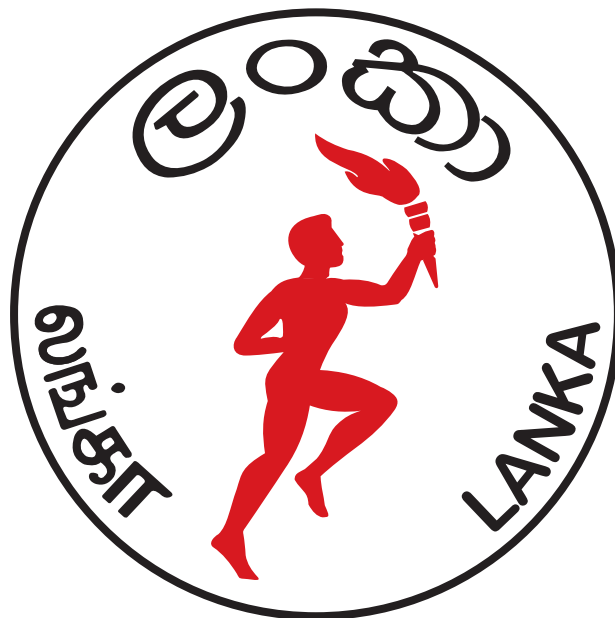


ANNUAL REPORT - 2012



CEYLON PETROLEUM CORPORATION



Ceylon Petroleum Corporation

2012

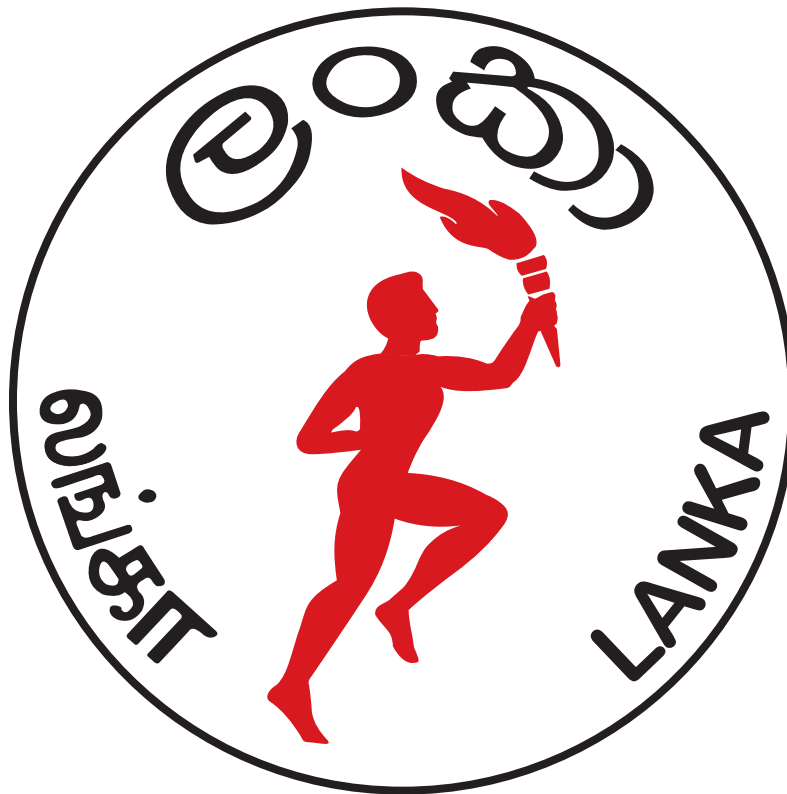
ANNUAL REPORT

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OUR VISION

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



OUR MISSION

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

CORPORATE INFORMATION

BOARD OF DIRECTORS

CHAIRMAN & MANAGING DIRECTOR

D H S Jayawardena (*until 13.01.2012*)
Wasantha Ekanayake (14.01.2012 - 23.02.2012) - (Actg.)
D Widanagamachchi (24.02.2012 – 09.08.12) - (Actg.)
Tilak Collure (since 10.08.2012) - (Chairman)

MANAGING DIRECTOR

L E Susantha Silva - **Director (since 11.04.2012)**
Managing Director - since (01.06.2012)

