# Ceylon Petroleum Corporation


# Annual Report- 2008

**CONTENTS**

## ***OUR VISION***

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

## ***OUR MISSION***

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

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### CHAIRMAN & MANAGING DIRECTOR

Mr. Asantha L.F.De Mel (from 01/01/2008 -28/11/2008)

Major General Asoka Thoradeniya, USP (from 01/12/2008)

### DIRECTORS

Mr. Methsiri Wijegunawardana

Mr. Saliya Rajakaruna

Ms. Kanthi Wijetunge

Mr. David Charitha Goonaratne

Mr. M.U.M. Ali Sabry (from 01/01/2008 to 04/04/2008)

Mr. W.K.B. Weragama (from 05/06/2008)

Mr. Nihal Keppitipola

## AUDITORS

The Auditor General

## REGISTERED OFFICE

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

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

## BANKERS

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

## SENIOR MANAGEMENT

Major General Asoka Thoradeniya, USP
**Chairman/Managing Director**

B.C. Jayawardhana
**Actg. Refinery Manager**

Lalith Karunaratne
**Deputy General Manager (Finance)**

S.K.Cyril
**Deputy General Manager(Administration)**

P.G.H. Samara Wickrama
**Actg. Deputy General Manager (Planning & Development) /**
**Engineering & Premises Manager**

N.R.R. Jayasekara
**Deputy Refinery Manager (Maintenance & Projects)**

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

E.M. Piyasena
**Deputy Refinery Manager (Manufacturing & Operations)**

Ms. R.T.A. Dabare
**Finance Manager**

Ms. G. De Fonseka
**Chief Legal Officer**

A.R. Abel
**Marketing Manager (Business Development)**

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

K.S.W. Kottahachchy
**Commercial Manager**

Ms.H. Senevirathne
**Supplies Manager**

A. Lambiyes
**Manager (Agro Chemical)**

M. K. Garusinghe
**Manager (Development)**

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

W. Sarath Perera
**Manager- Internal Audit**

# DIRECTORS' REPORT

In accordance with Section 32(3) of the Ceylon Petroleum Corporation Act No. 28 of 1961, the Board Directors of the Ceylon Petroleum Corporation has pleasure in presenting their report together with the Audited Financial Statements for the year ended 31st December 2008. The Draft Financial Statements were approved by the Board of Directors at the Board Meeting held on 19th March 2009 and submitted to the Auditor General on 17th March 2010.The Audited Financial Statements were authorized to be issued on 30th September 2009.

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

**Principal Activities**

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

**Associate Company**

An associate company of CPC is **Ceylon Petroleum Storage Terminal Ltd (CPSTL)** which is engaged in provision of storage and distribution facilities and information technology services to CPC.

**Review of Business**

The Chairman's Review on pages 12 to 21 deals with the year's performance of the Corporation and on the Sri Lanka's economy.

**Systems of Internal Controls**

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

## Human Resources

Corporation continued to implement appropriate Human Resource Management policies and practices to enhance employees' skills, provide them with new opportunities including foreign training and ensuring their optimum contribution towards implementing objectives. An Initiative has been taken to revise the present cardre of the organization to improve the efficiency of the management.

## Audit Committee

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

## Financial Performance Review

### Turnover

The turnover for the year had reached Rs. 358.002Bn with a 41.31% increase in comparison to previous year. The total turnover of the Corporation comprises of domestic Sales (96.4%) and Indirect Exports (3.6 %) 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 85% of the Diesel sales in the country.

### Profit/ (loss)

In contrast to the recorded profit before tax of Rs. 3.984.18 Mn in 2007, Corporation has incurred a loss of Rs.14,735.028 Mn inclusive of Rs. 1,321.573Mn. incurred due to derivative financial instrument during the year under review.

The main contributing factor for this loss was the concessions granted to the general public, power plants and airlines, despite the recorded highest oil prices prevailed during the year. Sale of auto diesel for both consumers and power plants itself has recorded a loss of Rs. 14,864.87 Mn, while the loss due to sale of both grades of high Sulphur Furnace oil (1500 sec. and 3500 sec.) to CEB and private power plants was Rs. 2,685.99 Mn. The loss due to sale of kerosene was recorded as Rs. 6,059.458 Mn., which is the second largest concession granted to the general public. Value of the third highest concession granted to airlines on account of JetA1 supplied to them was Rs. 3,120.329 Mn. The other major contributory factor was non-adjustment of domestic retail prices revisions inline with international oil price movements.

The profits earned by the sale of petrol to the general public, furnace oil to the industries and asphalt to the RDA and other road development companies have contributed to restrict the overall loss at Rs. 14,735.028 Mn.

The net profit / (loss) for the year was Rs. (14,952.52)Mn.

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

| | **2008**<br>**Rs. Mn** | **2007**<br>**Rs. Mn.** |
|---|---|---|
| Revenue | 341,670.329 | 238,364.36 |
| Cost of Sales | (339,835.291) | (221,723.53) |
| Gross Profit | 1,835.038 | 16,640.83 |
| Other Operating Income | 1,070.740 | 1,789.24 |
| | **2,905.778** | **18,430.07** |
| Selling &Distribution Exp. | (10,516.235) | (10,052.83) |
| Administrative Exp. | (3,961.366) | (1,288.71) |
| Financial Charges | (3,163.204) | (3,104.36) |
| Profit/(loss) Before Tax | (14,735.028) | 3,984.18 |
| Taxation | (217.490) | (1,121.84) |
| Profit/(loss) after Taxation | **(14,952.518)** | **2,862.33** |

## Contribution to the Government

| | 2008<br>Rs. Mn. | 2007<br>Rs. Mn |
|---|---|---|
| Value Added Taxes | 5,817 | 8,110 |
| Excise Duty | 14,881 | 13,757 |
| Social Responsibility Levy | - | 149 |
| Cess | 3,981 | - |
| Debit Tax | 205 | - |
| Dealers Turnover Tax &Import Turnover Tax | 3,289 | 2,314 |
| PAL | 4,967 | 5,429 |
| Custom Duty | 3,777 | 580 |
| Income Tax | - | 833 |
| Deemed Dividend | - | 381 |
| **TOTAL** | **36,917** | **31,553** |

### Operating Expenses

The total operating expenses increased to Rs. 17,640.81 Mn during the year under review, when compared to the previous year figure of Rs. 14,445.90 Mn in 2007 which is an 22.11% increase.

### Capital Expenditure

The total Capital Expenditure for the year was Rs. 468.128Mn whereas the same for year 2007 recorded as Rs. 245.912 Mn.

### Property, Plant & Equipment

Details of Property, Plant & Equipment of the Corporation and their movements are given in Note 6 to the Financial Statements on page 49.

### Reserves

The total reserves of the Corporation stood at Rs. 5,586.20Mn as at 31December 2008, in comparison to the figure recorded as Rs. 5,541.46Mn in 2007. Movements are given in the Statement of Changes in Equity on page 32.

**Contributed Capital**

The total Contributed Capital of the Corporation as at 31December 2008was Rs. 1,000 Mn.

**Board of Directors**

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

Mr. Asantha L.F. De Mel (from 01/01/2008 to 28/11/2008)
Major General Asoka Thoradeniya, USP – Chairman
Mr. Methsiri D. Wijegoonawardane
Mr. Saliya Rajakaruna
Mrs. Kanthi Wijetunge
Mr. David Charitha Gooneratne
Mr. M.V.M. Ali Sabry (from 01/01/2008 to 04/04/2008)
Capt. Nihal Keppetipola
Mr. W.K.B. Weragama (from 05/06/2008)

**Directors' Interest in Contracts & Related Party Transaction**

Directors' interests in the contracts with the Corporation are referred in Note 22 to the Financial Statements.

**Compliance with Laws and Regulations**

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

**Future Developments**

The foundation ceremony was held on 29th April 2008 with the participation of H.E. the President of Iran, for the expansion and modernization of the CPC Refinery. Efforts will also be taken to carryout this project with the assistance of the Government of Islamic Republic of Iran.

The Corporation is planning to strengthen its presence in the Bunkering and Lubricant markets, while planning to enter in to LPG business.

**Environmental Protection**

CPC is fully committed to minimize environmental pollution, being the market leader of petroleum products in the island and the owner of the only local refinery in the country. Maximum care has been taken by CPC for the environmental safety in handling and usage of petroleum product.

A capital project which enables to reduce Sulphur content in diesel to less than 0.5% was commissioned in 2003 in refinery and the Corporation restricts its diesel sales of more than 0.3% Sulphur from 2004 onwards. However, the Sulphur content of the imported diesel was restricted 0.25% while the availability of Super diesel having Sulphur content of 0.05% had been assured 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 (except for the position of cases relating to two hedging cases noted below) 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.

**Citi Bank NA vs. CPC Arbitration in London**

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

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

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

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

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

**Standard Chartered Bank vs. CPC**

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

CPC made a counter claim on various grounds. The Court concluded that SCB's claim respect of transactions 08 & 09 succeeds and that CPC's counter claim be dismissed. The Court ordered that CPC should pay SCB a sum of US$.166,476,281.77 plus 50% of cost to be paid is(Great Britain Pound) GBP.2,963,546.02.

Hon. Attorney General legally represented CPC for two cases. CPC appealed against the ruling given to Court of Appeal in U.K. and the decision is pending.

**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**

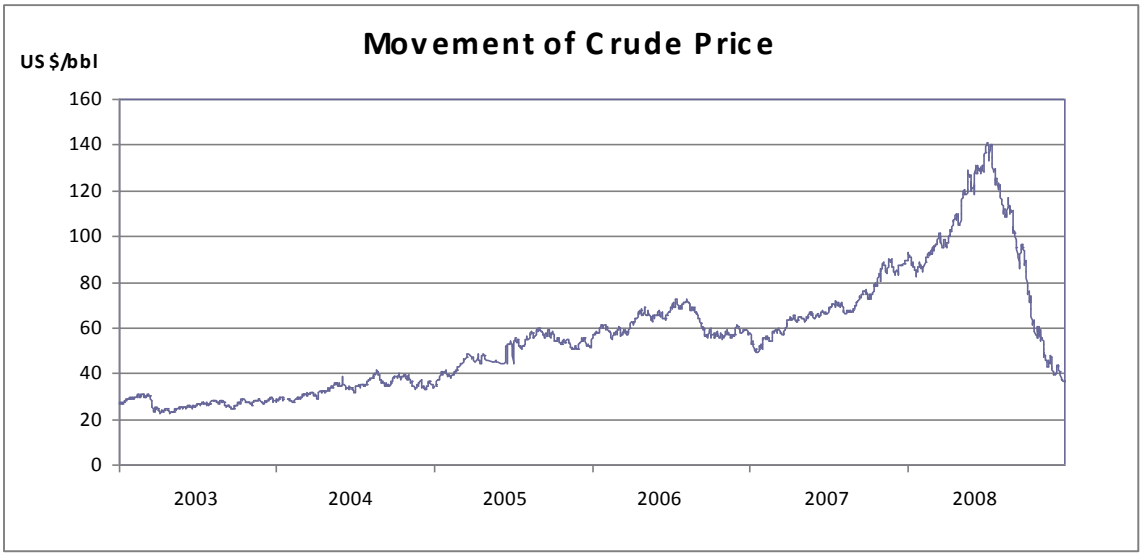
The Auditor General is the Auditor of the Corporation. He has been appointed in terms of the provisions in Article 154 of the Constitution of the Democratic Socialist Republic of Sri Lanka, for and on behalf of the Board of Directors. The responsibilities in relation to the financial statements are set out in the report of the Auditor General on page 62 of this Annual Report.

**Major General Asoka Thoradeniya, USP**
*Chairman/Managing Director*
*19-08-2011*

**Introduction**

Since the world's first commercial oil well which was drilled in Poland in 1853, international Crude Oil prices reached its ever recorded highest level of 141.035 US$/Bbl on the 04th July 2008. This was a 205.8% increase over the annual average Crude Oil price of 68.50 US$/Bbl in 2007. Some of the factors behind this unusual oil price hike were;

1. OPEC announced an output increase lower than expected.
2. Falling of US stocks lower than prediction made by experts.
3. Changes in federal oil prices.
4. Six oil pipelines were attacked by leftist groups in Mexico.
5. Reduction in the strength of the US dollar.
6. Iranian missile tests.
7. Lifting of the executive order removing the ban on offshore drilling.




Source: Platt's Singapore prices

Towards the latter part of the year 2008, Crude Oil prices dropped drastically, recording a monthly average of 40.76 US$/BBL in the month of December 2008.Significant contributing factors for this reduction of oil prices were the drop in demand for oil in the United States and the second wave of the global financial crisis, which originated from the sub-prime mortgage issue in the United States.

During the review period, the domestic selling prices of all petroleum prices were revised up and down on several occasions, reflecting the international price variations, while passing the maximum benefit to the customers. This situation has created a good public image about the organization with transparency. Despite very high oil bills paid for Crude Oil and Refined products purchases during 2008, the Government continued to sell Kerosene and Auto diesel at subsidized prices to general public, Auto Diesel and Furnace Oil for Power Generation. Provisions of subsidized prices for power generation had contributed significantly to stabilize the national economy as a whole. During the review period, fuel subsidies on JetA1 were also provided to the National carrier on the request of the Government. Total losses incurred due to subsidy granted on the account of Auto diesel for transport sector was Rs.7, 991.546Mn. and the same for power generation was Rs. 6,873.326 Mn. The amount of losses incurred due to Kerosene subsidy wasRs.6, 059.458Mn., whereas the Furnace Oil subsidy for power generation was Rs. 2,685.999 Mn. The losses made on the account of the local Airlines was Rs.3,120.329Mn.

Accordingly the total losses incurred on the account of Auto diesel and Furnace oil for power generation were Rs. 9,559.325 Mn. which are presented the highest amount granted for one sector. Subsidized prices maintained for power generation had contributed significantly to stabilize the National economy as a whole.

As reported by the Central Bank of Sri Lanka the Sri Lankan Economy demonstrated its resilience by recording a real growth of 6 percent in 2008, despite the unprecedented and unfavorable developments existed globally and domestically.

**Financial Performance**

The Corporation recorded a loss of Rs. 14.9 Bn in the financial year 2008. Selling of Kerosene to general public, Auto Diesel and Furnace Oil for power generation, and JetA1 for Airlines at subsidized prices was the main reason for the loss.

