**277.337**	**4,240.663**
Net Book Value	**1,032.197**	**0.688**	**2,276.962**	**913.126**	**72.781**	**39.302**	**4,335.056**
Cost as at 31st December 2006	1,104.025	1.016	4,488.003	2,141.322	325.535	290.408	8,350.309
Acc. Dep. as at 31st December 2006	136.984	0.318	2,087.562	1,180.328	246.454	273.943	3,925.589
Net Book Value as at 31st December 2006	**967.041**	**0.698**	**2,400.441**	**960.994**	**79.081**	**16.465**	**4,424.720**

	2007 Rs. Mn	2006 Rs. Mn
6.2 Assets and Capital Project in Progress		
Buildings	**24.964**	28.346
Plant & Machinery	**7.545**	3.149
Storage Facility	**5.392**	4.705
Others	**1.692**	–
	39.593	36.200
6.3 Property, Plant & Equipment		
Property, Plant & Equipment	**4,335.056**	4,424.720
Assets & Capital Projects in Progress	**39.593**	36.200
	4,374.649	4,460.920

7. INVESTMENTS

	2007 At Cost Rs. Mn	2007 Market Value Rs. Mn	2006 At Cost Rs. Mn	2006 Market Value Rs. Mn
Non-Current				
(a) Investment in Associated Company				
Unquoted				
Ceylon Petroleum Storage Terminals Limited*	**2,500.000**	**–**	2,500.000	–
	2,500.000	**–**	2,500.000	–
(b) Other Investments				
Quoted				
Lanka Cement Limited				
5,000,000 Ordinary Shares of Rs. 10/- each fully paid	**50.500**	**36.250**	50.500	42.500
Less: Provision for decline in value	**(14.250)**	**–**	(8.000)	–
	36.250	**36.250**	42.500	42.500
Unquoted				
Associated Newspapers of Ceylon Limited				
61,206 Ordinary Shares of Rs. 10/- each fully paid	**0.539**		0.539	
Lanka Leyland Limited				
100 Ordinary Shares of Rs. 10/- each fully paid	**0.001**		0.001	
International Coop/Petroleum Association				
5,499 Shares of US$ 100 each fully paid Incorporated in USA	**5.086**		5.086	
	5.626		5.626	
Current				
Investments in Fixed Deposit	**5.000**		5.000	
	5.000		5.000	
Total Carrying Value of Investments	**46.876**		53.126	

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

8. TRADE & OTHER RECEIVABLES

	2007		2006	
	Within 1 - Year Rs. Mn	**After 1 - Year Rs. Mn**	Within 1 - Year Rs. Mn	After 1 - Year Rs. Mn
Trade Receivables	**31,843.653**	**–**	18,326.910	–
Other Receivables	**1,960.160**	**4,342.894**	2,080.794	4,969.281
Deposits	**14.066**	**24.735**	15.684	36.778
Advance	**15.325**	**–**	22.059	–
Pre-Payments	**75.218**	**–**	50.384	–
Loans & Advances to Employees	**328.476**	**720.174**	250.002	767.404
	34,236.898	**5,087.803**	20,745.833	5,773.463

Other receivables include Rs. 4,881 Mn, being an equivalent of Long-Term Loan transferred to CPSTL and a sum of Rs. 376 Mn paid in 1999 as an Income Tax Advance and a full provision has been provided for this amount.

Trade & Other Receivables and Loans & Advances to employees are after charging a provision for Bad & Doubtful Debts amounting to Rs. 445 Mn (2006 - Rs. 446 Mn) and Rs. 0.224 Mn (2006 - Rs. 3.245 Mn), respectively.

	2007 Rs. Mn	2006 Rs. Mn
9. INVENTORIES & WORK-IN-PROGRESS		
Crude Oil	**14,580.380**	8,336.551
Other Raw Material	**908.168**	428.468
Finished Products	**23,611.624**	17,198.627
Other Materials & Supplies	**1,368.797**	1,131.819
Less: Provision for Non-Moving Items	**(275.824)**	(251.341)
	25,612.765	18,507.573
	40,193.145	26,844.124
10. CASH & CASH EQUIVALENTS		
Components of Cash & Cash Equivalents		
Cash & Bank Balances	**9,204.471**	12,918.814
Treasury Bills	**1,540.000**	7.250
	10,744.471	12,926.064

	2007 Rs. Mn	2006 Rs. Mn
11. CONTRIBUTED CAPITAL		
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 Government 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 authorised capital has been fixed by the Parliament.)		
12. CAPITAL RESERVE		
Balance as at 1st January	**4,992.686**	4,992.686
Receipts from Consolidated Fund	**–**	–
Transferred from WIP	**–**	–
Net Restructuring Sale Proceeds	**–**	–
Balance as at 31st December	**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 privatisation.