DIRECTORS

Ms. Sandya Wijayabandara
Dr. Hansa Wijayasuriya (since 10.08.12)
Ms. S Pushpa Wellappili (since 10.08.12)
Mr. Methsiri Wijegunawardana (from 01.01.12-09.08.2012)
Ms. Champika Dilhara Amarasekere (from 01.01.12-09.08.12)
Mr. Lakshman Gunawardena (from 01.01.12-09.08.12)
Mr. H D B Saman Kumara

AUDITORS

The Auditor General

REGISTERED OFFICE

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

Telephone	:	5455455
Telegrams	:	"LANKA OIL"
Cable	:	CEYPETCO
Telex	:	21235 CEPETCO CE
Fax	:	5455-400
E-mail	:	cpcsec@ceypetco.gov.lk
Website	:	www.ceypetco.gov.lk

BANKERS

People's Bank
Bank of Ceylon
Nations Trust Bank

Commercial Bank
Hatton National Bank Ltd.

SENIOR MANAGEMENT

Tilak Collure

Chairman

L E Susantha Silva

Managing Director

N R R Jayasekara

Refinery Manager

A R Abel

Dy. General Manager (Marketing)

S W Gamage

Dy. General Manager (HR & Admn.)

G A S P Gunawardena

Dy. General Manager (Planning & Dev.)

W Sarath Perera

Actg. Dy. General Manager (Finance)

N N I R Fernando

Dy. Refinery Manager (Technical Services)

N R Amarasinghe

**Deputy Refinery Manager
(Manufacturing & Operations)**

B H T Kulasekera

**Deputy Refinery Manager
(Maintenance & Projects)**

Ms. R T A Dabare

Finance Manager

Ms. R A K C Ariyaratne

Chief Legal Officer

C P Samaraweera

Commercial Manager

Samantha Pushpalal Withana

Human Resource Manager

Maj. M.R.S.P. Samarasinghe

Manager (Security)

M K Garusinghe

Manager (Development)

W M K R B Wickramasinghe

Marketing Manager (Lube Oil & LPG)

Ms. M S K Fernando

Manager (Information Technology)

S M C P Samarakoon

Marketing Manager (Retail)

S D S Rajapakse

Supplies Manager

M A D Mallikarachchi

Operations Manager (Aviation)

G P K Wijekoon

Manager (Engineering & Premises)

Y M Tilakarathne

Deputy Audit Manager

A D W K Abeysekera

**Dy. Operations Manager
(Sapugaskanda Terminal)**

S Medigodella

Actg. Manager (Agro Chemicals)

DIRECTORS' REPORT

In accordance with Section 32(3) of the Ceylon Petroleum Corporation Act No. 28 of 1961, the Directors of the Ceylon Petroleum Corporation (CPC) have pleasure in presenting their Annual Report together with Audited Financial Statements for the year ended 31 December 2012.

Principal Activities

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

Subsidiary Company

The provision of fuel storage and distribution facilities and provision of information technology services are core activities of the subsidiary company – Ceylon Petroleum Storage Terminals Ltd. (CPSTL). 2/3^{ds} of the share capital of CPSTL is owned by CPC. The CPSTL Board of Directors consists of 09 Directors, of which 06 Directors represent CPC.

Review of the Year's Performance

The Managing Director's Review on pages 11 to 18 deals with the year's performance of the Corporation.

Risks and Internal Controls

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

Corporate Governance

The Board of Directors is committed towards maintaining an effective Corporate Governance structure and process. The financial, operational and compliance functions of the Corporation are directed and controlled effectively within the Corporate Governance practices. The procedures and practices are in conformity with the Corporate Governance rules and regulations and are described in the Corporate Governance Report on pages 21 to 25 of this report.

Human Resources

The Corporation has recognized the valuable role of Human Resources in transforming its business mission and vision into reality. Accordingly, several measures were taken to enhance its human resource capital and to optimize their contribution towards the achievement of corporate goals and objectives. Our Human Resources policy emphasizes on providing all categories of employees with adequate opportunities for continuous upgrading of their knowledge and skills through local and overseas training. Development of human capital to ensure availability of a high level of technical and managerial capability within its human resources has become a priority objective for the Corporation.