The Refinery has recorded an impressive Profit Margin of around US$. 70 Million up to August 2008. However with the reduction of the international prices of crude oil and finished products towards the latter part of the year 2008, the cumulative Refinery Profit Margin for the year 2008 was approximately Rs. 3.1 billion negative.

Same as in the year 2007, the mounting trade debt of the CEB and other Government agencies is a continuing critical issue to CPC; these debts totaled Rs.46.436Bn as at 31st December 2008. An attention of the treasury was drawn for the recovery of the debts from these institutions, as the increasing Government trade debt has created an undue pressure to CPC's working capital.

A positive factor throughout the year was the stability in the Rupee value, which had been slightly depreciated after mid December 2008.

In total, the Corporation made a massive contribution of Rs.36.917Bn to Government revenue during the year under review. During the period of review, CPC maintained the strategic stock levels required to meet the domestic demand through effective storage operations coupled with efficient planning of imports.

**Serving the Nation**

Arising from our vision, CPC continuously committed to contribute to enhance the living standards of people in our country. During the year, all possible efforts were taken to adjust the domestic prices reflecting the fluctuations in the international market, passing the benefits to the people. Despite the fact that the oil prices reached to its highest levels ever recorded in the history during the first three quarters of the year, the domestic prices were maintained as low as possible.

In addition to protecting the nation from the greatest oil price surge in history, the Corporation also continued to provide fuel at subsidized rates as decided by the government to the Ceylon Electricity Board, thus helping to maintain steady energy prices for Sri Lankan consumers, despite the CEB's poor payment patterns. As a Government-owned enterprise, CPC successfully undertook to provide an uninterrupted fuel supplies to Sri Lanka Railways and the armed forces, helping these organizations discharge their responsibilities to the nation. Under the circumstance of the involvement of the armed forces in the humanitarian operations, contribution by CPC for their logistics was commendable. In addition, the Corporation continued to supply fuel island-wide, even to the '**uncleared'** areas in North and East.

It is also important to note that CPC is the only organization providing energy for the poor in the form of kerosene at a subsidized price, from which the revenue loss to CPC in 2008 was Rs. 6.059 Bn.

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

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

**Strategic Priorities**

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

In association with Ceylon Petroleum Storage Terminals Limited (CPSTL), CPC has embarked on an "Enterprise Resource Planning (ERP)" project, with the intention of providing timely and accurate information to the management. The new ERP system planned to be launched in early 2010.

Our current refinery expansion projects the most critical element in CPC's future sustainability. We are proud to announce that the Government of Iran has come forward to help financing 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 (MOU) and to lay the foundation stone for the project. However due to ongoing economic sanctions on Iran, CPC has to seek an alternative mechanism for financing this project.

**New Markets**

CPC has entered into bunkering and lubricant business and begun commercial operations of both during the 4th quarter of the year 2008. These businesses will be developed to provide value and generate sufficient margins capable of cross-subsidizing the mainstream customers. Introduction of more farmer friendly pricing scheme and opening a number of CPC owned outlets covering the entire geographical areas will be continued to expand our agrochemical business.

**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- Colombo 09 at a cost of Rs. 2.Bn. The project is planned for completion in 2011.

**Corporate Governance**

In our efforts to enhance corporate governance, CPC has recruited professionally qualified manager to internal audit function to handle the affairs of internal audit. Staff of the internal audit is currently working to develop stronger internal controls and help to 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 guaranteed uninterrupted fuel supplies to Government institutions at any cost.

CPC has contributed a massive amount of Rs.36.917 billion to the Government coffers by duties and taxes during the year 2008.

**Production**

Refinery completed 39 years of operation on 6$^{th}$August 2008 and processed 1,776,787 metric tons (t) of crude oil equivalent to 5110 TPCD and 5847 TPSD, against a budgeted 2,015,000 metric tons of crude oil intake. Total operating time efficiency was 88.17%. The Refinery throughput was brought down to 4,000 MT during the latter part of the year to minimize the negative profit margin, and to maintain an uninterrupted product supply.

**Import of Crude Oil and Refined Products**

The Corporation has imported 1.85 Mn metric tons of Crude Oil at a C&F cost of USD 1.33Bn.The average Crude Oil (C&F) cost is USD 97.65 per bbl. compared to USD 71.97per bbl. during the previous year. The freight charges for importing Crude Oil average to USD 13.77per metric ton, when compared to 6.36 per MT in the previous year.

Refined Bulk Products Imports were metric tons of 1.588 Mn and C & F value was USD 1.449 Bn.

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

With the restructuring of CPC, the storage and operations of Kolonnawa, Muthurajawela and 12 regional bulk depots located island wide, Data Processing and Distribution activities were segregated and brought under the Ceylon Petroleum Storage Terminal Limited (CPSTL.)

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

Operational facilities at Muthurajawela Tank Farm have been developed to unload large tankers which help to build up stocks when oil prices are low. Muthurajawela Terminal has been able to save Rs. 30 million (approximately) per shipment by way of reduced freight and avoiding pipeline and jetty charges.

An initiative has been taken to install a separate offshore pipeline with a dual path Buoy, to supply fuel to the 300 MW Westcoast Power Plant in Kerawalapitiya. In order to improve operational efficiency, CPSTL will venture into a pipeline project which links Kolonnawa and Muthurajawela storage tanks in future.

**Revenue**

The Corporation was responsible for over 74% of Petrol, 85% of Diesel and 100 % of Kerosene sales in the country. Revenue for the year had reached Rs. 341.67Bn, when compared to the previous year revenue of Rs. 238.364Bn. An Increase in domestic prices was the main reason to increase the revenue by Rs. 103.306 Bn.

There wasn't a noticeable demand increase or decrease in all kinds of petroleum products except for Auto Diesel and Kerosene. Auto diesel demand dropped to 1,620.849Mn.liters and Kerosene demand dropped to 192.596 Mn. Liters, when

compared to the figures 1,713.54 Mn. liters and of 214.451 Mn.liters respectively recorded during the previous year.

During the year 2008, 414 Mn. liters of Diesel, 794Mn.liters of Furnace Oil and 206Mn.liters of Naphtha had been sold to CEB and to Private Power Producers, to generate electricity.

**Agrochemicals**

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

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

**Human Resource Development and Welfare**

The employee strength by the end of year 2008 was 2682 in the permanent cadre and 150 in the casual cadre.

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

A gratuity equivalent to ½ month pay for every year of service is paid under the Gratuity Act and additional retirement and death benefits are paid out of Thrift Society funds. A Death Gratuity is also paid for death of an employee CPC has also established a Sports Club with a view to encourage sports activities. CPC maintains four Holiday Homes in

outstation, exclusively for the usage of employees and their families. There are several loan facilities granted at concessionary interest rates to fulfill many necessities of employees.

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

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

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

Employees' children who are selected for government University education are awarded scholarships as a welfare activity by the Corporation. During the year under review 15 such scholarships were granted to pursue higher studies in the field of medicine, engineering, bio-science, physical science, management studies and art.

**Environment Safety**

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

**Looking Ahead to 2008**

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

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

**Acknowledgement**

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

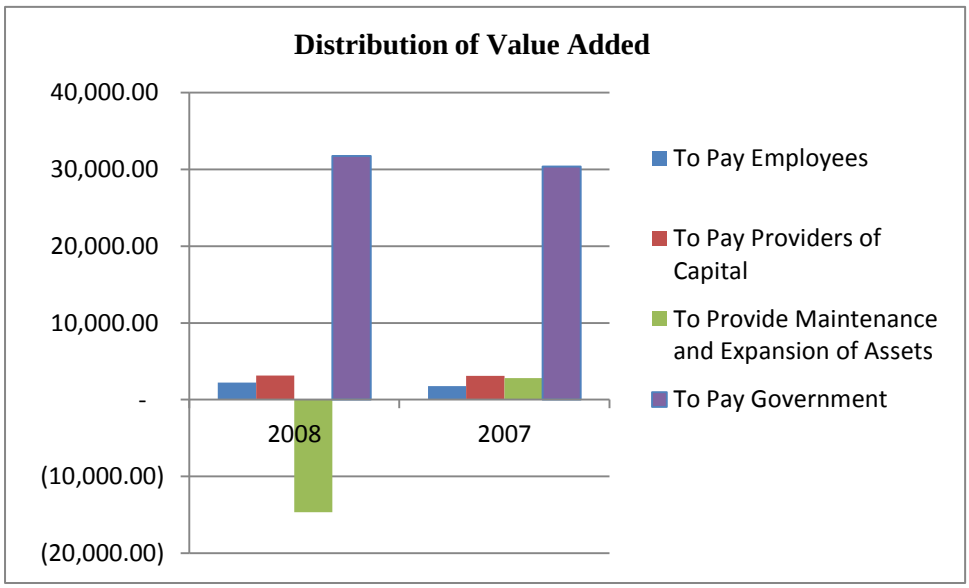
I take this opportunity to convey my gratitude to the Board of Directors for an excellent job done, and for their valuable support extended to me throughout the year. I also thank our corporate and executive management, staff, customers and all stakeholders for their dedication, loyalty and support in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

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

Major General Asoka Thoradeniya, USP
**Chairman & Managing Director**
**CYELON PETROLEUM CORPORATION**
19th August, 2011

## STATEMENT OF VALUE ADDED

| Rupees Million | 2008 | 2007 |
|---|---|---|
| Turnover | 358,002.00 | 253,344.00 |
| Bought in materials & services | (335,551.00) | (215,331.00) |
| **Value Added** | **22,451.00** | **38,013.00** |
| **Applied the following way** | | |
| Employees Wages & fringe benefits | 2,237.00 | 1,765.00 |
| **To pay providers of capital** | | |
| Interest on loans | 3,163.00 | 3,104.00 |
| **To provide maintenance and expansion of assets** | | |
| Depreciation | 366.00 | 324.00 |
| Retained Profit | (15,029.00) | 2,481.00 |
| To pay Government | | |
| Taxes, Duties, Stamp duty and Contribution to the general Treasury | 31,714.00 | 30,339.00 |
| **Value Added** | **22,451.00** | **38,013.00** |



## HIGHLIGHTS

| FINANCIAL | UNIT | 2008 | 2007 |
|---|---|---|---|
| Gross Revenue | Rs. Mill. | 341,670.329 | 238,364.361 |
| Gross Profit | Rs. Mill. | 3,156.610 | 16,640.826 |
| Operational Profit/(Loss) | Rs. Mill. | 3,393.613 | 18,430.070 |
| Finance Charges | Rs. Mill. | 5,307.769 | 3,104.359 |
| Profit before Taxation | Rs. Mill. | ( 14,735.028) | 3,984.181 |
| Net profit after Taxation | Rs. Mill. | (14,952.518) | 2,862.337 |
| Capital and Reserves | Rs. Mill. | (1,416.432) | 13,567.810 |
| Long Term Borrowings | Rs. Mill. | 10,908.413 | 13,728.234 |
| Capital Expenditure | Rs. Mill. | 468.128 | 245.912 |
| **IMPORTS** | | | |
| Crude Oil Imports | Metric Tons | 1,846,453 | 1,938,656 |
| Refined Bulk Product | Metric Tons | 1,625,720 | 1,631,381 |
| C&F Value | Rs. Million | 144,505.386 | 114,319.991 |
| **OPERATIONS** | | | |
| Sales | Metric Tons | 3,459.619 | 3,478,861 |
| Refinery Throughput | Metric Tons | 1,870,237 | 1,795,672 |
| **MARKETING** | | | |
| CPC Owned Outlets | Nos. | 253 | 253 |
| Dealer Owned Outlets | Nos. | 686 | 679 |
| Dealer Controlled Outlets | Nos. | 48 | 48 |
| **EMPLOYEES** | | | |
| No. of employees at the year end | Nos. | 2,832 | 2,931 |
| Total emoluments for the year | Rs. Million | 1,880.570 | 1,578.803 |
| Value added per employee | Rs. | 664,043 | 538,657 |

## 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 believes in and is committed to the practice of strong corporate governance, revising governance practices to maintain the highest standards in the operation of the Corporation. The Board believes that strong corporate governance helps to discharge its responsibilities relating to transparency, disclosure and accountability. Moreover, they are of the view that strengthening corporate governance is 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 subsequent amendments. One such Director is a representative of the General 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 Facilities.

**Board Meetings**

Regular Board Meetings are held on a monthly basis, 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.

**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 Act of the Corporation, 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 is governed by the specific terms of reference as set out in the Audit Committee Charter which is reviewed on an annual basis. Review of annual financial statements, internal control systems, oversee the financial statements to ensure that the Management responses to the recommendations made by the external auditors are properly implemented and review of organizational internal control systems and risk management were the major activities performed during the year. During the year Audit Committee consisted of three non executive directors of whom Mr. Saliya Rajakaruna who represented the General Treasury functioned as the Chairman of the

Audit Committee. The Manager Internal Audit acts as the Secretary to the Audit Committee while external auditors and Government Audit Superintendent take part in as the observers to the Committee. All recommendations made by the Committee are submitted for approval of the Board of Directors for the successful implementation.

**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 Act of the Corporation.

**Internal Controls**

The Board of Directors is responsible for maintaining a sound system of internal controls and reviewing its effectiveness and efficiency. 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 making regular recommendations for 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 fulfill the objectives sated in the Audit Plan. Financial and operational risks based audits, reviews and compliance & control procedures as well as assessments of the effectiveness of all mechanisms established to improve efficiency of the Corporation, are all carried out 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 audit designs 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 indentifying 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 unit was established during the year 2007 with a view to establishing comprehensive controls to minimize stock losses and the various risks

associated with petroleum products, with the aim of designing and implementing workable strategies to minimize stock losses.

The Internal Audit Department undertook several audit assignments during the financial year 2008 covering the aforementioned areas. In addition, the Internal Audit Department coordinated 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.