The effect of the above transaction had been adjusted under Net Restructuring Sales Proceeds.

13. REVALUATION RESERVE		
Balance as at 1st January	**25.696**	25.696
Surplus/(Deficit) on Revaluation	**–**	–
Balance as at 31st December	**25.696**	25.696
14. INSURANCE RESERVE		
Balance as at 1st January	**502.088**	482.210
Charged to Profit & Loss Account	**20.991**	19.878
Balance as at 31st December	**523.079**	502.088
15. RETIREMENT BENEFIT OBLIGATION		
Balance as at 1st January	**499.491**	377.381
Less: Payments During the Year	**21.981**	9.389
	477.510	367.992
Add: Charged to Profit & Loss Account	**48.999**	131.499
	526.510	499.491
Add: Benefit China Bay Employees	**14.857**	14.857
	541.367	514.348

	2007 Rs. Mn	2006 Rs. Mn
16. INTEREST BEARING LOANS & OTHER PAYABLES		
16.1 L.T. Loans not assigned to CPSTL		
Treasury (A.D.B.) Loan (Interest 14.0% p.a.) - Repayable in 40 half yearly instalments of Rs. 37.977 Mn each commencing July 2001	**949.492**	1,025.452
Indian Line of Credit (Interest LIBOR+0.5 p.a.) - Repayable in 12 half yearly instalments of Rs. 1,228.030 Mn each commencing May 2006	**8,492.270**	10,798.096
16.2 L.T. Loans assigned to CPSTL		
NDB Loan (Interest 16.0% p.a.) - Repayable in 1st instalment of Rs. 12.3 Mn before 31st March 2001 and balance Rs. 11.9 Mn of 83 Equal instalments	**–**	23.800
ETFB Debentures (Interest 16.5% p.a.) - Redeemable in 4 equal yearly instalments from June 2003	**–**	–
Treasury (Exim Bank) Loan - (Interest 12 .0% p.a.) - Repayment commencing October 2004 in 24 equal half yearly instalments of final loan value	**4,285.570**	4,856.979
	13,727.332	16,704.327
Compensation Payable to former Owners of Properties Vested in CPC	**0.902**	0.902
	13,728.234	16,705.229
16.3 Loans Repayable within 5 years from 31st December 2007 is as follows:		
Amount due within 1-2 years	**3,073.732**	3,127.236
Amount due within 3-5 years	**6,145.465**	9,310.269
Amount due after 5 years	**4,508.135**	4,266.822
	13,727.332	16,704.327
17. TRADE & OTHER PAYABLES		
Foreign Bills Payable	**61,368.627**	36,195.771
Other Creditors		
- Amount due to Inland Revenue Department and Customs Department	**1,515.475**	1,977.671
- Accrued Expenses	**1,140.945**	1,838.253
- Refundable Deposits & Others	**2,483.876**	2,434.528
	66,508.923	42,446.223
18. INTEREST BEARING BORROWINGS DUE WITHIN ONE YEAR		
Bank & Other Loans		
- Wholly Repayable within One Year	**3,097.528**	3,189.747
- Bank Overdrafts	**48.139**	304.959
	3,145.667	3,494.706

	2007 Rs. Mn	2006 Rs. Mn
19. EMPLOYEES		
19.1 Staff Cost		
Salaries & Wages	**1,429.796**	1,221.585
Bonus	**149.007**	129.689
Provident & Trust Fund Contribution	**185.882**	159.459
Gratuity Provision	**48.499**	131.499
	1,813.184	1,642.232
19.2 No. of Employees		
Managerial & Administration	**857**	600
Selling & Distribution	**929**	1,168
Manufacturing	**900**	850
	2,686	2,618
19.3 Contract & Casual Employees	**245**	312

20. COMMITMENTS FOR CAPITAL EXPENDITURE

	Amount Approved Rs. Mn	**Amount Spent up to 31.12.2007 Rs. Mn**
Fuel Quality Improvement & Storage Facilities at Refinery	113.949	**26.7590**
Refinery Main Plant (Minor Modifications)	226.860	**6.5290**
Other Capital Expenditure	4.000	**2.1950**
Construction of Head Office New Building	1,600.000	**1.830**
Construction of Filling Yard	30.000	**2.2800**
	1,974.809	**39.593**

21. TRANSACTIONS WITH RELATED PARTIES

CPSTL an associated company having 1/3 share ownership by CPC, Mr. Ashantha L.F. De Mel, Chairman/Managing Director and Mr. Methsiri Wijegoonawardene, Director/CPC, performed duties as Chairman/CEO and Director of CPSTL.