Audit Committee

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

Sub Committees

Five sub Committees have been established to assist the Board of Directors to discharge its duties in an orderly manner viz. Senior Management Committee, Audit Committee, Technical Evaluation Committee, Procurement Committee and Weekly Stock Review Committee. The details of the sub committees are described in the Corporate Governance Report on pages 21 to 25 of this report.

Accounting Policies

The Accounting Policies adopted in the preparation of Financial Statements are given in pages 31 to 48 of the financial report. There have been no changes in the Accounting Policies adopted by the Corporation during the year under review.

Financial Performance

The main source of income of the Corporation is revenue generated from sale of petroleum products such as Diesel, Petrol, Kerosene and Aviation Fuel. The main income of the subsidiary company is throughput charges and transport charges collected for the supply of petroleum products. The gross revenue of the Corporation for the year 2012 was Rs.512,910 Mn. as against Rs.356,442 Mn. in the previous year.

Turnover

The turnover for the year had increased by 44% to Rs. 512.910 Bn. from Rs.356.442 Bn. in the previous year.

The total turnover of the Corporation during the year consisted of domestic Sales (97.31%) and Indirect Exports (2.69%). Diesel, Petrol, Kerosene and Furnace Oil are the major components of the domestic sales.

Profit / Loss

The Corporation reported a loss of Rs.97,308 Mn. in 2012 reflecting a decrease of 2.97% compared to the loss of Rs. 94,503 Mn. recorded in the previous year. However, due to the absence of cost reflective price revision in petroleum products in line with international oil price movement, losses continued to remain at a high level.

Domestic retail prices of petroleum products were revised twice in 2012 due to escalating price situation in the international market. The domestic retail prices of Petrol, Diesel and Kerosene were increased by Rs.12/-, Rs.31/- and Rs.35/- per litre, respectively, with effect from 12 February 2012. The domestic retail price of Petrol was again increased by Rs.10/- per litre, with effect from 14 December 2012. When compared with total segmental loss for the year 2012, heavy losses incurred by

CPC were due to sale of Auto Diesel, Fuel Oil and Naphtha at highly subsidized rates for power generation.

Details of the segmental loss of the year 2012 are noted below:-

Segment	Loss – Rs. Mn.
Transport – Supply of Diesel at subsidized rate	(32,506.926)
Power Generation – Supply of Naphtha and Fuel oil at subsidized rates	(53,756.765)
Aviation – Supply of Jet A-1 at highly subsidized rate	(336.109)
Industries – Supply of Fuel Oil and Industrial Kerosene	(3,270.729)
Domestic – Supply of LPG & Kerosene at subsidized prices	(3,901.812)
Farmer Community – Supply of Agro Chemicals	(2.289)
Export Sector – Naphtha & Fuel Oil	(113.560)

Despite the heavy losses incurred due to above reasons, the sale of Super Petrol, Super Diesel, Avgas, Lube Oil, Asphalt and Solvents had contributed positively with a profit contribution of Rs.1,770 Mn. This together with other income & Finance income received amounting to Rs.2,887 Mn. enabled the Corporation to limit its overall loss to Rs.97,308Mn. during the year.

The international crude oil prices increased in year 2012. The average crude oil price (Oman/Dubai) increased to US\$.109 per barrel in year 2012 reflecting a 2.5% increase compared to year 2011. The supply uncertainties caused by political and economic disturbances in oil producing countries in the Middle East and North Africa exerted an upward pressure on international crude oil prices. The average C & F price of crude oil imported by CPC increased by 5.1% to US\$. 115 per barrel in 2012.

The consumption of petroleum products increased during the year 2012 reflecting an increased demand for transportation and power generation sectors. Sales quantities of Petrol, Auto Diesel and Super Diesel have increased by 10%, 4% and 57% respectively in the year 2012 compared with the previous year. An analysis is given in Note 01 to the Financial Statements for the year 2012.