Income Statement

Balance Sheet

Statement of Changes in Equity

Cash Flow Statements

Significant Accounting Policies

Notes to the Accounts

**INCOME STATEMENTS**
Year ended 31 December 2008

| | Note | 2008 Rs. Mn | 2007 Rs. Mn |
|---|---|---|---|
| **Revenue** | **1** | 341,670.329 | 238,364.361 |
| Cost of Sales | | (338,513.719) | (221,830.205) |
| **Gross Profit** | | **3,156.610** | **16,534.156** |
| Other Operating Income | **2** | 236.493 | 758.075 |
| Gain /(Loss) on Derivative Financial Instruments | | (1,321.572) | 106.669 |
| Selling & Distribution Expenses | | (10,516.235) | (10,052.825) |
| Administrative Expenses | | (3,961.367) | (1,288.705) |
| Finance Charges | **3.1** | (3,163.204) | (3,104.359) |
| Finance Income | **3.2** | 834.247 | 1,031.170 |
| **Profit /(Loss) Before Tax** | **4** | (14,735.028) | 3,984.181 |
| Income Tax Expense | **5** | (217.490) | (1,121.844) |
| **Profit /(Loss) for the year** | | **(14,952.518)** | **2,862.337** |

# BALANCE SHEET

| BALANCE SHEET<br>As at December 2008 | Note | 2008<br>Rs. Mn | 2007<br>Rs. Mn |
|---|---|---|---|
| **ASSETS** | | | |
| **Non - Current Assets** | | | |
| Property, Plant & Equipments | **6** | 4,624.068 | 4,374.649 |
| Investment in Associated Companies | **7.1** | 2,500.000 | 2,500.000 |
| Other Investments | **7.2** | 41.876 | 46.876 |
| Trade and Other Receivables - More than one year | **8** | 4,788.333 | 5,087.803 |
| Deferred Tax Asset | **5** | 689.623 | 689.623 |
| | | **12,643.900** | **12,698.951** |
| **Current Assets** | | | |
| Inventories | **9** | 31,537.495 | 40,193.145 |
| Trade & Other Receivables – Due within one year | **8** | 66,962.369 | 34,236.898 |
| Income Tax Recoverable | | 243.672 | - |
| Cash and Cash Equivalents | **10** | 9,244.432 | 10,744.471 |
| | | **107,987.968** | **85,174.514** |
| **Total Assets** | | **120,631.868** | **97,873.465** |
| **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** | 567.814 | 523.079 |
| Retained Earnings | | (8,002.628) | 7,026.349 |
| **Total Equity** | | **(1,416.432)** | **13,567.810** |
| **Non - Current Liabilities** | | | |
| Retirement Benefits Liability | **15** | 566.542 | 541.367 |
| Interest Bearing Loans & Borrowings | **16** | 10,908.413 | 13,728.234 |
| | | 11,474.955 | 14,269.601 |
| **Current Liabilities** | | | |
| Trade and Other Payables | **17** | 63,802.285 | 23,855.490 |
| Income Tax Liabilities | | - | 594.686 |
| Current Portion of Interest Bearing Loans & Borrowings | **18** | 46,697.413 | 45,204.414 |
| Provision for Deemed Dividend | | 73.647 | 381.464 |
| | | **110,573.345** | **70,036.054** |
| **Total Equity and Liabilities** | | **120,631.868** | **97,873.465** |

Major General Asoka Thoradeniya, USP
**Chairman/Managing Director**

R.T.A.Dabare
**Finance Manager**

R S Suntharalingam
**Addl.Finance Manager**

2nd March 2009

# STATEMENTS OF CHANGES IN EQUITY

**STATEMENTS OF CHANGES IN EQUITY**

**Year ended 31 December 2008**

| | Contributed Capital | Capital Reserve | Revaluation Reserve | Insurance Reserve | Retained Earnings |
|---|---|---|---|---|---|
| | Rs. Mn | Rs. Mn | Rs. Mn | Rs. Mn | Rs. Mn |
| **Balance as at 1st January 2006 as previously stated** | **1,000.000** | **4,992.686** | **25.696** | **482.210** | **6,172.863** |
| **Correction of Prior Period Errors Prior to 01.01.2006** | | | | | |
| (a) Reversal of Over provision made to Thrift Society in 2004 | | | | | 100.00 |
| (b ) Provisioning for non recoverable ACT | | | | | (376.00) |
| (c) Recognition of Deferred Taxation | | | | | (109.38) |
| **Balance as at 1st January 2006 (restated)** | **1,000.000** | **4,992.686** | **25,696.000** | **482.210** | **5,787.483** |
| **Accounting Period 2006** | | | | | |
| (d) Correction of the excess Finance Cost to accounting period 2006 | | | | | (82.42) |
| (f) Correction of non provisioning for arrears in | | | | | (158.80) |
| Turnover Tax related to the accounting period 30.09.2003 to.30.09.2005 | | | | | |
| Deemed Dividend | | | | | (54.57) |
| Surplus during the year | | | | 19.88 | |
| Net Loss for the Period | | | | | (946.22) |
| **Balance as at 1st January 2006 (restated)** | **1,000.000** | **4,992.686** | **25.696** | **502.088** | **4,545.476** |
| **Accounting Period 2007** | | | | | |
| Surplus during the year | | | | 20.99 | |
| Net Profit for the period | | | | | 2862.34 |
| Deemed Dividend | | | | | (381.46) |
| **Balance as at 1st January 2007** | **1,000.000** | **4,992.686** | **25.696** | **523.079** | **7,026.349** |
| Surplus during the year | | | | 44.74 | |
| Net Loss for the period | | | | | (14952.52) |
| Deemed Dividend | | | | | (76.46) |
| **Balance as at 31st December 2008** | **1,000.000** | **4,992.686** | **25.696** | **567.814** | **(8,002.628)** |

Note : 1. Deemed Dividend-Provision is made as per Sce53(1)(d) of Inland Revenue Act No: 38 of 2000.

# CASHFLOW STATEMENTS

**CEYLON PETROLEUM CORPORATION**

**CASH FLOW STATEMENTS**

**Year ended 31 December 2008**

| | 2008 Rs.Mn | 2007 Rs.Mn |
|---|---|---|
| **Cash Flows From/(Used in ) Operating Activities** | | |
| Profit/(Loss) before tax from continuing operations | (14,735.028) | 3,984.181 |
| **Adjustment for :** | | |
| Depreciation | 366.722 | 323.622 |
| Foreign Currency Translation | (1,013.785) | (198.335) |
| Investment Income | (0.111) | (437.500) |
| Interest Received | (654.726) | (954.070) |
| Provision for Insurance Reserve | 44.735 | 20.991 |
| Provision for Stores Non Moving Items | (18.181) | 27.408 |
| Provision for Bad & Doubtful Debts & Recoveries | (16.152) | (4.309) |
| Interest Expenses | 3,163.204 | 3,104.359 |
| Adjustment for Valuation of Shares | 5.000 | 6.250 |
| Provision for Retirement Obligation | 47.226 | 48.999 |
| Profit/(Loss) on Sale of Property, Plant & Equipment | (1.908) | (9.216) |
| **Operating Profit/(Loss) before Working Capital changes** | **(12,813.004)** | **5,912.381** |
| Changes in Working Capital | | |
| (Increase)/ Decrease in Inventories | 8,673.831 | (13,321.526) |
| (Increase)/ Decrease in Trade and Other Receivable | (32,409.849) | (13,098.772) |
| Increase/ (Decrease) In Trade and Other Payables | 39,946.795 | 23,813.340 |
| **Cash Generated from/ (Used in) operating activities** | **3,397.773** | **3,305.423** |
| Interest Paid | (3,163.204) | (3,104.359) |
| Retiring Gratuity Paid | (22.051) | (21.981) |
| IT/WHT paid | (1,440.124) | (142.140) |
| **Net Cash Generated from Operating activities** | **(1,227.606)** | **36.943** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Acquisition of Property, Plant & Equipment | (630.180) | (249.305) |
| Proceeds from Sale of Property, Plant & Equipment | 15.948 | 23.723 |
| Income from Investment | 0.111 | 437.500 |
| Interest Received | 654.726 | 954.070 |
| **Net Cash Used in Investing Activities** | **40.605** | **1,165.988** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Repayment of Long Term Loans | (1,001.410) | (3,326.039) |
| **Net Cash From/(Used in) Financing Activities** | **(1,001.410)** | **(3,326.039)** |

The accounting policies on pages 34-44 and Notes on pages 45-58 are integral part of the Financial Statements.

# SIGNIFICANT ACCOUNTING POLICIES

## 1. CORPROATE 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, Galled Road, Colombo 03.

### 1.2 Principal Activities and Nature of Operations

The principle activities of the Corporation are importing & refining of crude oil, importing of refined petroleum products and selling & distribution of Petroleum Products in Sri Lanka.

### 1.3 Parent Entity and Ultimate Parent Entity

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

### 1.4 Date of Authorization for issues.

The Financial Statements of Ceylon Petroleum Corporation for the year ended 31 December 2008 was authorized for issue in accordance with a resolution of the Board of Directors on 24 February 2009.

## 2. BASIS OF PREPARATION

The Financial Statements are prepared under the historical cost basis (except revaluation) in accordance with general 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 and subsequent amendments.

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

### 2.1 Statement of Compliance

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

#### 2.1.1 Going Concern

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

#### 2.1.2 Comparative Information

The accounting policies have been consistently applied by the Corporation consistent with these used in the previous year. The changes made to comparative figures are discussed more fully in note 21.

### 2.2 Summary of Significant Accounting Judgments, Estimates and Assumptions.

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

**Deferred Tax Assets**

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

## 2.3 Summary of Significant Accounting Policies

### 2.3.1 Foreign Currency Transactions

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

### 2.3.2 Taxation

**(a)Current Tax**

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheets date.

The provision for income tax is based on the elements of income and expenditure as reported in the Financial Statements and computed in accordance with the provisions of the relevant tax legislations.

**(b)Deferred Taxation**

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

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

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

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

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

**(c)Sales Tax**

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

**2.3.3 Borrowing Costs**

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

**2.3.4 Inventories**

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

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

| Raw Materials | At purchase cost on first-in first-out basis |
|---|---|
| Finished goods<br><br>(a) Refined Products<br><br><br><br>(b) Imports | <br><br>At the cost of direct materials, direct labour and an appropriate proportion of manufacturing overheads based on normal operation capacity, but excluding borrowing costs.<br>At purchase cost on first-in-out basis. |
| Work in progress<br><br>(a) Refined products<br><br><br><br>(b) Imports | <br><br>At the cost of direct materials, direct labour and an appropriate proportion of manufacturing overheads based on normal operating capacity, but excluding borrowing Costs.<br>At purchase cost on first-In-First-out basis |
| Other Finished Goods | At purchase cost on weighted average basis. |
| Consumables and Spares | At purchase cost on weighted average basis. |
| Good in Transit | At Purchase |

(By Location)

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

### 2.3.5 Trade and other Receivables

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

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

### 2.3.6 Cash and Cash Equivalents

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

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

### 2.3.7 Property, Plant and Equipment

Plant and equipment is stated at cost, excluding the cost of day to day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of the plant and equipment when that cost is incurred, if the recognition criteria are met.

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

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

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

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

### 2.3.8 Investments

(a) **Initial Recognition**:

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

**(b) Measurement**

**i. Current Investment**

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

**ii. Long Term Investments**

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

**iii. Investments in Associate Companies**

Investments in Associate Companies are stated at cost.

**iv. Disposal of Investment**

On disposal of an investment, the difference between net disposals and proceeds and the carrying amount is recognized or expense.

### 2.3.9 Provisions

Provisions are recognized when the Corporation has a present obligation (legal or constructive) as a result of a past event, where it is probable that

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

### 2.3.10 Retirement Benefit Obligations

#### (a) Defined Benefit Plan – Gratuity

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

The gratuity liability is not funded nor actuarially valued.

**Defined Contribution Plans – Employees' Provident Fund & Employees' Trust Fund.**

Employees are eligible for Employees' Provident Fund Contributions and Employees' Trust Fund Contributions in line with the respective statutes and regulations. The Corporation contributes 15% and 3% of

gross emoluments of employees to Employees' Provident Fund and Employees Trust Fund respectively.

### 2.3.11 Capital Reserve

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

### 2.3.12 Insurance Reserve

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

### 2.3.13 Revenue Recognition

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

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

(a)**Sale of Goods**

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

(b)**Interest**

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

(c)**Dividends**

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

(d) **Hedging Proceeds**

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

(e) **Rental Income**

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

(f) **Others**

Other income is recognized on an accrual basis.

### 2.3.14 Segment Information

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

**CEYLON PETROLEUM CORPORATION**

**NOTES TO THE FINANCIAL STATEMENTS**

Year ended 31 December 2008

**1. REVENUE**

| | 2008 | | 2007 | |
|---|---|---|---|---|
| **DOMESTIC SALES** | **QTY. M.Ltrs** | **Value Rs. Mn** | **QTY. M.Ltrs** | **Value Rs. Mn** |
| 90 Octane Petrol | 477.548 | 62,778.103 | 474.673 | 43,967.826 |
| 95 Octane Petrol | 26.618 | 3,655.623 | 27.380 | 2,611.795 |
| Auto Diesel | 1,620.849 | 151,070.451 | 1,713.540 | 113,737.174 |
| Super Diesel | 8.495 | 885.249 | 6.410 | 467.764 |
| Kerosene | 192.596 | 14,000.051 | 214.451 | 12,459.330 |
| Furnace Oil | 1,048.919 | 66,220.151 | 1,039.112 | 43,941.105 |
| Naphtha | 206.406 | 15,255.831 | 141.382 | 5,675.573 |
| Avn. Gasoline | 0.231 | 62.761 | 0.217 | 51.021 |
| Avn. Turbine Fuel | 239.296 | 21,755.668 | 251.549 | 16,253.594 |
| Others | 105.886 | 9,412.025 | 93.924 | 5,914.513 |
| Total Domestic sales | 3,926.844 | 345,095.913 | 3,962.638 | 245,079.695 |
| **EXPORTS** | | | | |
| **a) Indirect Exports** | | | | |
| Avn.Turbine Fuel | 122.656 | 11,262.986 | 129.523 | 8,264.684 |
| Bunkering | 25.097 | 1,643.217 | - | - |
| | 147.753 | 12,906.203 | 129.523 | 8,264.684 |
| Total Sales | | 358,002.116 | | 253,344.379 |
| Less : T.T, Ex Duty | | (16,331.787) | | (14,980.018) |
| | | **341,670.329** | | **238,364.361** |

** VAT amounting to RS : 4,533.072 Mn (2007-Rs:5,857.983 Mn)included in the sales has been removed to show the actual sales of Ceylon Petroleum Corporation and comparative figures have been adjusted accordingly.