21.1 Transactions made with Related Parties

Company	Relationship	Nature of Transaction	Amount Paid/(Received) 2007 Rs. Mn	2006 Rs. Mn
Ceylon Petroleum Storage Terminals Limited (CPSTL)	Associate Company			
		- Storage, Terminal and distribution charges	**7,373**	7,155
		- Recovery of repayments of the following bank loans:		
		NDB - Recovered repayments The interest rate is 16% p.a. and CPSTL repays 12% p.a. of this rate and the excess interest is borne by Ceylon Petroleum Corporation	**154.938**	172.074
		The excess interest charge absorbed by Ceylon Petroleum Corporation	**4.046**	9.758
		Exim Bank - Recovered repayments Interest rate is 12% p.a. and the full repayments are recovered from CPSTL	**1,205.674**	1,383.067
		ETFB Debentures Interest rate is 16% p.a. and 12% p.a. is recovered from CPSTL	**–**	223.97

21.2 Sales Summary for the year 2007 - Government Institutions

	Relationship	2007 Rs. Mn	2006 Rs. Mn
Sri Lanka Air Force	Government owned enterprise	**1,336.572**	59.448
Sri Lanka Army	Government owned enterprise	**1,609.852**	1,151.904
Ceylon Electricity Board	Government owned enterprise	**25,808.036**	16,808.483
Ceylon Government Railway	Government owned enterprise	**2,136.596**	1,824.484
Ceylon Transport Board	Government owned enterprise	**5,687.536**	4,141.785
Embassies	Government owned enterprise	**12.355**	10.593
Hospitals	Government owned enterprise	**30.200**	42.835
Sri Lanka Navy	Government owned enterprise	**3,298.290**	2,656.813
Superior Courts Complex	Government owned enterprise	**0.496**	0.727
Sri Lanka Bureau of Foreign Employment	Government owned enterprise	**0.443**	0.779
Central Environmental Authority	Government owned enterprise	**–**	0.383
Heavy Equipment Training Centre	Government owned enterprise	**8.000**	6.541
Fisheries Harbour Corporation	Government owned enterprise	**4.533**	1.656
State Mining & Mineral Corporation	Government owned enterprise	**3.132**	–
People's Bank	Government owned enterprise	**3.166**	1.862
Mahara Prisons	Government owned enterprise	**1.828**	1.159
Irrigation Department	Government owned enterprise	**–**	–
Welikada Prisons	Government owned enterprise	**5.714**	5.906
Government Factory	Government owned enterprise	**1.857**	1.551
Air Lanka Catering Services	Government owned enterprise	**44.607**	31.246
Central Bank	Government owned enterprise	**6.901**	5.646
Sri Lanka Broadcasting Corporation	Government owned enterprise	**2.651**	2.689
Coconut Research Institute	Government owned enterprise	**3.677**	4.254
Tea Research Institute	Government owned enterprise	**7.231**	6.356
Sri Lanka Rupavahini Corporation	Government owned enterprise	**7.674**	8.836
Independent Television Network	Government owned enterprise	**0.430**	0.806
Provincial Councils & Pradeshiya Sabhas	Government owned enterprise	**73.690**	379.433
Road Development Department	Government owned enterprise	**40.909**	11.256
Highways Department	Government owned enterprise	**109.998**	–
Postal Department	Government owned enterprise	**14.537**	13.818
Colombo Port Commission	Government owned enterprise	**4.148**	3.763
Universities	Government owned enterprise	**1.189**	1.876
Ayurvedic Drugs Corporation	Government owned enterprise	**7.943**	7.030
Technical Services Institute	Government owned enterprise	**0.267**	0.082
State Timber Corporation	Government owned enterprise	**23.542**	9.028
Sri Lanka Institute of Information Technology	Government owned enterprise	**13.076**	14.237