Details of profits / (loss) are given below:

	2012	2011
	Rs. Mn.	
Revenue	512,910.308	356,442.364
Cost of Sales	(568,572.793)	(428,070.572)
Gross Profit / (Loss)	(55,662.485)	(71,628.208)
Other Operating Income	434.700	230.413
Selling & Distribution Expenses	(12,633.096)	(10,861.465)
Administrative Expenses	(5,800.737)	(3,425.924)
Financial Charges	(18,359.678)	(9,000.571)
Finance Income	2,413.145	304.455
Income on Investment Property	38.976	24.657
Profit/(loss) Before Tax	(89,569.175)	(94,356.643)
Hedging Expenses	(7,611.600)	-
Other Comprehensive Income	(127.598)	(146.803)
Loss for the year	(97,308.373)	(94,503.446)

Contribution to the Government

	2012	2011
	Rs. Mn.	
Value Added Taxes	1,538	1,337
Excise Duty	26,089	23,935
PAL	20,810	14,537
Custom Duty	9,735	440
NBT	3,147	1,897
TOTAL	61,319	42,146

Operating Expenses

The total operating expenses increased to Rs. 36,793.511 Mn. during the year under review, when compared with the figure of Rs. 23,287.96 Mn. recorded during the previous year which is a 58% increase.

Capital Expenditure

The total Capital Expenditure for the year was Rs.1,280.428 Mn. as against Rs.989.091 Mn. during the year 2011.

Property, Plant & Equipment

Details of Property, Plant & Equipment of the Corporation and their movements are given in Note 4 to the Financial Statements on page 50.

Reserves

The negative equity capital of Rs.131,236 Mn. as at 31.12.2011 had further deteriorated during the year to Rs. 228,544 Mn. largely due to accumulated financial losses since 2008. Movements are given in the Statement of Changes in Equity on page 29.

Contributed Capital

The total Contributed Capital of the Corporation as at 31 December 2012 was Rs. 3,500 Mn.

Board of Directors

The Board comprises of 06 Directors including the Chairman. The Directors of the Corporation during the year under review were:

D H S Jayawardena (Until 13.01.2012) – Chairman & MD

Wasantha Ekanayake (14.01.2012 - 23.02.2012) - (Actg.) - Chairman & MD

D Widanagamachchi (24.02.2012 – 09.08.12) - (Actg.) – Chairman & MD

Mr. Tilak Collure – Chairman (since 10.08.2012)

Mr. L E Susantha Silva - Managing Director (since 01.06.2012)

Ms. Sandhya Wijayabandara

Dr. Hansa Wijayasuriya

Ms. S Pushpa Wellappili

Mr. H D B Saman Kumara

Directors' Interest in Contracts & Related Party Transaction

During the year under review, Mr. L E Susantha Silva, Managing Director of CPC functioned as a Director of CPSTL and the Housing Development Finance Corporation (HDFC) while Mr. H D B Saman Kumara functioned as Director at CPSTL.

Compliance with Laws and Regulations

The Corporation has not engaged in any activities contravening the applicable laws and regulations.

Statutory Payments

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

Going Concern

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

Appointment of Auditors

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

For and on behalf of the Board of Directors,



Tilak Collure
CHAIRMAN

MANAGING DIRECTOR'S REVIEW

Introduction

As reported by the Central Bank of Sri Lanka, Sri Lanka's gross domestic product (GDP) grew by an impressive 6.4% percent in 2012.

International crude oil prices remained high in 2012. The average international crude oil price Oman/Dubai increased to US Dollars 109 per barrel in 2012 reflecting an increase of 2.5% increase compared to 2011. Supply uncertainties caused by political disturbances in oil producing countries in the Middle East and North Africa exerted an upward pressure on international crude oil prices. Also, due to the imposition of USA sanctions on Iran, CPC was deprived of obtaining supplier's credit for 120 days which resulted in deterioration of the liquidity position of CPC.

The average cost and freight (C&F) price of crude oil imported by CPC increased by 5.1% to US Dollars 115 per barrel in 2012. The domestic retail prices of petroleum products were revised twice in 2012 due to higher prices in the International market.