**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.

| | 2008 | | | 2007 | | |
|---|---|---|---|---|---|---|
| **Class of the Customers** | **Sales Value Rs. Mn** | **Cost of sales Rs. Mn** | **Gross Profit Rs. Mn** | **Sales Value Rs. Mn** | **Cost of sales Rs. Mn** | **Gross Profit Rs. Mn** |
| a) Transport | 180,710.894 | (169,338.45) | 11,372.449 | 112,949.719 | (102,287.581) | 10,662.138 |
| | 180,710.894 | (169,338.445) | 11,372.449 | 112,949.719 | (102,287.581) | 10,662.138 |
| b) Power Generation | 97,501.49 | (97,133.65) | 367.838 | 65,236.585 | (64,482.642) | 753.943 |
| | 97,501.49 | (97,133.65) | 367.838 | 65,236.585 | (64,482.642) | 753.943 |
| c) Aviation | 31,629.713 | (34,948.506) | (3,318.793) | 24,569.477 | (22,787.521) | 1,781.956 |
| | 31,629.713 | (34,948.506) | (3,318.793) | 24,569.477 | (22,787.521) | 1,781.956 |
| d) Others | 31,828.231 | (37,093.115) | (5,264.884) | 35,608.580 | (32,272.461) | 3,336.119 |
| | 31,828.231 | (37,093.115) | (5,264.884) | 35,608.580 | (32,272.46) | 3,336.119 |
| **Gross profit as per Income Statement** | **341,670.329** | **(338,513.719)** | **3,156.610** | **238,364.361** | **(221,830.205)** | **16,534.156** |

**CEYLON PETROLEUM CORPORATION**
**NOTES TO THE FINANCIAL STATEMENTS**
Year ended 31 December 2008

## 2. OTHER OPERATING INCOME

| | 2008 Rs. Mn | 2007 Rs. Mn |
|---|---|---|
| Dividend Income | 0.111 | 437.500 |
| Fines Recovered from Contractors | 7.858 | 169.157 |
| Sundry Income | 184.812 | 95.284 |
| Rent Income | 12.583 | 11.731 |
| Commission On Lubricants Sales | 31.129 | 44.403 |
| | **236.493** | **758.075** |

## 3. FINANCE COST AND INCOME

| | 2008 Rs. Mn | 2007 Rs. Mn |
|---|---|---|
| **3.1 FINANCE COST** | | |
| Interest on Long Term Loans | 135.588 | 2,954.092 |
| Interest on Bank Overdrafts | - | - |
| Interest on Foreign Bills Payables & Other Bank Loans | 3,027.616 | 150.267 |
| | **3,163.204** | **3,104.359** |
| **3.2 FINANCE INCOME** | | |
| Treasury Bill Interest Income | 484.615 | 785.728 |
| Interest on R.F.C. A/C | 170.111 | 168.342 |
| Interest on Credit invoice | 179.521 | 77.100 |
| | **834.247** | **1,031.170** |

## 4. PROFIT / (LOSS) FOR THE YEAR

| | 2008 Rs. Mn | 2007 Rs. Mn |
|---|---|---|
| stated after charging /(Crediting) | | |
| **Included in Cost of Sales** | | |
| Written Down of Inventories to Net Realizable Value | 6,553.910 | 797.684 |
| Depreciation –Refinery | 153.261 | 159.428 |
| Exchange Rate Differences - Gain / (Loss) | 2,661.474 | (189.663) |
| **Included in Administrative Expenses** | | |
| Employees Benefits including following | | |
| - Defined Benefit Plans Costs –Gratuity | 47.226 | 48.999 |
| - Defined Contribution Plans Costs-EPF &ETF | 192.719 | 185.882 |
| Change in the value of Long Term Investments | 5.000 | 6.250 |
| Exchange Differences-(Gain)/Loss | 1,004.824 | (743.215) |
| Profit on Disposal of Property, Plants and Equipment | 1.908 | 9.216 |
| Reversal of Provisions | 11.196 | - |
| Auditors Remuneration | 2.368 | 1.500 |
| Depreciation -Head Office | 213.495 | 164.185 |
| Donation to Sri Lanka Sumithrayo | 0.621 | 0.551 |

**CEYLON PETROLEUM CORPORATION**

**NOTES TO THE FINANCIAL STATEMENTS**

Year ended 31 December 2008

**5. INCOME TAX**

| | 2008 Rs.Mn | 2007 Rs.Mn |
|---|---|---|
| Current Tax Expense on Ordinary Activities for the Year (5.1) | 158.625 | 821.616 |
| Social Responsibility Levy | 3.484 | 11.170 |
| Under /(Over) Provision of Current Taxes in respect of Prior Years | 55.381 | - |
| | 217.490 | 832.786 |
| **Deferred Income Tax** | | |
| Deferred Taxation Charge/(Reversal) | - | 289.058 |
| Income Tax Expense reported in the Income Statement | 217.490 | 1,121.844 |
| **5.1 Reconciliation between Current Tax Expense and the product of Accounting Profit.** | | |
| Accounting Profit /(Loss) before Tax | (14,735.028) | 3,973.611 |
| Aggregate Disallowed Items | 499.557 | 434.404 |
| Aggregate Allowable Expenses | (1,111.513) | (1,702.506) |
| Adjustment of Income / (Loss) not subject to Tax | 15,372.044 | - |
| | - | 2,705.509 |
| Other Source of Income - Interest Income | 664.137 | 905.989 |
| Less : Utilization of brought forward tax losses | (232.442) | (1,264.024) |
| Taxable Profits | 431.695 | 2,347.474 |
| **Tax on Profit from Operations** | | |
| Operating Income | - | 504.520 |
| Other Source of Income - Interest Income | 151.093 | 317.096 |
| Income Tax Expenses | 151.093 | 821.616 |
| Income Tax Expsenses (provisional) | 158.625 | - |
| Tax Rate Applicable for Operating Income | 35% | 35% |
| Social Responsibility Levy | 1.5% | 1% |
| Deemed Dividend Tax | 25% | 25% |
| Income Tax | 214.006 | 821.616 |
| Social Responsibility Levy | 3.484 | 11.170 |
| | 217.490 | 832.786 |
| Deemed Dividend Tax | 2.812 | - |
| Under /(Over) Provision of current taxes in respect of prior years | 73.647 | 381.464 |
| | 76.459 | 381.464 |
| **5.2 Deferred Tax (Assets), liabilities and Income Tax relates to the followings** | | |
| At the Beginning of the year | (689.623) | (978.681) |
| Transferred from /(to) Income Statement | - | 289.058 |
| At the End of the year | (689.623) | (689.623) |
| | **Balance Sheet** | |
| | **2008 Rs.Mn** | **2007 Rs.Mn** |
| **Deferred Tax Liability** | | |
| Capital Allowance for Tax purpose | 989.460 | 989.460 |
| | 989.460 | 989.460 |
| **Deferred Tax Assets** | | |
| Define Benefit Plans | (189.478) | (189.478) |
| Unutilized Tax Losses | (965.182) | (965.182) |
| Other Provisions | (524.424) | (524.424) |
| | (1,679.084) | (1,679.084) |
| **Net Deferred Tax (Asset)/Liability** | **(689.623)** | **(689.623)** |

**CEYLON PETROLEUM CORPORATION**

**NOTES TO THE FINANCIAL STATEMENTS**

Year ended 31 December 2008

## 6. PROPERTY, PLANT & EQUIPMENT

### 6.1 Gross carrying Amounts

| Cost | Land & Buildings | Vested Property | Plant, Mach & Equip | SPM Facility | Motor Vehicles | Furn/Fittings Off.Equip & Other Assets | Total |
|---|---|---|---|---|---|---|---|
| | Rs.Mn | Rs.Mn | Rs.Mn | Rs.Mn | Rs.Mn | Rs.Mn | Rs.Mn |
| **2008** | | | | | | | |
| Bal as at 01/01/08 | 1,186.254 | 1.016 | 4,604.203 | 2,141.322 | 326.285 | 316.639 | 8,575.719 |
| Additions | 186.297 | - | 205.205 | 1.100 | 49.247 | 26.279 | 468.128 |
| Disposals | - | - | (15.363) | - | (2.88) | - | (18.241) |
| Adjustment | (18.504) | - | 0.149 | - | 0.243 | - | (18.112) |
| Bal as at 31/12/08 | 1,354.047 | 1.016 | 4,794.194 | 2,142.422 | 372.897 | 342.918 | 9,007.494 |
| Depreciation | | | | | | | |
| Bal as at 01/01/08 | 154.057 | 0.328 | 2,327.241 | 1,228.196 | 253.504 | 277.337 | 4,240.663 |
| Charge for the Year | 19.607 | 0.010 | 279.249 | 31.219 | 15.751 | 20.920 | 366.756 |
| Disposals | (0.034) | - | (1.324) | - | (2.878) | - | (4.236) |
| Adjustments | - | - | | - | | - | - |
| Bal as at 31/12/08 | 173.630 | 0.338 | 2,605.166 | 1,259.415 | 266.377 | 298.257 | 4,603.183 |
| Net Book Value as at31.12.2008 | 1,180.417 | 0.678 | 2,189.028 | 883.007 | 106.520 | 44.661 | 4,404.311 |
| **2007** | | | | | | | |
| Cost as at 31/12/07 | 1,186.254 | 1.016 | 4,604.203 | 2,141.322 | 326.285 | 316.639 | 8,575.719 |
| Acc.Dep as at 31/12/07 | 154.057 | 0.328 | 2,327.241 | 1,228.196 | 253.504 | 277.337 | 4,240.663 |
| Net Book Val as at 31.12.2007 | 1,032.197 | 0.688 | 2,276.962 | 913.126 | 72.781 | 39.302 | 4,335.056 |

### 6.2 Assets and Capital Project in Progress

| | 2008 Rs.Mn | 2007 Rs.Mn |
|---|---|---|
| Buildings | 144.447 | 24.964 |
| Plant & Machinery | 8.043 | 7.545 |
| Storage Facility | 14.929 | 5.392 |
| Re-structuring of Filling Stations | 49.807 | - |
| Others | 2.531 | 1.692 |
| | 219.757 | 39.593 |

### 6.3 Net Book Values

| | 2008 Rs.Mn | 2007 Rs.Mn |
|---|---|---|
| Property Plant & Equipment | 4,404.311 | 4,335.056 |
| Assets & Capital Projects in Progress | 219.757 | 39.593 |
| | 4,624.068 | 4,374.649 |

### 6.4 The useful lives of the assets is estimated as follows

| | 2008 | 2007 |
|---|---|---|
| Freehold Land | Nil | Nil |
| Buildings | 40 Years | 40 Years |
| Refinery Tanks & Pipelines | 40 Years | 40 Years |
| Refinery Plant & Machinery | 10 Years | 10 Years |
| Other Location Tanks | 40 or 20 Years | 40 or 20 Years |
| Other Locations Pipelines | 10 or 5 Years | 10 or 5 Years |
| Plant & Machinery | 10 or 5 Years | 10 or 5 Years |
| Bowsers & Tank Lorries | 5Years | 5Years |
| Vans & Coaches | 4Years | 4Years |
| Furniture/Fittings & Office Equipments up to 31.12.1998 | Fully | Fully |
| Furniture/Fittings & Office Equipments up to 31.12.1999 | 3 Years | 3 Years |
| SPM Facility - Tank Farm | 40 Years | 40 Years |
| - Pipelines | 20Years | 20Years |
| - Buoy | 10 years | 10 years |

**CEYLON PETROLEUM CORPORATION**

**NOTES TO THE FINANCIAL STATEMENTS**

Year ended 31 December 2008

**7. INVESTMENTS**

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | Rs .Mn At Cost | Rs .Mn Director's Value | Rs .Mn At Cost | Rs .Mn Director's Value |
| **7.1 Non-Current** | | | | |
| **a) Investment in Associated Company** | | | | |
| **Unquoted** | | | | |
| Ceylon Petroleum Storage Terminals Ltd.* | 2,500.000 | 2,500.000 | 2,500.000 | 2,500.000 |
| | 2,500.000 | 2,500.000 | 2,500.000 | 2,500.000 |

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | Rs .Mn At Cost | Rs .Mn Market Value | Rs .Mn At Cost | Rs .Mn Market Value |
| **b) Other Investments** | | | | |
| **Quoted** | | | | |
| Lanka Cement Ltd. 5,000,000 Ordinary Shares of Rs.10/= each fully paid. | 50.500 | 31.250 | 50.500 | 36.250 |
| Less: | | | | |
| Allowance for decline in value | (19.250) | - | (14.250) | - |
| | 31.250 | 31.250 | 36.250 | 36.250 |
| **Unquoted** | | | | |

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | Rs .Mn At Cost | Rs .Mn Director's Value | Rs .Mn At Cost | Rs .Mn Director's Value |
| **Associated News Papers of Ceylon Ltd.** | | | | |
| 61,206 Ordinary Shares of Rs.10/= each fully paid. | 0.539 | 0.539 | 0.539 | 0.539 |
| **Lanka Leyland Ltd.** | | | | |
| 100 Ordinary Shares of 10/= each fully paid. | 0.001 | 0.001 | 0.001 | 0.001 |
| **International Coop/Petroleum association** | | | | |
| 5,499 Shares of Us $ 100/= each fully paid Incorporated in USA | 5.086 | 5.086 | 5.086 | 5.086 |
| | 5.626 | 5.626 | 5.626 | 5.626 |
| **7.2 Current** | | | | |
| Investments in Fixed Deposit | 5.000 | | 5.000 | |
| | 5.000 | | 5.000 | |
| **Total** | **41.876** | | **46.876** | |

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

**NOTES TO THE FINANCIAL STATEMENTS**

Year ended 31 December 2008

## 8 . TRADE & OTHER RECEIVABLE

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | Rs. Mn With in one Year | Rs. Mn After one Year | Rs. Mn With in one Year | Rs. Mn After one Year |
| Trade Receivables | 64,228.814 | | 31,843.653 | - |
| Other Receivables | 1,564.897 | 3,758.950 | 1,960.159 | 4,342.894 |
| Deposits | 10.317 | 30.031 | 14.066 | 24.735 |
| Advance | 395.106 | - | 15.326 | - |
| Prepayments | 407.167 | - | 75.218 | - |
| Loans & Advances to Employee | 356.068 | 999.352 | 328.476 | 720.174 |
| | **66,962.369** | **4,788.333** | **34,236.898** | **5,087.803** |

Other receivable includes Rs.4,286Mil,( 2007 Rs.4,881Mil) being an equivalent of Long Term Loan transferred to CPSTL and a sum of Rs. 376 Mil. (2007 Rs.376Mil) paid in 1999 as an Income Tax advance and a full provision has been provided for this amount.