	Relationship	2007 Rs. Mn	2006 Rs. Mn
Land Reclamation Board	Government owned enterprise	**25.422**	22.696
Bank of Ceylon	Government owned enterprise	**0.535**	4.134
Police Department	Government owned enterprise	**289.645**	237.488
Road Development Authority	Government owned enterprise	**125.603**	91.689
State Engineering Corporation	Government owned enterprise	**6.291**	5.780
Sri Lanka Ports Authority	Government owned enterprise	**587.877**	461.657
Town Councils	Government owned enterprise	**373.962**	300.434
Sri Lanka Telecom	Government is a significant shareholder	**106.069**	81.319
National Water Supply & Drainage Board	Government owned enterprise	**10.678**	26.530
Ministry of Nation Building & Estate Infrastructure Development	Government owned enterprise	**36.572**	1.214
Sri Lanka Institute of Development Administration	Government owned enterprise	**–**	0.396
Mahaveli Engineers & Planning Construction	Government owned enterprise	**0.291**	0.149
State Pharmaceuticals Corporation	Government owned enterprise	**7.299**	4.223
Ministry of Education	Government owned enterprise	**–**	0.402
Colombo District Land Reclamation Development Board	Government owned enterprise	**13.561**	10.840
National Institute of Business Management	Government owned enterprise	**–**	0.442
National Blood Transfusion Service	Government owned enterprise	**0.443**	–
Ministry of Healthcare & Nutrition	Government owned enterprise	**42.097**	–
Magallagoda Pump House/ Nilwalaganga Scheme	Government owned enterprise	**5.776**	–
Sundry - Government A/C - Kolonnawa	Government owned enterprise	**37.892**	–
Textile Training & Services Centre	Government owned enterprise	**0.443**	–
BOC Property Development & Management (Pvt) Limited	Government owned enterprise	**2.670**	–
Srirmavo Bandaranaike Ins. of Tourism & Hotel Mgt.	Government owned enterprise	**0.396**	–
Machinery Equipment Authority	Government owned enterprise	**0.608**	–
SriLankan Air Lines	Government is a significant shareholder	**14,419.629**	12,072.634
Mihin Lanka	Government owned enterprise	**596.158**	–
		57,000.993	40,539.292

22. POST-BALANCE SHEET EVENTS

No events have occurred since Balance Sheet date that would require any adjustment or disclosure to the Financial Statements.

23. CONTINGENT LIABILITIES

Five court cases claiming a total of Rs. 10.5 Mn as damages on fuel discharge and dealership termination disputes and labour disputes are pending against the Corporation.

Twenty-seven cases claiming a total of Rs. 40.2 Mn in favour of Ceylon Petroleum Corporation are pending against ex-dealers for return cheques.

Ceylon Petroleum Corporation has a Contingent Liability for Lease Rentals approximately amounting to Rs. 91 Mn to be payable to Ceylon Government Railway as at 31st December 2007 and this has not been provided as there are pending negotiations between both parties as at the Balance Sheet date.

Deemed Dividend Tax

The Corporation has provided and paid Deemed Dividends Tax based on the **Taxable Income** for each year of assessment.

However, there is a dispute on the basis of the calculation of Deemed Dividends Tax as it has not been clearly defined in the Inland Revenue Act of No. 38 of 2000 . This issue has not been still resolved and it is in the Court of Appeal.

As a result of that there may be additional provisions on Deemed Dividends Tax based on the basis of **Statutory Income** for year 2007 and 2006.

This additional provisions are contingent liabilities depending upon the final decision to be made in the Court of Appeal and the Corporation has not been provided in the accounts for both years.

	2007 **Rs. Mn**	2006 Rs. Mn
Provision for Deemed Dividends Based on Statutory Income	**902.874**	129.155
Provision for Deemed Dividends Based on Taxable Income	**381.464**	54.568
Additional Contingent Liability for Deemed Dividends	**521.410**	74.587

24. EARNINGS PER SHARE

Being a Public Corporation with a fixed capital, earnings per share could not be computed for this Corporation's activities.

25. RETROSPECTIVE RESTATEMENT OF ERRORS

	Income Statement Rs. Mn	Retained Earnings Rs. Mn	Non-Current Assets Rs. Mn	Current Assets Rs. Mn	Non-Current Liabilities Rs. Mn	Current Liabilities Rs. Mn
Prior to 1st January 2006						
(a) Reversal of Over Provision made to Thrift Society in 2004	–	100.000	–	–	–	(100.000)
(b) Provisioning for Non-Recoverable ACT	–	(376.000)	–	(376.000)	–	–
(c) Recognition of Deferred Taxation	–	(109.380)	–	–	–	109.380
Accounting Period 2006	–	(385.380)	–	(376.000)	–	9.380
(d) Recognition of Deferred Taxation	–	978.681	978.681	–	–	–
(e) Correction of the Excess Finance Cost to Accounting Period - 2006	82.416	(82.416)	–	–	–	–
(f) Correction of Non-Provisioning for Arrears in Turnover Tax related to the Accounting Period - 30th September 2003 to 30th September 2005	158.803	(158.803)	–	–	–	–
(g) Correction of Depreciation Over Charge Related to Accounting Period 2006	34.185	–	34.185	–	–	–
(h) Provisioning for Net Realisable Value of Finished Goods as at 31st December 2006	–	(588.614)	–	(588.614)	–	–
	275.404	148.848	1,012.866	588.614	–	–

Nature of the Prior Period Errors

(a) The Corporation has overprovided Rs. 100 Mn payable to Thrift Society in 2004 and this is included in Refundable Deposits and Other Payables as reported previously.