Major Milestones taken to Improve Financial and Operational Health of CPC

- Awarding of dealership on competitive tender basis – The Corporation earned a considerable income from outlets which were granted to dealers without any income to CPC now awarded on rentals.
- To coincide with the 50th Anniversary of CPC, Marketing Function arranged the following programmes
 - Multi Religious Programmes Islandwide
 - Community Service to grant donations to eight schools with very limited facilities
 - Evaluation of Filling Stations to grade them as A, B & C categories
- Extension of Petrol facility for the existing outlets

The 32 dealers who operate their dealership more than 10 years with Lanka Kerosene or Diesel facilities are recommended to the Board of Directors to grant Lanka Petrol 90 octane facility and upgrade them to the status of Filling Station.

- **Dayata Kirula National Exhibition**

Under the “Deyata Kirula” National Exhibition in Oyamaduwa, the Corporation refurbished the Asoka Vidyalaya at Siyambalagaswewa which was with very limited facilities for the students in the area costing Rs.2.1 million with the contribution of the dealers of the subject area. A new filling station was established at Jayanthi Mawatha, Anuradhapura and Oyamaduwa. Also, selected Corporation owned outlets in Anuradhapura area were renovated and 14 Nos. of Dealer Owned Category outlets were also renovated at their cost. The Diesel Depot at Pamaduwa was also upgraded to the status of a filling station granting Lanka Petrol 90 octane facility for the benefit of the general public.

- It was decided to introduce trouble free new dispensers and to import sophisticated high performance fuel dispensers
- Commissioning of Fuel Hydrant System and Tank Farm at Hambantota International Airport
- Commission of the dealers was increased from 1.75% to 2.5% in the case of dealer owned dealer operated (DODO) dealers and 1.5% to 2.5% to Corporation owned dealer operated (CODO) category dealers with effect from 01 April 2011 in order to minimize adulteration and tempering of meters of dispensing pumps as CPC has not adjusted dealer's commission for a long period of time although petroleum prices have been increased during the past period. Some of the dealers were compelled to bleed the consumers by adulterating and tempering of meters due to non-revision of commission for a long time. This increased to a greater success during this period and we received minimum complaints of tempering meters and adulteration of fuel. CPC increased a lot of spot checks island-wide filling stations to investigate adulteration and adjusting meters. A lot of dealers were at heavy pressure to stop this and the Corporation was able to reduce greatly tempering of meters and adulteration substantially as a result of continuous checks. Busted long standing racketeers who were operating, with the help of the Ministry of Defence to raid all the unscrupulous dealers who were dealing with sludge oil leaking into trade in big quantities were minimized.
- There were two price increases during the year. If not for these two revisions, our loss would have been greater than the loss of Rs. 97 Bn. reported in the year. Attempts were made with the help of the General Treasury and the Ministry of Petroleum Industries to recover trade debts receivable from state owned departments and commercial enterprises.

- CPC negotiated with all the banks and reduced the exorbitant interest charged at a commercial level in par with other takers in the market
- Introduced first time in CPC for initiating all banks exchange rate quoted and monitored on daily basis and Dollars were purchased not at the bankers quoted rate but at the market rate by monitoring market behaviors. As a result of this, CPC had obtained a substantial gain from this operation.
- Action was taken to strengthen the Finance, Legal, Administration, Retail Marketing Departments by employing professionally capable managers to improve operational and financial health of the Corporation.
- During the year under review, the refinery operated with minimum breakdowns and continued in a satisfactory manner. Plant maintenance programme, cleaning of tanks and all other activities were carried out which enabled to improve the storage capacity of the petroleum products. This resulted in supply of fuel at lesser cost compared with high imported cost of finished petroleum products prevailed in the year.

- **Construction of fuel Hydrant System and Tank Farm at HIA**

A major portion (90%) of the construction work of the Fuel Hydrant System and the Tank Farm at Hambantota International Airport within the apron area under the above project of high national importance being carried out by M/s. China Harbour Engineering Co. Ltd. was completed during 2012. Timely completion of this project enabled Airport & Aviation Authority of Sri Lanka to complete the Airport Construction Project.