Trade & Other Receivable and Loans & Advances to employees are after charging a provision for Bad & Doubtful Debts amounting to Rs.429 Mil. ( 2007Rs. 445Mil. ) and Rs. 0.174Mil. (2007 Rs.0.224 Mil.) respectively.

## 9. INVENTORIES & WORK IN PROGRESS

| | 2008 Rs.Mn | 2007 Rs.Mn |
|---|---|---|
| Crude Oil | 6,565.150 | 14,580.380 |
| Other Raw material | 540.994 | 908.168 |
| Finished Products | 23,422.707 | 23,611.624 |
| Other Materials & Supplies | 1,266.287 | 1,368.797 |
| **Less**: Provision for Non Moving Items | (257.643) | (275.824) |
| | **31,537.495** | **40,193.145** |

**9.1** The sum of Rs.6,553.910Mn (2007 -Rs.797.684Mn) was adjusted as Written down Value of Net Realizable value of inventory as at the 31.12.2008.

## 10. CASH AND CASH EQUIVALENTS

| | 2008 Rs.Mn | 2007 Rs.Mn |
|---|---|---|
| **Components of Cash and Cash Equivalents** | | |
| Cash & Bank Balances | 8,194.432 | 9,204.471 |
| Treasury Bills | 1,050.000 | 1,540.000 |
| | **9,244.432** | **10,744.471** |

## 11. CONTRIBUTED CAPITAL

| | 2008 Rs.Mn | 2007 Rs.Mn |
|---|---|---|
| Initial Contribution in Pursuance of Section 23 of Act No 28 of 1961 | 10.000 | 10.000 |
| Voted by Appropriation Act no 23 of 1964 | 4.000 | 4.000 |
| Voted by Appropriation Act no 15 of 1967 | 20.000 | 20.000 |
| Contribution to Capital in 1976 | 60.000 | 60.000 |
| Contribution to Capital in 1979 | 13.110 | 13.110 |
| Contribution to Capital in 1980 | 10.710 | 10.710 |
| Total Contributed by Govt.of Sri Lanka | 117.820 | 117.820 |
| Transferred from General Reserve in 1987 | 750.000 | 750.000 |
| Transferred from Retained Profits in 1987 | 132.180 | 132.180 |
| | **1,000.000** | **1,000.000** |

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

## CEYLON PETROLEUM CORPORATION

### NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

| 12. CAPITAL RESERVE | 2008 | 2007 |
|---|---|---|
| | Rs.Mn | Rs.Mn |
| Balance as at 01 January | 4,992.686 | 4,992.686 |
| 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 privatization. The effect of the above transaction had been adjusted under Net re-structuring sales proceeds.

| 13. REVALUATION RESERVE | 2008 | 2007 |
|---|---|---|
| | Rs.Mn | Rs.Mn |
| Balance as at 01st January | 25.696 | 25.696 |
| Balance as at 31st December | 25.696 | 25.696 |

| 14. INSURANCE RESERVE | 2008 | 2007 |
|---|---|---|
| | Rs.Mn | Rs.Mn |
| Balance as at 01 January | 523.079 | 502.088 |
| Charged to Profit & Loss Account | 44.735 | 20.991 |
| Balance as at 31st December | 567.814 | 523.079 |

| 15. RETIREMENT BENEFIT OBLIGATION | 2008 | 2007 |
|---|---|---|
| | Rs.Mn | Rs.Mn |
| Balance as at 1st January | 526.510 | 499.491 |
| Less: Payments made during the Year | 22.051 | 21.981 |
| | 504.459 | 477.510 |
| Add: Charge for the Year | 47.226 | 48.999 |
| | 551.685 | 526.510 |
| Add: Benefit China Bay Employees | 14.857 | 14.857 |
| Balance as at 31st December 2008 | 566.542 | 541.367 |

| 16. INTEREST BEARING LOANS & OTHER PAYABLES | 2008 | 2007 |
|---|---|---|
| | Rs.Mn | Rs.Mn |
| **16.1 L.T. Loans not assigned to CPSTL** | | |
| Treasury (A.D.B) Loan - (Interest 14.0% p.a.) Repayable in forty 1/2 yearly installments of Rs.37.977 Mil each commencing July ' 01. | 873.533 | 949.492 |
| Indian Line of Credit (Interest LIBOR+0.5 p.a.) Repayable in twelve half yearly installments of Rs.1228.030 Mil each commencing May ' 06 | 6,319.818 | 8,492.270 |
| **16.2 L.T. Loans assigned to CPSTL** | | |
| Treasury (Exim Bank) Loan - (Interest 12 .0 p.a %) repayment commencing Oct. 2004 in 24 equal 1/2 yearly installments of final Loan value | 3,714.160 | 4,285.570 |
| | 10,907.511 | 13,727.332 |
| Compensation Payable to Former Owners of properties vested in CPC | 0.902 | 0.902 |
| | **10,908.413** | **13,728.234** |

| | 2008 Rs.Mn | 2007 Rs.Mn |
|---|---|---|
| **16.3** Loans repayable within five years from 31st December 2008 is as follows. | | |
| Amount due within 1-2 years | 3,175.297 | 3,073.732 |
| Amount due within 3-5 years | 5,086.630 | 6,145.465 |
| Amount due after 5 years | 2,645.584 | 4,508.135 |
| | 10,907.511 | 13,727.332 |

| **17. TRADE & OTHER PAYABLES** | 2008 Rs.Mn | 2007 Rs.Mn |
|---|---|---|
| Foreign Bills Payable | 56,144.839 | 19,309.880 |
| Other Creditors | | |
| - Amount due to Inland Revenue & Custom Dept. | 1,426.941 | 920.789 |
| - Accrued Expenses | 239.734 | 1,140.945 |
| - Refundable Deposits & Others | 4,575.138 | 2,483.876 |
| - Amount due to Related Parties | 1,415.633 | - |
| | 63,802.285 | 23,855.490 |

| **18. INTEREST BEARING BORROWINGS DUE WITH IN ONE YEAR** | 2008 Rs.Mn | 2007 Rs.Mn |
|---|---|---|
| Bank & Other loans | | |
| - Wholly Repayable within one year | 3,175.297 | 3,097.528 |
| - Bank Overdrafts | 82.670 | 48.139 |
| - Bank Temporary Loan | 2,162.510 | - |
| - Short Term Working Capital Loans | 41,276.936 | 42,058.75 |
| | 46,697.413 | 45,204.414 |

**19. EMPLOYEES**

| **19.1 Staff Cost** | 2008 Rs.Mn | 2007 Rs.Mn |
|---|---|---|
| Salaries & Wages | 1,668.718 | 1,429.796 |
| Bonus | 211.852 | 149.007 |
| Provident & Trust Fund contribution | 192.719 | 185.882 |
| Gratuity Provision | 47.226 | 48.499 |
| | 2,120.515 | 1,813.184 |

| **19.2 No. of Employees** | | |
|---|---|---|
| Administration & Marketing | 1,247 | 857 |
| Manufacturing | 990 | 929 |
| Security | 445 | 900 |
| | 2,682 | 2,686 |
| **19.3 Contract & Casual Employees** | 150 | 245 |

| **20. COMMITMENTS FOR CAPITAL EXPENDITURE** | 2008 Rs.Mn Amount Approved | 2007 Rs.Mn Amount Spent Up to 31.12.2008 |
|---|---|---|
| Fuel Quality Improvement & Storage Facilities at Refinery | 213.425 | 14.929 |
| Refinery Main Plant (Minor modifications) | 44.302 | 8.043 |
| Other Capital Expenditure | 25.000 | 2.531 |
| Construction of Head Office New Building | 810.000 | 144.447 |
| Construction of Filling Yard | 420.900 | 49.807 |
| | **1,513.627** | **219.757** |

## 21 COMPARATIVE INFORMATION

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

| As reported previously | 2007 Rs.Mn |
|---|---|
| a) Cost of Sales Proceedings from Hedging) | 106.669 |
| b) Trade and Other Payables | 66,508.923 |
| b) Short Trem workng Capital | 3,145.67 |

| Current Presentation | 2008 Rs.Mn | 2007 Rs.Mn |
|---|---|---|
| a) Gain /(Loss) on Derivative Financial Statements | (1,321.572) | 106.669 |
| b) Short Term Working Capital Loans | 46,697.413 | 45,204.414 |
| b) Trade and Other Payables | 63,802.285 | 23,855.490 |

**Reasons for change in then presentation and classification:**

a) Proceedings from Hedging included in Cost of Sales have been changed and presented as a separate line item on the face of The Income Statement in order to have a better presentation.

b) Short Term Working Capital Loans which have been included under Trade and other Payables were reclassified as Short Term Working Capital Loans and presented in a separate Line item for better presentation.

Mr Asantha De Mel - Chairman / MD of CPC perfomed as CEO/MD at CPC & CPSTL up to 28th November 2008.

Mr Methsiri Wijegunawardana Director of CPC , perfomed as director at CPSTL throughtout the year.

**22.1 Transactions made with Related Parties**

| Company | Relationship | Nature of Transaction | Amount Paid/(Received) | |
|---|---|---|---|---|
| | | | 2008 | 2007 |
| | | | Rupees Mil | Rupees Mil |
| **Ceylon Petroleum Storage Terminals Limited (CPSTL)** | Associate Company | - Storage ,Terminal and distribution charges | 6,954 | 7,373 |
| | | - Recovery of Repayments of the following bank loans | | |
| | | NDB -Recovered repayments | 24.157 | 154.938 |
| | | 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 | | |
| | | The excess interest charge absorbed by Ceylon Petroleum Corporation | 0.119 | 4.406 |
| | | Exim Bank- Recovered Repayments | 1,137.104 | 1,205.674 |
| | | Interest Rate is 12 p.a % and the full repayments are recovered from CPSTL | | |

**21.2 Other Transactions made with key Management Personnel.**

| | 2008 | 2007 |
|---|---|---|
| | Rupees Mil | Rupees Mil |
| Chairman's Remuneration | 1.339 | 1.333 |
| Directors Remuneration | 0.051 | 0.071 |

## CEYLON PETROLEUM CORPORATION

**NOTES TO THE FINANCIAL STATEMENT**

Year ended 31 December 2008

**22.3 SALES SUMMARY FOR THE YEAR 2008 - GOVERNMENT INSTITUTIONS**

| | Relationship | 2008 Rs. Mn. | 2007 Rs. Mn. |
|---|---|---|---|
| SRI LANKA AIRFORCE | Government owned enterprises | 2,036.361 | 1,336.572 |
| SRI LANKA ARMY | Government owned enterprises | 2,869.617 | 1,609.852 |
| CEYLON ELECTRICITY BOARD | Government owned enterprises | 36,585.231 | 25,808.036 |
| CEYLON GOVERNMENT RAILWAY | Government owned enterprises | 2,776.532 | 2,136.596 |
| CEYLON TRANSPORT BOARD | Government owned enterprises | 7,563.551 | 5,687.536 |
| EMBASSIES | Government owned enterprises | 16.539 | 12.355 |
| HOSPITALS | Government owned enterprises | 36.962 | 30.200 |
| SRI LANKA NAVY | Government owned enterprises | 5,193.942 | 3,298.290 |
| SUPERIOR COURTS COMPLEX | Government owned enterprises | 0.726 | 0.496 |
| SRI LANKA BUREAU OF FOREIGN EMPLOYMENT | Government owned enterprises | 0.726 | 0.443 |
| CENTRAL ENVIRONMENTAL AUTHORITY | Government owned enterprises | 0.726 | 0.000 |
| HEAVY EQUIPMENT TRAINING CENTRE | Government owned enterprises | 9.501 | 8.000 |
| FISHERIES HARBOUR CORPORATION | Government owned enterprises | 7.111 | 4.533 |
| STATE MINING & MINERAL CORPORATION | Government owned enterprises | 7.515 | 3.132 |
| PEOPLES BANK | Government owned enterprises | 4.290 | 3.166 |
| MAHARA PRISONS | Government owned enterprises | 2.794 | 1.828 |
| IRRIGATION DEPT | Government owned enterprises | - | - |
| WELIKADA PRISONS | Government owned enterprises | 7.723 | 5.714 |
| GOVT FACTORY | Government owned enterprises | 2.508 | 1.857 |
| AIR LANKA CATERING SERVICES | Government owned enterprises | 51.744 | 44.607 |
| CENTRAL BANK | Government owned enterprises | 9.108 | 6.901 |
| SRI LANKA BROADCASTING CORPORATION | Government owned enterprises | 5.513 | 2.651 |
| COCONUT RESEARCH INSTITUTE | Government owned enterprises | 6.072 | 3.677 |
| TEA RESEARCH INSTITUTE | Government owned enterprises | 11.723 | 7.231 |
| SRI LANKA RUPAVAHINI CORPORATION | Government owned enterprises | 11.814 | 7.674 |
| INDEPENDENT TELEVISION NETWORK | Government owned enterprises | 0.726 | 0.430 |
| PROVINCIAL COUNCILS & PRADESHIYA SABHA'S | Government owned enterprises | 279.672 | 73.690 |
| ROAD DEVELOPMENT DEPARTMENT | Government owned enterprises | 155.908 | 40.909 |
| HIGHWAYS DEPARTMENT | Government owned enterprises | 128.719 | 109.998 |
| POSTAL DEPT | Government owned enterprises | 19.136 | 14.537 |
| COLOMBO PORT COMMISSION | Government owned enterprises | 4.497 | 4.148 |
| UNIVERSITIES | Government owned enterprises | 1.456 | 1.189 |
| AURVEDIC DRUGS CORPORATION | Government owned enterprises | 9.717 | 7.943 |
| TECHNICAL SERVICES INSTITUTE | Government owned enterprises | 0.128 | 0.267 |
| STATE TIMBER CORPORATION | Government owned enterprises | 39.867 | 23.542 |
| SRI LANKA INSTITUTE OF INFORMATION TECHNOLOGY | Government owned enterprises | 9.570 | 13.076 |
| LAND RECLAMATION BOARD | Government owned enterprises | 30.492 | 25.422 |