Therefore, the Profit for the year 2005 has been understated and the opening balance of Refundable Deposits and Other Payables have been overstated.

(b) The Corporation has not made a provision for the Non-Recoverable ACT of Rs. 376 Mn.

(c) & (d)

The Corporation has recognised Deferred Taxation as at 31st December 2007 and the Opening Balances have been adjusted accordingly.

(e) The Finance Cost in year 2006 has been overstated by Rs. 82 Mn and thereby loss for the year 2006 has been overstated.

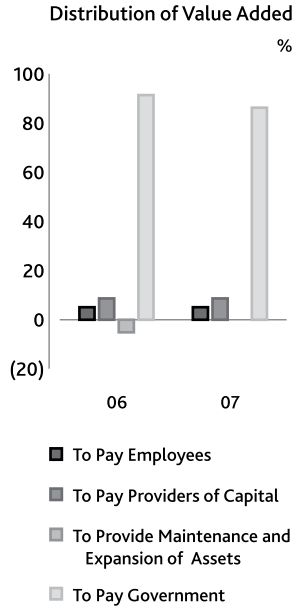
(f) The arrears amount of Rs. 158 Mn Turnover Tax payment made in 2006 which was related to year 2005 has not been recognised and provided in 2005 and therefore the profit for 2005 has been overstated.

(g) The depreciation charge of Rs. 34.185 Mn for the year 2006 has been overprovided due to non-compliance with revised Sri Lanka Accounting Standard 18 - Property, Plant & Equipment.

(h) A provision for Net Realisable Value of Rs. 588.614 Mn was provided for the value of Finished Goods Stock at 31st December 2006.

Statement of Value Added

	2007 Rs. Mn	2006 Rs. Mn
Turnover	**253,344.00**	211,012.00
Bought in Material & Services	**(215,331.00)**	(182,065.00)
Value Added	**38,013.00**	28,947.00
Applied in the following way		
To Pay Employees		
Wages & Fringe Benefits	**1,765.00**	1,511.00
To Pay Providers of Capital		
Interest on Loans	**3,104.00**	2,463.00
To Provide Maintenance and Expansion of Assets		
Depreciation	**324.00**	339.00
Retained Profit/(Loss)	**2,481.00**	(1,776.00)
To Pay Government		
Taxes, Duties, Stamp Duty and Contribution to the General Treasury	**30,339.00**	26,410.00
Value Added	**38,013.00**	28,947.00



Ten Year Summary

DOMESTIC SALES OF BULK PRODUCTS

Rupees Mn	1998	1999	2000	2001	2002*	2003	2004	2005	2006	**2007**
(A) VALUE										
Petrol	13,307.446	13,884.371	14,614.769	16,258.637	18,514.426	22,461.268	28,761.366	28,633.662	36,677.342	**46,579.620**
Auto Diesel	18,316.722	21,074.774	35,674.876	48,472.452	52,668.931	52,084.773	74,520.990	78,104.774	92,474.646	**113,737.174**
Super Diesel	890.295	924.466	1,342.637	1,904.453	1,902.580	1,698.721	1,711.525	725.285	349.805	**467.764**
Kerosene	3,161.806	3,259.600	4,432.654	5,512.753	5,938.386	5,683.438	7,775.135	11,430.279	13,209.914	**12,459.330**
Furnace Oil	4,002.849	4,002.276	6,932.905	11,836.009	15,126.837	16,238.837	20,135.716	30,165.885	36,421.645	**43,941.105**
Total	39,679.118	43,145.487	62,997.841	83,984.304	94,151.160	98,167.037	132,904.732	149,059.885	179,133.352	**217,184.993**
(B) QUANTITY - Thousand Metric Tons										
Petrol	204.400	212.900	224.400	249.500	286.100	337.900	350.300	334.100	367.600	**382.100**
Auto Diesel	1187.100	1,376.800	1,683.800	1,624.900	1,728.300	1,523.000	1,583.300	1,330.100	1,335.300	**1,449.700**
Super Diesel	38.500	40.000	46.700	49.000	46.900	39.500	31.600	11.700	4.700	**5.400**
Kerosene	235.900	243.300	229.100	227.800	228.800	184.600	171.800	178.000	196.600	**168.500**
Furnace Oil	556.000	557.500	736.700	748.800	757.600	648.300	771.700	972.800	911.100	**985.200**
Total	2221.900	2,430.500	2,920.700	2,900.000	3,047.700	2,733.300	2,908.700	2,826.700	2,815.300	**2,990.900**
(C) RETAIL SELLING PRICES IN PETROLEUM PRODUCTS										
(Colombo Spot Price in Rs. Per Litre as at 31st December)										
Super Petrol	50.000	50.000	50.000	50.000	49.000	53.000	70.000	80.000	95.000	**92.000**
Auto Diesel	13.200	13.200	24.500	26.500	30.000	32.000	44.000	50.000	92.000	**60.000**
Super Diesel	18.500	18.500	29.800	31.800	35.300	37.300	49.300	55.300	65.300	**65.300**
Kerosene	10.400	10.400	18.400	17.400	24.000	25.500	25.500	30.500	48.000	**48.000**
Furnace Oil										
- 1000 Sec	7.200	7.200	14.600	16.500	21.200	23.200	24.700	31.400	44.400	**44.400**
- 1500 Sec	6.800	6.800	14.000	15.800	20.700	22.300	24.300	30.300	43.300	**43.300**
- 3000 Sec	6.200	6.200	12.400	14.100	18.900	20.700	22.000	28.000	41.000	**41.000**