- **Expansion of the Existing Storage Capacity at BIA Katunayake**

Initiatives have been taken to appoint a consultant to obtain the Engineering Design for the new fuel hydrant system within the Apron E of the Stage 2 phase ii Airport Expansion program of AASL. The Cabinet approval has been granted to obtain the service of M/s. Hansconsult Ingenieurgesellschaft mbH, the same consultant for HIA, to do the Engineering Design for which US\$.600,000 has been allocated from CPC funds. After this, bids are to be invited for

implementation of the project. National Planning Department has been informed of the fund requirement for this implementation.

- **Sapugaskanda Mini Terminal Tank Modification Project**

The Contract was awarded for conversion of two tanks for petrol gantry filling. This has been slightly delayed due to the requirement of the tanks to store diesel, caused by the problem at refinery with crude oil. Equipment is being ordered for the gantry.

- **New Pipeline Projects**

Following two pipelines have been selected as of national importance and initiatives have been taken to obtain the necessary approval to reserve pipeline tracers.

- i. Pipeline between Hambantota Port Jet A-1 tank farm upto Hambantota International Airport, Mattala

- ii. Pipeline linking Muthurajawela Terminal and Kolonnawa Terminal

The pipeline between Muthurajawela Terminal and Kolonnawa Terminal with a probable trace along Colombo Katunayake Highway has been identified. The balance work will have to be carried out during 2013 by CPSTL.

- **Sapugaskanda Oil refinery Expansion and Modernization Project (SOREM)**

Approximately 98% of the institutional works related to land acquisition were completed by end of the year 2012. However, the payments of compensation for some parties were delayed due to incomplete legal proceeding over ownership disputes and protest over inadequate compensations offered to land owners. Fencing around the acquired land area has been commenced and expected to complete within a week time. Once the fencing is completed, clearing of the land will be commenced.

- **Lubricants**

The performance of the lubricant business has increased rapidly over the year. The turnover for 2012 was Rs.1.980 billion compared to Rs.1.571 billion of the previous year showing a growth of 26% during the year. The Lubricant business recorded a profit of Rs.46 billion.

- **Sapugaskanda New Terminal**

Development Projects

- (i) Conversion of 02 Diesel Tanks into Gasolene
- (ii) Upgrading of Automated Tank Truck Loading System and Infrastructure of the storage facility
- (iii) Construction of Oil Separation System for Effluent Water to Minimize Potential Environment Hazardous
- (iv) Expand the Storage Facility by construction of a 10,000 MT capacity Tank for Lanka Auto Diesel

Financial Performance

The Corporation has continued to incur a loss of Rs. 97.3 Bn. during the year. The main contributory factors for the financial loss were due to non-adjustment of prices in line with international oil prices during the year, sale of furnace oil to CEB and individual power producers at a subsidized rate and subsidy granted on kerosene.

The loss incurred by selling Furnace Oil & Naphtha for power generation and industries was Rs. 54 Bn. The loss due to concessions granted to the general public on account of Kerosene was Rs.4 Bn.

Corporate Governance

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

Corporate Social Responsibility

Corporate Social Responsibility continues to be our main focus of attention and all attempts are made to meet the needs of the entire nation at the least possible cost to the consumer. We also guarantee uninterrupted fuel supplies to the Government Institutions at any cost.

CPC has contributed a massive amount of Rs. 61.319 Bn. to the Government coffers by duties and taxes during the year 2012. CPC has supplied fuel for power generation purposes and Diesel for transportation sector at a heavily subsidized price which enabled to mitigate the impact on all economic activities due to external international oil price movement.

Production

The Refinery completed 43 years of operation on 6th August. It had operated for 338 stream days and processed 1,596,058 metric tons of Crude Oil during the year. The middle distillate recovery as a percentage of the weight of crude intake was 38.4% and the own use and handling losses were 6.18%.

Import of Crude Oil and Refined Products

The Corporation has imported 1,626 Mn. metric tons of crude oil at a C&F cost of USD 1,369.040 million. The average crude oil (C&F) cost is USD 115 per Bbl. compared to USD 110 per Bbl. during the previous year. The freight charges for importing crude oil averaged to USD 8.20 per metric ton, when compared to 9.46 per MT in the previous year.

Refined bulk products imports were 2,778 Mn. metric tons and the cost was USD 2,633.552 Mn.