| Rupees Million | Relationship | 2008 Rs. Mn. | 2007 Rs. Mn. |
|---|---|---|---|
| BANK OF CEYLON | Government owned enterprises | 0.000 | 0.535 |
| POLICE DEPARTMENT | Government owned enterprises | 411.099 | 289.645 |
| ROAD DEVELOPMENT AUTHORITY | Government owned enterprises | 446.409 | 125.603 |
| STATE ENGINEERING CORPORATION | Government owned enterprises | 2.112 | 6.291 |
| SRI LANKA PORTS AUTHORITY | Government owned enterprises | 920.659 | 587.877 |
| TOWN COUNCILS | Government owned enterprises | 470.156 | 373.962 |
| SRI LANKA TELECOM | Government is a significant shareholder | 161.177 | 106.069 |
| NATIONAL WATER SUPPLY & DRAINAGE BOARD | Government owned enterprises | 12.224 | 10.678 |
| MINISTRY OF NATION BUILDING & ESTATE INFRASTRUCTURE DEVELOPMENT | Government owned enterprises | 34.785 | 36.572 |
| MAHAVELI ENGINEERS & PLANNING CONSTRUCTION | Government owned enterprises | 0.488 | 0.291 |
| STATE PHARMACEUTICALS CORPORATION | Government owned enterprises | 11.583 | 7.299 |
| COLOMBO DISTRICT LAND RECLAMATION DEVELOPMENT BOARD | Government owned enterprises | 26.070 | 13.561 |
| NATIONAL BLOOD TRANSFUTION SERVICE | Government owned enterprises | 1.254 | 0.443 |
| MINISTRY OF HEALTHCARE & NUTRITION | Government owned enterprises | 66.761 | 42.097 |
| MAGALLAGODA PUMP HOUSE /NILWALAGANGA SCHEME | Government owned enterprises | 22.649 | 5.776 |
| SUNDRY- GOVERNMENT A/C -KOLONNAWA | Government owned enterprises | 22.888 | 37.892 |
| TEXTILE TRAINING & SERVICES CENTRE | Government owned enterprises | 0.000 | 0.443 |
| BOC PROPERTY DEVELOPMENT & MANAGEMENT (PVT) LTD | Government owned enterprises | 1.264 | 2.670 |
| SRIRMAVO BANDARANAYAKE INS OF TOURISM & HOTEL MGT | Government owned enterprises | 0.000 | 0.396 |
| MACHINERY EQUIPMENT AUTHORITY | Government owned enterprises | 2.334 | 0.608 |
| CEYLON LEATHER PRODCUT | Government owned enterprises | 0.422 | - |
| BRITISH HIGH COMMISSION | Government owned enterprises | 0.563 | - |
| SRI LANKAN AIR LINES | Government is a significant shareholder | 19,502.677 | 14,419.629 |
| MIHIN LANKA | Government owned enterprises | 309.530 | 596.158 |
| | | **80,325.321** | **57,000.993** |

## 23. EVENTS OCCURRING AFTER THE BALANCE DATE

No events have occurred since balance sheet date that would require any adjustment or disclosure to the Financial Statements except for two hedging cases pending at courts.

## 24. CONTINGENT LIABILITIES

Five court cases claiming a total of Rs. 10.5 Mil. as damages on fuel discharge & dealership termination disputes & Labour disputes are pending against the Corporation.

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

**Deemed Dividend Tax**

The Corporation has provided and paid Deemed Dividend 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.

| | 2008 | 2007 |
|---|---|---|
| | Rupees Mil | Rupees Mil |
| Provision for Deemed Dividends Based on Statutory Income | 174.314 | 902.874 |
| Provision for Deemed Dividends Based on Taxable Income | 73.647 | 381.464 |
| Additional contingent Liability for Deemed Dividends | 100.667 | 521.410 |

## 25. EARNINGS PER SHARE

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

# TEN YEAR SUMMARY

## DOMESTIC SALES OF BULK PRODUCTS

| Rupees Mn. | 1999 | 2000 | 2001 | 2002* | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|---|---|---|
| **(A) VALUE** | | | | | | | | | | |
| Petrol | 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 | **66,433.726** |
| Auto Diesel | 21,074.774 | 35,674.876 | 48,472.452 | 52,668.931 | 52,084.773 | 74,520.990 | 78,104.774 | 92,474.65 | 113,737.174 | **151,070.451** |
| Super Diesel | 924.466 | 1,342.637 | 1,904.453 | 1,902.580 | 1,698.721 | 1,711.525 | 725,285 | 349.805 | 467.764 | **885.249** |
| Kerosene | 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 | **14,000.051** |
| Furnace Oil | 4,002.276 | 6,932.905 | 11,836.009 | 15,126.837 | 16,238.84 | 20,135.716 | 30,165.885 | 36,421.645 | 43,941.105 | **66,220.151** |
| **Total** | 43,145.49 | 62,997.84 | 83,984.30 | 94,151.16 | 98,167.04 | 132,904.73 | 149,059.89 | 179,133.352 | 217,184.993 | **298,609.628** |
| **(B) QUANTITY - Thousand Metric Tons** | | | | | | | | | | |
| Petrol | 212.900 | 224.400 | 249.500 | 286.100 | 337.900 | 350.300 | 334.100 | 367.600 | 382.100 | **383.747** |
| Auto Diesel | 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 | **1,371.323** |
| Super Diesel | 40.000 | 46.700 | 49.00 | 46.900 | 39.500 | 31.600 | 11.700 | 4.700 | 5.400 | **7.188** |
| Kerosene | 243.300 | 229.100 | 227.800 | 228.800 | 184.600 | 171.800 | 178.000 | 196.600 | 168.500 | **151.308** |
| Furnace Oil | 557.500 | 736.700 | 748.800 | 757.600 | 648.300 | 771.700 | 972.800 | 911.100 | 985.200 | **994.545** |
| **Total** | 2,430.500 | 2,920.700 | 2,900.000 | 3,047.700 | 2,733.300 | 2,908.700 | 2,826.700 | 2,815.300 | 2,990.90 | **2,908.111** |
| **(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 | 49.000 | 53.000 | 70.000 | 80.000 | 95.000 | 92.000 | **120.000** |
| Auto Diesel | 132.200 | 24.500 | 26.500 | 30.000 | 32.000 | 44.000 | 50.000 | 92.000 | 60.000 | **70.000** |
| Super Diesel | 18.500 | 18.500 | 29.800 | 31.800 | 35.300 | 49.300 | 55.300 | 65.300 | 65.3 | **85.300** |
| Kerosene | 10.400 | 18.400 | 17.400 | 24.000 | 25.500 | 25.500 | 30.500 | 48.000 | 48.000 | **50.000** |
| Furnace Oil | | | | | | | | | | |
| -1000 Sec | 7.200 | 14.600 | 16.500 | 21.200 | 23.200 | 24.700 | 31.400 | 44.400 | 44.400 | **33.900** |
| -1500 Sec | 6.800 | 14.000 | 15.800 | 20.700 | 22.300 | 24.300 | 30.300 | 43.300 | 43.300 | **31.700** |
| -3500 Sec | 6.200 | 12.400 | 14.100 | 18.900 | 20.700 | 22.000 | 28.000 | 41.000 | 41.000 | **25.000** |
| **INCOME & EXPENDITURE** | | | | | | | | | | |
| Gross Income | | | | | | | | | | |
| Less Taxes | 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 | **341.670** |
| Income from Investment | 300.000 | 181.000 | 120.000 | 1118.000 | 162.000 | - | - | - | - | **-** |
| Cost of Sales | 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 | **338,514.000** |
| Margin | 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 | **1,835.038** |
| Extraordinary Item | - | - | - | 2,530.000 | - | - | - | - | - | **-** |
| Working & Establishment Exppenses including Interest | 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 | **16,570.000** |
| Kerosene Subsidy and other Levis paid to the treasury | 500.000 | - | - | - | - | - | - | - | - | - |
| Profit/(Loss) Before Tax | -531 | -16,062.00 | 1,559.00 | 9,786.00 | 4,874.00 | 4,445.00 | 9,840.00 | -1,915.00 | 3,984.00 | **(14,735.000)** |

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

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

# TEN YEAR SUMMARY

| Rupees Mn | 1999 | 2000 | 2001 | 2002* | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|---|---|---|
| **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 | (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 | **(2,416.400)** |
| L/T Liabilities | 2,454.400 | 3,012.700 | 4,787.000 | 6,644.600 | 8,476.500 | 7,699.900 | 19,113.400 | 16,705 | 13,728.200 | **10,908.400** |
| Gratuity Provision | 408.400 | 462.200 | 482.800 | 424.900 | 556.800 | 700.400 | 377.400 | 514.300 | 541.400 | **566.500** |
| **Total** | 3,688.000 | (11,746.900) | (8,769.600) | (519.600) | 7,779.500 | 11,384.400 | 32,164.200 | 28,285.400 | 27,837.400 | **10,058.500** |
| **Represented** | | | | | | | | | | |
| Fixed Assets, Including work in Progress | 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 | **4,624.000** |
| Investment | 323.700 | 316.200 | 338.700 | 57.800 | 2,173.800 | 2,176.100 | 2,535.600 | 2,553.100 | 2,546.900 | **2,541.900** |
| Net Current Assets | (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 | **2,892.600** |
| **Total** | 3,688.000 | (11,746.900) | (8,769.600) | (519.600) | 5,576.900 | 11,384.400 | 32,164.200 | 28,285.500 | 27,837.400 | **10,058.500** |
| **SUMMARISED CASH FLOW STATEMENT** | | | | | | | | | | |
| Cash Flow from Operating | (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 | **(14,735.028)** |
| Extraordinary item | - | - | - | 2,529.832 | - | - | - | - | - | |
| Adjustment for Items not involving Movement of cash | 492.788 | 537.928 | 604.449 | 529.412 | 988.365 | 776.807 | 841.682 | 1,431.845 | 1,928.200 | **1,922.024** |
| Operating Profit/(Loss) before Working Capital changes | 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 | **(12,813.004)** |
| **Change in Working Capital** | | | | | | | | | | |
| (increase)/Decrease in inventories | (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) | **8,673.831** |
| (increase)/Decrease in Trade and Other Receivables | (518.115) | (197.361) | (2,143.290) | 711.285 | (384.386) | 789.614 | (3,434.619) | (2,852.640) | (13,098.772) | **(32,409.849)** |
| (increase)/Decrease in Trade and Other Payables | 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 | **39,946.795** |
| Less Gratuity/Tax and Interest Paid | (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) | **(4,625.380)** |
| **Cash Generating From Operational Activities** | 907.591 | 3,077.607 | (1,663.520) | 621.216 | 4,913.411 | 2,835.220 | (730.977) | (7,034.045) | 36.943 | **(1,227.607)** |
| Cash Used in Investing Activities | (1,871.573) | (1,217.353) | (2,173.473) | (1,899.240) | (3,421.404) | 246.165 | 317.925 | 662.033 | 1,165.988 | **40.605** |
| Cash from/(Used in) Financing Activities | 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) | **(1,001.410)** |
| Net (Decrease)/Increase in cash & Cash Equivalents | 272,073.000 | 2,575.952 | (2,039.341) | 791.972 | 3,372.892 | 4,132.069 | 12,607.831 | (8,850.155) | (2,123.108) | **(2,188.412)** |
| Cash & Cash Equivalents at beginning of the year | (779.796) | (507.723) | 2,068.229 | 28.888 | 820.860 | 4,193.752 | 8,325.821 | 20,933.652 | 12,083.497 | **9,960.389** |
| Cash & Cash Equivalents at end of the year | (507.723) | 2,068.229 | 28.888 | 820.860 | 4,193.752 | 8,325.821 | 20,938.652 | 12,083.497 | 9,960.389 | **7,771.977** |

# TEN YEAR SUMMARY

## FOREIGN EXCHANGE EARNINGS & PAYMENTS

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Aviation fuel sales** | | | | | | | | | | |
| Foreign Airlines-US$ Mn | 24.500 | 40.900 | 31.100 | 32.400 | 48.300 | 57.000 | 77.420 | 84.540 | 75.280 | **104.747** |
| Direct Exports-US$ Mn | 17.200 | 27.600 | 16.500 | 13.100 | - | 7.000 | - | 23.090 | | |
| **Total-US$ Mn** | 41.700 | 68.500 | 47.600 | 45.500 | 48.300 | 64.000 | 77.420 | 107.630 | 75.280 | **104.747** |
| **Rupee Equivalent** | 3,017.400 | 5,545.900 | 3,561.500 | 3,977.700 | 350.800 | 6,458.500 | 7,159.010 | 8,714.050 | 8,264.680 | **11,262.986** |
| **Import cost** | | | | | | | | | | |
| Crude oil US$ Mn | 260.300 | 489.100 | 353.900 | 408.000 | 431.000 | 597.000 | 747.200 | 1,028.500 | 1,023.000 | **1,330.902** |
| Refined product-US$ Mn | 173.500 | 303.500 | 304.000 | 286.000 | 300.000 | 464.000 | 653.000 | 761.300 | 996.000 | **1,449.394** |
| **Total US$ Mn** | 433.800 | 792.600 | 657.900 | 694.000 | 731.000 | 1,061.000 | 1,400.200 | 1,789.800 | 2,019.000 | **2,780.296** |
| Avg. Crude (C&F) Price US$/Bb1 | 19.390 | 28.270 | 24.670 | 25.000 | 29.290 | 37.380 | 52.140 | 65.070 | 71.970 | **97.645** |
| Avg. Exch. Rate-US$ 1= Rs. | 71.170 | 77.270 | 89.620 | 96.340 | 96.420 | 101.900 | 100.530 | 103.960 | 111.490 | **108.330** |