INCOME & EXPENDITURE

Gross Income Less: Taxes**	39,275.000	44,499.000	63,159.000	74,351.000	80,114.000	85,900.000	121,540.000	161,852.000	196,767.000	**238.364**
Income from Investment	300.000	300.000	181.000	120.000	1,118.000	162.000	–	–	–	**–**
Cost of Sales	28,456.000	41,196.000	70,688.000	62,734.000	67,211.000	75,471.000	106,750.000	144,501.000	187,231.000	**221,724.000**
Margin	10,818.000	3,303.000	(7,529.000)	11,617.000	12,903.000	10,429.000	14,789.000	17,350.000	9,536.000	**16,641.000**
Extraordinary Item	–	–	–	–	2,530.000	–	–	–	–	**–**
Working & Establishment Expenses including Interest	3,430.000	3,634.000	8,714.000	10,178.000	6,765.000	5,715.000	10,344.000	7,510.000	7,621.000	**12,657.000**
Kerosene Subsidy and Other Levies paid to the Treasury	500.000	500.000	–	–	–	–	–	–	–	**–**
Profit/(Loss) Before Tax	7,189.000	(531.000)	(16,062.000)	1,559.000	9,786.000	4,874.000	4,445.000	9,840.000	(1,915.000)	**3,984.000**