## OTHER MANAGEMENT INFORMATION

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|---|---|---|
| **TRADING RESULTS** | | | | | | | | | | |
| Revenue | 51,516.400 | 75,865.800 | 95,103.188 | 105,001.924 | 111,389.486 | 135,351.978 | 174,554.976 | 211,012.846 | 253,344.379 | **358,002.116** |
| Profit/(Loss)after Taxation | (572.300) | (16,062.100) | 1,169.310 | 9,986.088 | 4,874.194 | 3,907.862 | 7,710.890 | (946.220) | 2,862.337 | **(14,952.518)** |
| **ASSETS EMPLOYED** | | | | | | | | | | |
| Property, Plant & Equipment | 3,370.600 | 5,905.500 | 7,630.244 | 10,844.721 | 4,504.432 | 4,450.672 | 4,512.448 | 4,460.920 | 4,374.649 | **4,624.068** |
| Net Current Assets | (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 | **(2,585.377)** |
| **Total** | 1,746.400 | (12,063.000) | (9,108.287) | (1,320.955) | (2,280.693) | 1,721.933 | 22,275.851 | 18,980.253 | 19,513.109 | **2,038.691** |
| **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 | (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 | **(2,416.400)** |
| **Total** | 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 | **(1,416.400)** |
| Capital Expenditure | (2,196.300) | (1,408.973) | (2,306.025) | (4,001.341) | (5,255.000) | (255.000) | (78.000) | (255.000) | (242.680) | |
| **EMPLOYEES EARNINGS** | | | | | | | | | | |
| Wages | 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 | **1,668.718** |
| Bonus | 1,140.000 | 122.590 | 125.804 | 112.884 | 186.671 | 101.931 | 84.739 | 129.689 | 149.007 | **211.852** |
| Annual AverageEarrings per Employees (000' Rs.) | 343.582 | 227.550 | 243.510 | 224.863 | 759.298 | 531.530 | 419.410 | 461.188 | 538.657 | **664.043** |
| No. of Employees | 7,019 | 7,298 | 7,173 | 7,156 | 2,170 | 2,452 | 2,540 | 2,930 | 2,931 | **2,832** |
| **FINANCIAL RATIOS** | | | | | | | | | | |
| Return on Capital Employed % | 9.830 | - | - | - | - | 130.900 | 60.840 | (15.770) | 21.100 | - |
| Return on Turnover % | (0.810) | - | 21.000 | 14.650 | 5.670 | 3.220 | 4.760 | (0.870) | 1.200 | **(4.38)** |
| Debtors to Turnover % | 0.040 | 0.040 | 0.050 | 0.030 | 0.040 | 0.060 | 0.080 | 0.090 | 0.130 | **0.19** |
| Turnover to Fixed Assets times | 8.920 | 10.690 | 9.780 | 7.390 | 19.070 | 27.310 | 35.870 | 44.450 | 53.430 | **78.10** |
| Finished Stock to Turnover times | 0.050 | 0.060 | 0.050 | 0.050 | 0.050 | 0.070 | 0.060 | 0.090 | 0.090 | **0.065** |
| Current Ratio times | 0.880 | 0.460 | 0.500 | 0.600 | 0.700 | 0.920 | 1.480 | 1.330 | 1.220 | **0.977** |
| Liquid Ratio times | 0.430 | 0.210 | 0.230 | 0.240 | 0.450 | 0.530 | 1.000 | 0.740 | 0.640 | **0.69** |
| Interest Cover times | 0.920 | - | 1.470 | 9.910 | 9.960 | 6.780 | 8.810 | 0.350 | 1.280 | **(4.73)** |

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கணக்காய்வாளர்தலைமைஅதிபதிதிணைக்களம்
AUDITOR GENERAL'S DEPARTMENT

මගේඅංකය / எனது இல / My No: LP/D/CPC/FA/08

ඔබේඅංකය / உமது இல / Your No.:

දිනය / திகதி / Date: 30 September 2009

The Chairman
Ceylon Petroleum Corporation

**Report of the Auditor General on the Financial Statements of the Ceylon Petroleum Corporation for the year ended 31 December 2008 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 31 December 2008 was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act No.38 of 1971. In carrying out this audit, I was assisted by a firm of Chartered Accountants in public practice. My comments and observations, which I consider should be published with the annual report of the Corporation in terms of Section 14(2) (c) of the Finance Act, appear in this report. A detailed report in terms of section 13(7) (a) of the Finance Act was issued to the Chairman of the Corporation on 08 June 2009.

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 relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

නිදහස් චතුරශ්‍රය, කොළඹ 07, ශ්‍රී ලංකාව
சுதந்திரசதுக்கம், கொழும்பு 07, இலங்கை
INDEPENDENCE SQUARE, COLOMBO 07, SRI LANKA

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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 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 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.

2. **Financial Statements**

2.1 **Opinion**

In view of my comments and observations appearing in this report, I am unable to express an opinion on the financial statements of the Ceylon Petroleum Corporation for the year ended 31 December 2008 presented for audit.

2.2 **Comments on Financial Statements**

2.2.1 **Sri Lanka Accounting Standards (SLAS)**

The following instances of non compliance with SLAS were observed in audit.

(a) The Corporation had not revalued the assets to ensure that the carrying amount did not differ materially from which would be determined using fair value at the balance sheet date, as stipulated in SLAS 18 – Property, Plant and Equipment.

(b) The investment made in the Associate Company amounting to Rs. 2,500 Mn had not been accounted by using equity method and the summarized 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.

(c) The Corporation had not separately recognized the investment properties amounting to Rs.8 Mn at the balance sheet date as required by the Sri Lanka Accounting Standard No. 40 - Investment Properties.

(d) Gratuity Formula Method or Actuarial Method should be used in calculating gratuity provision in terms of SLAS 16. However, the Corporation had made provision in terms of Payment of Gratuity Act No. 12 of 1983.

(e) The Corporation had not implemented appropriate procedures to identify impairment indicators for its assets as required by SLAS 41- Impairment of Assets. Due to this non compliance with the SLAS 41, the carrying amount of the Property, Plant and Equipment amounting to Rs. 4,400 Mn had not been compared with their recoverable amount.

(f) 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.

### 2.2.2 **Accounting Deficiencies**

The following accounting deficiencies were observed in audit.

(a) It was observed that in an assessment issued by the Sri Lanka Government Railway, a liability of Rs. 91 Mn. existed in relation to the lease rent on certain properties which have not been provided for in the financial statements.

(b) A sum of US $ 222,068 equivalent to Rs. 24 Mn. payable to two Charter Parties based on arbitration awarded relating to the dispute of deducting the outturn losses from freight charges had not been provided or disclosed in the financial statements.

(c) Salaries and wages relating to the employees of the Agro Chemical Section of the Corporation had been charged to the Agro Chemical Manufacturing & Trading Account up to 2006. However, in 2008 a sum of Rs 36 Mn. comprising salaries and wages of Agro Chemical business had been charged to the income statement of the overall operations of the Corporation. Consequently, the net operating result from Agro Chemical business had reflected a net profit of Rs. 54 Mn instead of a net profit of Rs.18 Mn.

(d) The Corporation has underpaid excise duty amounting to Rs.84 Mn. As a result both excise duty expenses and the payables had been understated by an equal amount. Further any penalty that may arise had not been ascertained and provided for in the accounts.

(e) The recoverability of vessel surcharge, outturn loss and demurrage amounting to Rs 22 Mn. was doubtful and no provision had been made in that respect in the financial statements.

2.2.3 **Accounts Receivable and Payable**

The following observations are made.

(a) The Corporation had not obtained Bank Guarantees from two Aviation Contract Customers and three private customers whose outstanding balances amounted to Rs. 87 Mn. and Rs. 5,556 Mn. respectively as at 31 December 2008. It was further observed that a sum of Rs. 7.9 Mn. had been written off during the year under review.

(b) Fuel supply agreements with an Aviation customer, whose outstanding balances as at 31 December 2008 amounted to Rs .93 Mn.had expired on 31 December 1998. In addition to that, another aviation customer agreement had not indicated the date of expiry. However, the Corporation continued to supply fuel to those customers on credit basis according to the said agreements.

(c) Aggregate Bank Guarantees of two aviation customers was Rs. 23 Mn. only whereas their aggregated outstanding balance as at 31 December 2008 amounted toRs.666 Mn.

(d) No provision had been made in respect of the advance of Rs.201 Mn. paid as duty to Sri Lanka Customs included under trade and other receivables.

(e) The amount outstanding from the Ceylon Electricity Board as at 31 December 2008 amounted to Rs. 46,437 Mn. and 42 per cent of that was outstanding for a period over one year. Further, a dispute has arisen with regard to a balance due from the CEB amounting to Rs.1,048Mn. No adjustments have been made in respect of the same in the financial statements.

2.2.4. **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 was made available regarding the assets purchased (gross value) prior to 31 December 2002 reflected under property, plant and equipment. As a result the ownership, existence and the completeness of such assets could not be determined.

(b) No sufficient evidence was 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.

(c) The furnace oil stock of Rs. 68.8 Mn. at Bloemendhal as at 31 December 2008 had not been physically verified by the Corporation. Therefore, it was not possible to satisfy in audit about the existence of the above stocks.

(d) No direct confirmation had been received by audit from the Ceylon Petroleum Storage Terminal Ltd relating to its debt balance amounting to Rs. 5,200 Mn. included under Trade and Other Receivables.

(e) 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.

(f) The Corporation had failed to produce sufficient details for the land of the Sapugaskanda Mini Terminal valued at Rs 16 Mn.

(g) A Board of Survey to conduct physical 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.

(h) No sufficient evidence was made available except for share certificate to determine the existence and recoverability of the share investment amounting to Rs.5Mn in a private company.

(i) No separate title deed or any other acceptable ownership document was made available for land situated at Muthurajawela valued at Rs. 259 Mn.

(j) No confirmations had been received in respect of a sum of Rs.2,562Mn. due from Government Departments and agencies included under trade and other receivables. As a result, the existence and recoverability of such balances and also completeness related party disclosures cannot be determined.

### 2.2.5 Non-compliance with Laws, Rules, Regulations and Management Decisions

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

| Reference to Laws, Rules, Regulations and Management Decision | Non compliance |
|---|---|
| (a)Payment of Gratuity Act No12 of 1983333 | Gratuity had not been paid within 30 days from resignation of an employee as stipulated in the Act. |
| (b)Value Added Tax Act No14 of 2002 | VAT on the sales of petrol amounting to Rs.1,057Mn had not been claimed according to Act. |
| (c)Department ofPublic Enterprises Circular No. PED/12 of 2 June 2003 | |
| (i) Paragraph 3.2 | The Board of Directors of the Corporation did not contain at least one member in the field of Petroleum, which is the main subject of the Corporation. |
| (ii) Paragraph 6.1 | Draft Annual Report for the year under review had not been submitted to the Auditor General. |
| (iii) 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.<br><br>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 traveling between their residences and office in their private motor vehicles. |
| (iv) Paragraphs 8.7 | The Corporation had paid PAYE tax from its own fund for the employees of the Corporation contrary to the circular instructions. PAYE tax so paid by the Corporation for the period 2000 to 2008 amounted Rs. 719 Mn. In addition, the Corporation had paid tax on tax for PAYE. |
| (d) Department of Public Enterprises Circular No 130 of 18 March 1998 | Rate of interest on staff loans had been reduced from 7.2 per cent to 4.2 per cent without the authority of the General Treasury. The amount under recovered for the year under review amounted to Rs. 33 Mn. |
| (e) Letter dated 19 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.10 Mn. |

2.2.6 **Transactions not Supported by Adequate Authority**

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, 2006, and 2007 (approximately) amounted to Rs. 12 Mn, Rs. 11 Mn, and Rs. 13 Mn respectively. However, additional bonus had not been paid by the Corporation in 2008.

According to the Department of Public Enterprises Circular No PED/12 of 2 June 2003 the payment of bonus approved by the Board of Directors should be only from profit generated by the corporation. However, the Corporation had paid a bonus amounting to Rs. 147 Mn without generating profit by the Corporation in year 2008.

2.2.7 **Apparent Irregularities/ Irregular Transactions**

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

(a) A sum of Rs. 21 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.

(B) The balance outstanding from the loans granted to the members of the Society by the Corporation out of the Corporation funds as at 31 December 2008 amounted to Rs. 33 Mn and out of the interest income received from those loans, a sum of Rs. 2.2 Mn had been granted to the Society.

## 3. Financial and Operating Review

### 3.1 Financial Review

#### 3.1.1 Financial Results

According to the financial statements presented, the working of the Corporation for the year under review had resulted in a pre-tax net loss of Rs 14,735 Mn as against the pre-tax net profit of Rs. 3,984 Mn in the preceding year, thus indicating an overall deterioration of Rs. 18,719 Mn in the financial results.This deterioration was mainly due to increase in the oil prices in the world market and exchange rate loss for the year under review as against the exchange rate gain in preceding year and the loss of hedging transactions.

#### 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 0.98 times as compared with 1.22 times for the preceding year and thus showing a slight downward move while the Acid Test Ratio of the year under review had improved from 0.64 to 0.69 times.

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

(i) The debtors' turnover ratio indicated 6.75 times as compared with 6.96 times for the preceding year and the debt collection period had increased to 54 days as compared with 52 days for the preceding year.

(ii) Stock residence period had been 39 days as against 66 days for the previous year thus showing a decrease of 27 days.

(iii) The creditor's turnover ratio indicated 7.52 times as compared with 5 times for the proceeding year and the credit payments period had decreased to 49 days as compared with 73 days for the preceding year.

(iv) The operating cycle had been 44 days as against 45 days for the previous year thus showing a decrease of a day.

(c) Debt Capital of the year under review as a percentage of Equity is 3,996% as compared with 434% in last year.

(d) The net outflow of fund of the Corporation increased by 3 %.

(e) Total quantity sold during the year under review had decreased by 17,565 Metric Tons (MT) and it was 0.4 % decrease as compared with the previous year.

(f) The gross profit margin for the year under review had reduced to 0.92%as compared with 7 % for the preceding year.

(g) The return on Capital employed ratio was in negative trend as compared with 21.10% for the previous year.

(h) The return on total assets ratio indicated 8.18% as compared with 2.92% for the preceding year.

## 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 (LIOC) Ltd in 2007, the Corporation has the right to deliver not more than five per cent of the country's throughput of petroleum products from its Sapugaskanda Terminal with effect from 01 January 2007. However, without considering the above right the Corporation had continued to allow to utilize the facilities provided by the CPSTL and LIOC for storage and distribution of petroleum products.

The Corporation had not charged for utilizing their terminal from the CPSTL since 2003. However, operational and maintenance expenditure of the Terminal had been paid by the Corporation.

In addition the Corporation had paid a sum of Rs.129 Mn to the CPSTL for first three months as slab recovery charges on petroleum products transferred from that Terminal to the Depots which are owned by that Company on their requests. Since the Corporation is granted the delivery right by the above mentioned Settlement Agreement, it should be an income of the Corporation.

(b)

(i)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 CPC had sold at a price LK less by Rs. 5 compared with LIK. Further the LIK had also been sold at Rs. 35 per litre lower than the landed average cost for the period of eight months of the year under review. According to the pricing formula the expenses such as financial cost of working capital, storage terminal charges, CPSTL profit margin, marketing and distribution cost, Turn over Tax (both Corporation and Dealer) dealer discount etc should be included to the selling price of that product. However these expenses had not been included in the selling price of the product.

(ii) According to the settlement agreement with the Government of Sri Lanka (GOSL) and LIOC, the GOSL reserves the right to pay a subsidy to CPC, when the retail market price of CPC's products is lower than those of LIOC. However the Corporation had not claimed the above subsidies.

(iii) The Corporation had sustained a gross loss of Rs.4,931Mn. (gross loss of the previous year was Rs. 7 Mn) from Kerosene sales during the year under review. Of this, a sum of Rs. 297 Mn was the CPSTL charges which had not been recovered from the sales prices of Kerosene.

(iv)Further, the Corporation had not taken action to restrict the issuing Lanka Kerosene to industries as well.

(c) The Corporation had sustained a loss of Rs. 396.5 Mn during the year under review (previous year loss was Rs. 132.3 Mn**)** by down grading 21,260,124 litres of Aviation Turbine Fuel to Lanka Kerosene as the average price difference between these two products was Rs. 18.65 per litre.

(d) The Corporation had sold Liquid Petroleum Gas (LPG) to a private company at FOB price per Metric Ton (MT) according to Saudi Armco 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 sustained a gross loss of Rs. 24 Mn and Rs. 28 Mn from LPG sales during the year under review and previous year respectively as sales value was lesser than the cost of sales.

(e) No agreement had been entered between Laugf Gas (Pvt) Ltd and the Corporation since 20 October 2006 to date in respect of Laugf Gas sales. However, the Corporation has supplied Liquid Petroleum Gas (LPG) to Laugf Gas (Pvt) Ltd continuously. Even though the agreement between the Corporation and Laugf Gas (Pvt) Ltd had been terminated, pricing formula and other conditions to set the price, same terms and conditions which prevailed at the time they entered into the agreement with Laugf Gas (Pvt) Ltd was still used by the Corporation. However, the aggregated Bank Guarantee of theLaugf Gas (Pvt) Ltd. amounted to Rs.15 Mn only whereas their aggregated outstanding balance as at 31 December 2008 amounted to Rs.17 Mn.

(g) The Corporation had sustained a loss of Rs.14,735Mn for the year under review and had a negative equity position of Rs. 1,416 Mn. It raises doubt about the ability of the Corporation to continue as a going concern without continued financial assistance from the Government of Sri Lanka and other financial institutions.

3.2.2 **Hedging Transactions**

The Corporation had dealt hedging transactions with Standard Chartered Bank (SCB), Citi Bank (CB), Deutsch Bank (DB), People's Bank (PB) and Commercial Bank of Ceylon (CB) and according to the information made available the Corporation had sustained a loss of Rs. 1,322 Mn from hedging transactions as at 31 December 2008.

***In this regard, the Chairman stated as follows.***

**"AstwoSupremeCourtCasesandoneInternationalArbitrationinLondon are pending, CPC cannot submit its comment's on Hedging transactionprocess. In thisregard, instructions from Attorney General had been sought".**

3.2.3 **Utilization of Corporation's Resources by Other Government Institutions**

Eight motor vehicles and 21 employees had been released to 3 Government Institutions without the approval of the appropriate authority, disregarding the circular instructions contained in the PED 12 of 02 June 2003.

3.2.4 **Identified Losses**

The following observations are made.

(a) Due to the current practice and the terms and conditions agreed with CPSTL, the Corporation had reimbursed CPSTL more than the amount collected as slab from dealers. The Corporation computed the dealer commission based on the outlet spot price which included the slab. The slab payments to CPSTL were computed based on the actual monthly consumption report prepared by CPSTL. Due to this practice, the Corporation had sustained a loss of approximately Rs. 10.6 Mn for the year ended 31 December 2008.

(b)

(i) The Corporation entered into bunkering business through a private company in April 2008 with the intention of carrying out that business by the Corporation itself in the future. According to the Corporation, at the inception of the business, the environment was not favorable to the Corporation since it had to adopt different strategies to compete with other competitors in the market. Therefore, during the periodApril 2008 to December 2008 the Corporation sold fuel at a reduced price to a private company and as a result, the Corporation incurred a loss of Rs.353 Mn (approximately) from bunkering business.

(ii) It was observed that the following products were sold to that private company at a price even lesser than the estimated imported cost.

| Product | Quantity Ltrs | Selling PriceRange Rs. | Average costRs. | Imported Cost of Fuel Rs.Mn | Income from BunkeringRs .Mn | Loss Rs. Mn |
|---|---|---|---|---|---|---|
| **Marine Gas Oil** | 8,241,209 | 48.33-105.54 | 66.59-119.72 | 778 | 701 | 77 |
| **Marine Fuel Oil** | 16,989,263 | 30. 04 -72.77 | 40.21- 97.17 | 1,231 | 955 | 276 |
| **Total** | | | | **2,009** | **1,656** | **353** |

Further, Marine Gas Oil and Marine Fuel Oil had been sold to a private company at a price very much lower than the local market price which resulted in an opportunity loss to the corporation to sell in the local market.

(c) Even through the agreement between the Corporation and Laugf Gas (Pvt) Ltd to supply gas expired on 20 October 2006, the relevant pricing formula for selling gas to Laugf Gas (Pvt) Ltd had not been revised. Due to the reason, the Corporation had sold LP Gas without recovering even the manufacturing cost. As a result, the Corporation had incurred a gross loss margin of Rs. 44 Mn.

***In this regard, the Chairman stated as follows.***

**"As Supreme Court ruling is there we cannot change the prices."**

(d) According to the industry norms, the allowable pipeline variance was 0.05% of the quantity of fuel delivered. However, it was observed that in certain instances pipeline variances had exceeded the above norm.

3.2.5 **Management Inefficiencies**

The following observations are made.

(a) 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 Company. Since the management had not taken corrective action in time, the Corporation had incurred a loss of Rs. 189 Mn (approximately) during the first nine months period of the year under review. Further, the Corporation had sold Aviation Turbine Fuel to aviation customers without recovering even the cost of sales. Details are as follows.

| Quarter | Sales (Rs. Mn) | Cost of Sales (Rs. Mn) | Gross Loss (Rs. Mn) |
|---|---|---|---|
| **3rd Quarter** | 9,890 | 10,290 | 400 |
| **4th Quarter** | 5,625 | 7,457 | 1,832 |
| **Total** | **15,515** | **17,747** | **2,232** |

***In this regard, the Chairman stated as follows.***

**"It is presumed that the Airline Company referred to in the Audit Report is Sri Lankan Air Lines. Since the formation of Air Lanka Limited (now "Sri Lankan Air Lines") CPC has supplied Jet A-1 on a Price Formula agreed by both parties. From time to time certain adjustments have been made to the Price Formula with the agreement of both parties. The last adjustment to the Price Formula has been made on 16th October 2006 where the premium over MOPS has been increased from US$ 0.13 per US Gallon to US$ 0.20 per US Gallon which was a significant increase in price of Jet A-1 to Sri Lanka Air Lines. Hence, no more price adjustments have been made thereafter."**

(b) The Corporation has sustained a loss of Rs. 135 Mn (approximately) relating to a bulk purchase due to delay in shipment by the supplier. As a result, the Corporation had to return 208,460 barrels to the supplier due to inadequate ullage. According to the tender condition and norms, the supplier was responsible for all the consequential losses incurred by the Corporation due to any delay caused by the supplier and the Corporation has the right to recover the value of the loss from the supplier. However, the Corporation had not taken any step to recover this loss from the supplier.

(c) The Corporation has incurred demurrage charges in amounted to Rs. 27 Mn due to lack of proper shipment schedule and improper inventory management.

(d) It was observed that relatively large sums of cash had been held in non interest earning accounts.

(e) The "Share Sale and Purchase Agreement", "Common User Facilities Share Holders Agreement" and "Share Sale and Purchase Agreement for 100 Filling Stations" signed on 30 December 2003,had expired on 31 December 2008. Even though ,the " Settlement Agreement " (which covered selected clauses that prevailed in the "Share Sale and Purchase Agreement" and "Common User Facilities Share Holders Agreement") signed between the Government of Sri Lanka and Lanka IOC Limited on 5th January 2007, did not cover all the terms and conditions that prevailed in the above three agreements. Hence, future arrangements in Common User Facilities Share holder Agreement and opening of filling stations, pricing, maintaining of stock levels, etc. may result in unexpected complexities to the Corporation.

### 3.2.6 **Uneconomic Transactions**

The following observations are made.

(a) 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 has supplied fuel to vessel (Diyaluma) in March 2007 on the basis of recovering such fuel provided a later date. However, to date neither the quantity supplied nor its cash value had been recovered from the owners of the vessel.

(c) The Corporation had paid Terminal charges/ transport charges for fuel transfer by LIOC to the Corporation controlled outlets located at ChinaBay. This payment was made to LIOC based on the quantity transferred from ChinaBay tank farm. In addition, the Corporation paid terminalcharges to CPSTL based on total sales to the Corporation controlled outlets located at ChinaBay. As a result, the Corporation paid throughput charges to CPSTL for the fuel transferred by LIOC. This will lead to a situation where the Corporation making a double payment for throughput/ transport charges. Further, an agreement had not been entered between LIOC and the Corporation relating to those payments.

3.2.7 **Idle Assets**

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

(a)

| Nature of the Asset | Comments |
|---|---|
| Wanathamulla–HalgahakumburaLand | This land was acquired for Rs.10.6 Mn for the purpose of LP Gas project and a playground. However it had not been utilized due to encroachments. In addition this land is being illegally occupied by squatters since 1973. There are about 623 families living in this land. |

***In this regard, the Chairman stated as follows.***

**"As there had been encroachers in this land CPC prepared a Survey Plan depicting each and every lot occupied by each family in order to file papers in Court to evict them. On Hon. Attorney General's advice we are submitting a Cabinet Paper to the Ministry before taking any action in Court against the encroachers as the Attorney General's Department has advised us to consult the relevant Minister's and/or other authorities before any proceedings are initiated, in view of the possible social impact of the proposed action."**

(b)

| Nature of the Asset | Comments |
|---|---|
| MahahenaLand | According to the correspondence available, the Corporation had paid a sum of Rs. 0.625 Mn for the acquisition of the land. However, this land had not been accounted in the books of the Corporation. This land is being used by the previous owner since 1986. |

***In this regard, the Chairman stated as follows.***

**"The Divisional Secretary has recently initiated action in Court to evict the encroachers on the land. CPC will have to await the implementation of the Court Order to take possession of the land. The Divisional Secretary had requested a sum of Rs.28,880/- from CPC in order to file necessary papers to evict the encroachers. Accordingly CPC paid this amount around in June 2008 to the Divisional Secretary."**

(c)

| Nature of the Asset | Comments |
|---|---|
| ChinaBay Tank Farm | ***According*** to the agreement entered into with LIOC, GOSL and Corporation in 2003 relating to the taking over of possession and related matters of the China Bay installation, Corporation has agreed to lease the storage facilities and the land to LIOC for a period of thirty five years and that lease agreement should be executed within 06 months from the date of the agreement. However, the Corporation has not yet entered into any lease agreement and any related lease rentals had not been received from LIOC for the usage of this storage facility, although the facility has been used by LIOC since February 2003. |

***In this regard, the Chairman stated as follows.***

**"CPC has referred this matter to the Attorney-General's Department and have already forwarded a draft Lease Agreement to the Department for their comments. Awaiting a response from them to prepare the Lease Agreement**."

### 3.2.8 **Human Resource Management (HRM)**

The following weaknesses in the Human Resources Management were observed in audit.

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

(b) Approval had been granted by the Board of Directors of the Corporation to extend the cadre report for 2005 of the Corporation also effective for 2008. However, it was observed that existing cadre of the Corporation's Head Office and Refinery was not in accordance with the approved cadre. In addition, the existing cadre was less in some categories and more in some other categories and more in some other categories than the approved cadre.

(c) There was no permanent record (or a Data base) to ascertain the actual cadre as at a specified date. Therefore, the total numbers who were paid salaries in 2008 could not be checked with the records maintained by the Human Resource Section of the Corporation.

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

(e) Recruitments and promotions had not been effected systematically in line with the realistic cadre position and had not been reviewed periodically.

(f) There was no Effective Performance Appraisal System (EPAS) in order to maximize productivity for efficient cadre management and the Head of Division had done the appraisal of performance of the employees.

(g) 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 of posts that could be affected adversely.

(h) The Corporation had continued to obtain the service of certain employees without renewing their contracts.

3.2.9 **The Corporate Plan**

The following observations are made :-

According to paragraph 5.1 of the Public Enterprises Circular No PED/12 of 2 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 for the period 2007 – 2011 had not been sent to the Auditor General. However, the Corporate Plan of the Corporation for the period 2008 -2012 had been sent to the Auditor General only on 01 April 2009.

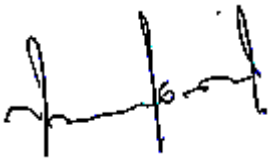
3.2.10 **Budgetary Control**

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

## 4. Systems and Controls

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

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



**S. Swarnajothi**
**Auditor General**

## GLOSARY OF FINANCIAL TERMS

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

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

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

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

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

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

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

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

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

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

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

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

## ABRIVIATIONS

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