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

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

Rupees Mn	1998	1999	2000	2001	2002*	2003	2004	2005	2006	**2007**
CAPITAL STRUCTURE										
Capital Employed										
Capital	1,000.000	1,000.000	1,000.000	1,000.000	1,000.000	1,000.000	1,000.000	1,000.000	1,000.000	**1,000.000**
Reserves	384.900	(174.800)	(16,221.800)	(15,039.400)	(8,589.100)	(2,253.800)	1,984.100	11,673.400	10,065.900	**12,567.800**
L/T Liabilities	1,218.400	2,454.400	3,012.700	4,787.000	6,644.600	8,476.500	7,699.900	19,113.400	16,705.200	**13,728.200**
Gratuity Provision	367.000	408.400	462.200	482.800	424.900	556.800	700.400	377.400	514.300	**541.400**
Total	2,970.300	3,688.000	(11,746.900)	(8,769.600)	(519.600)	7,779.500	11,384.400	32,164.200	28,285.500	**27,837.400**
Represented										
Fixed Assets, Including Work-in-Progress	3,169.300	4,988.500	5,905.400	7,630.200	10,844.700	4,504.400	4,450.700	4,512.700	4,460.900	**4,374.600**
Investment	359.200	323.700	316.200	338.700	57.800	2,173.800	2,176.100	2,535.600	2,553.100	**2,546.900**
Net Current Assets	(558.200)	(1,624.200)	(17,968.500)	(16,738.500)	(11,422.100)	(1,101.300)	4,757.600	25,115.900	21,271.500	**20,915.900**
Total	2,970.300	3,688.000	(11,746.900)	(8,769.600)	(519.600)	7,779.500	11,384.400	32,164.200	28,285.500	**27,837.400**
SUMMARISED CASH FLOW STATEMENT										
Cash Flow from Operating	7,454.040	(460.520)	(13,920.000)	4,495.757	7,310.655	4,874.194	4,444.837	9,839.809	(1,915.029)	**3,984.181**
Extraordinary Item	(23.080)	–	–	–	2,529.832	–	–	–	–	**–**
Adjustment for Items not Involving Movement of Cash	342.270	492.788	537.928	604.449	529.412	988.365	776.807	841.682	1,431.845	**1,928.200**
Operating Profit/(Loss) before Working Capital Changes	7,773.220	32.268	(13,382.072)	5,100.206	10,369.899	5,862.559	5,221.644	10,681.491	(483.184)	**5,912.381**
Changes in Working Capital										
(Increase)/Decrease in Inventories	425.640	(2,173.410)	(3,367.729)	1,845.314	(3,099.970)	1,844.676	(5,157.403)	(4,066.365)	(9,184.440)	**(13,321.526)**
(Increase)/Decrease in Trade and Other Receivables	(1,530.880)	(518.115)	(197.361)	(2,143.290)	711.285	(384.386)	789.614	(3,434.619)	(2,852.640)	**(13,098.772)**
Increase/(Decrease) in Trade and Other Payables	(5,303.010)	6,927.961	22,289.402	(3,215.520)	(4,571.558)	(1,792.170)	2,862.133	(1,838.767)	11,099.326	**23,813.340**
Less: Gratuity/Tax and Interest Paid	(861.850)	(3,361.053)	(2,264.633)	(3,250.230)	(2,788.440)	(617.268)	(880.768)	(2,072.717)	(5,613.107)	**(3,268.480)**
Cash Generated from Operating Activities	503.125	907.591	3,077.607	(1,663.520)	621.216	4,913.411	2,835.220	(730.977)	(7,034.045)	**36.943**
Cash Used in Investing Activities	(1,146.770)	(1,871.573)	(1,217.353)	(2,173.473)	(1,899.240)	(3,421.404)	246.165	317.925	662.033	**1,165.988**
Cash from/(used in) Financing Activities	1,029.230	1,236.055	715.698	1,797.652	2,069.996	1,880.885	1,050.684	13,020.883	(2,478.143)	**(3,326.039)**
Net (Decrease)/Increase in Cash & Cash Equivalents	385.585	272.073	2,575.952	(2,039.341)	791.972	3,372.892	4,132.069	12,607.831	(8,850.155)	**(2,123.108)**
Cash & Cash Equivalents at beginning of the year	(1,165.380)	(779.796)	(507.723)	2,068.229	28.888	820.860	4,193.752	8,325.821	20,933.652	**12,083.497**
Cash & Cash Equivalents at end of the year	(779.796)	(507.723)	2,068.229	28.888	820.860	4,193.752	8,325.821	20,938.652	12,083.497	**9,960.389**

Rupees Mn	1998	1999	2000	2001	2002*	2003	2004	2005	2006	**2007**
FOREIGN EXCHANGE EARNINGS & PAYMENTS										
Aviation Fuel Sales										
Foreign Airlines - US$ Mn	26.200	24.500	40.900	31.100	32.400	48.300	57.000	77.420	84.540	**–**
Direct Exports - US$ Mn	17.400	17.200	27.600	16.500	13.100	–	7.000	–	23.090	**75.280**
Total - US$ Mn	43.600	41.700	68.500	47.600	45.500	48.300	64.000	77.420	107.630	**75.280**
Rupee Equivalent										
Rs. Mn	2615.100	3,017.400	5,345.900	3,561.500	3,977.700	3,500.800	6,458.500	7,159.010	8,714.050	**8,264.680**
Import Cost										
Crude Oil - US$ Mn	270.000	260.300	489.100	353.900	408.000	431.000	597.000	747.200	1,028.500	**1,023.000**
Refined Prod. - US$ Mn	176.400	173.500	303.500	304.000	286.000	300.000	464.000	653.000	761.300	**996.000**
Total - US$ Mn	446.400	433.800	792.600	657.900	694.000	731.000	1,061.000	1,400.200	1,789.800	**2,019.000**
Avg. Crude (C & F) Price US$/Bb1	13.470	19.390	28.270	24.670	25.000	29.290	37.380	52.140	65.070	**71.970**
Avg. Exch. Rate - US$ 1 = Rs.	65.700	71.170	77.270	89.620	96.340	96.420	101.900	100.530	103.960	**111.490**
OTHER MANAGEMENT INFORMATION										
TRADING RESULTS										
Revenue	46,635.200	51,516.400	75,865.800	95,103.188	105,001.924	111,389.486	135,351.978	174,554.979	211,012.846	**253,344.379**
Profit/(Loss) After Taxation	5,451.500	(572.300)	(16,062.100)	1,169.310	9,786.088	4,874.194	3,907.862	7,710.890	(946.220)	**2,862.337**
ASSETS EMPLOYED										
Property, Plant & Equipment	1,601.800	3,370.600	5,905.500	7,630.244	10,844.721	4,504.432	4,450.672	4,512.748	4,460.920	**4,374.649**
Net Current Assets	(675.600)	(1,624.200)	(17,968.500)	(16,738.531)	(12,165.676)	(6,785.125)	(2,728.739)	17,763.403	14,519.333	**15,138.460**
Total	926.200	1,746.400	(12,063.100)	(9,108.287)	(1,320.955)	(2,280.693)	1,721.933	22,276.151	18,980.253	**19,513.109**
FUNDS EMPLOYED										
Capital	1,000.000	1,000.000	1,000.000	1,000.000	1,000.000	1,000.000	1,000.000	1,000.000	1,000.000	**1,000.000**
Reserves	384.900	(174.800)	(16,221.800)	(15,039.418)	(8,588.861)	(2,253.785)	1,984.126	11,673.455	10,065.946	**12,557.400**
Total	1,384.900	825.200	(15,221.800)	(14,039.418)	(7,588.861)	(1,253.785)	2,984.126	12,673.455	11,065.946	**13,557.400**
Capital Expenditure	1,567.400	(2,196.130)	(1,408.973)	(2,306.025)	(4,001.341)	(5,266.000)	(255.000)	(78.000)	(255.000)	**(242.680)**
EMPLOYEES EARNINGS										
Wages	1,164.600	1,271.600	1,538.068	1,620.893	1,496.242	1,461.006	1,201.357	986.434	1,221.585	**1,429.796**
Bonus	115.200	1,140.000	122.590	125.804	112.884	186.671	101.931	84.739	129.689	**149.007**
Annual Average Earrings per Employee (Rs.)	181.403	343.582	227.550	243.510	224.863	759.298	531.530	419.410	461.188	**538.657**
No. of Employees	7,055.000	7,019.000	7,298.000	7,173.000	7,156.000	2,170.000	2,452.000	2,5540.000	2,930.000	**2,931.000**
FINANCIAL RATIO										
Return on Capital Employed %	203.660	9.830	–	–	–	–	130.900	60.840	(15.770)	**21.100**
Return on Turnover %	15.400	(0.810)	–	2.100	14.650	5.670	3.220	4.760	(0.870)	**1.200**
Debtors to Turnover %	0.050	0.040	0.040	0.050	0.030	0.040	0.060	0.080	0.090	**0.130**
Turnover to Fixed Assets times	12.390	8.920	10.690	9.780	7.390	19.070	27.310	35.870	44.450	**53.430**
Finished Stock to Turnover times	0.040	0.050	0.060	0.050	0.050	0.050	0.070	0.060	0.090	**0.090**
Current Ratio times	0.940	0.880	0.460	0.500	0.600	0.700	0.920	1.480	1.330	**1.220**
Liquid Ratio times	0.530	0.430	0.210	0.230	0.240	0.450	0.530	1.000	0.740	**0.640**
Interest Cover times	14.380	0.920	–	1.470	9.910	9.960	6.780	8.810	0.350	**1.280**

Notes

CORPORATE INFORMATION

Name of the Entity
Ceylon Petroleum Corporation

Legal Form
A Public corporation incorporated
under Ceylon Petroleum Corporation
Act No. 28 of 1961

Registered Office
Rotunda Tower,
No. 109, Galle Road, Colombo 3,
Sri Lanka.

Head Office
Rotunda Tower,
No. 109, Galle Road, Colombo 3,
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Telex: 21167, 21235, 21624 CEYPETCO-CE
E-mail: cpcsec@ceypetco.gov.lk

Board of Directors
Mr. Ashantha L.F. De Mel - Chairman
Mr. Methsiri Wijegoonawardane
Mr. Saliya Rajakaruna
Mrs. Kanthi Wijetunge
Mr. David Charitha Gooneratne
Mr. M.U.M. Ali Sabry
Capt. Nihal Keppetipola

Secretary to the Board
Ms. G. De Fonseka

Auditors
The Auditor General
(In term of the provisions of 154 of the Constitution of the
Democratic Socialist Republic of Sri Lanka)

Audit Committee
Mr. Saliya Rajakaruna (Treasury Representative - as Chairman)
Mr. Methsiri Wijegoonawardene - Member
Mr. M.U.M. Ali Sabry - Member

Bankers
People's Bank
Bank of Ceylon
Citibank Ltd. A.I.
Standard Chartered Bank
Deutsche Bank

www.ceypetco.gov.lk

Ceylon Petroleum Corporation

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