Services by Ceylon Petroleum Storage Terminal Ltd. (CPSTL)

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

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

Agrochemicals

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

The current "Ceypetco" agro chemical product range consist of 5 Weedcides, 4 Fungicides and 6 Insecticides. Serious consideration has continuously being given to extend our product range to cover other agro based areas in the future and are hoping to introduce new insecticides, systemic fungicides for paddy cultivation. We also plan to promote sales of Ceypetco by starting agro Sales Centers, which would be set up in Northern Province through Ceypetco Agro dealers. We are also planning to expand

stores capacity in six sales centres and to give discounts to selected dealers and customers to improve the sales volume and expand district network.

Human Resource Development and Welfare

The employee strength by the end of year 2012 was 2,637 in the permanent cadre and 21 in the casual cadre.

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

A gratuity equivalent to $\frac{1}{2}$ 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 on death of an employee. The Corporation also provides financial assistance to the CPC Employees' Sports Club with a view to encourage sports activities. It maintains four Holiday Homes outstation, exclusively for the usage of employees and their families. There are several loan facilities granted at concessionary interest rates to fulfill many necessities of employees.

We have also allocated funds for training employees locally and abroad. Funds are also allocated for improving the knowledge of languages and computer literacy of employees to upgrade their working environment by sending them for post graduate Diplomas/Degrees and Rs. 875,000/ was spent during the year under review.

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/=

During the year, 244 employees were facilitated.

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

To coincide with 50th Anniversary of the CPC, the Marketing Function has arranged the undernoted programmes to commemorate the same.

- Four multi religious Programmes were held islandwide
- Community service to grant donations to eight selected schools with every limited facilities
- 11 training programmes were held islandwide
- Evaluation of filling stations to grade them into A, B & C categories

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 the world environmental standards, CPC is planning a modernization project at refinery, in order to produce low sulphur Diesel. At present 98% of land acquisition is completed and awaiting project financing for commencement.

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 ably supported in meeting the challenges faced by the Corporation during this period. I also thank the Hon. Minister of Petroleum Industries and his Ministry Officials, the Treasury, the Central Bank, our business partners and customers for their co-operation and support.



L E Susantha Silva

MANAGING DIRECTOR

CYELON PETROLEUM CORPORATION

STATEMENT OF VALUE ADDED

Rupees Million	2012		2011	
Turnover	542,146		382,268	
Bought in materials & services	(556,393)		(423,138)	
Value Added	(14,247)		(40,870)	
Applied the following way		%		%
To pay employees				
Wages & fringe benefits	2,865	(20.10)	2,070	(5.06)
To pay providers of capital				
Interest on loans	18,360	(128.87)	9,001	(22.03)
To provide maintenance and expansion of assets				
Depreciation	517	(3.63)	417	(1.02)
Retained Profit	(97,308)	683.00	(94,503)	231.23
To pay Government				
Taxes, Duties, Stamp duty and	61,319	(430.40)	42,146	(103.12)
Contribution to the General Treasury				
Value Added	(14,247)	100.00	(40,870)	100.00

HIGHLIGHTS

FINANCIAL	UNIT	2012	2011
Gross Revenue	Rs. Mn.	512,910.308	356,442.364
Gross Profit/(Loss)	Rs. Mn.	(55,662.485)	(70,588.126)
Operational Profit/(Loss)	Rs. Mn.	(72,209.496)	(85,356.072)
Finance Charges	Rs. Mn.	18,359.678	9,000.571
Profit / (Loss) before Taxation	Rs. Mn.	(89,569.175)	(94,356.643)
Net profit / (Loss) after Taxation	Rs. Mn.	(89,569.175)	(94,356.643)
Capital and Reserves	Rs. Mn.	(228,544.515)	(131,236.142)
Long Term Borrowings	Rs. Mn.	1,998.218	27,645.587
Capital Expenditure	Rs. Mn.	223.360	1,945.539
IMPORTS			
Crude Oil Imports	Metric Tons	1,626.826	1,931.529
Refined Bulk Products Imports	Metric Tons	2,778.654	1,449.969
C&F Value	Rs. Mn.	516,153.897	189,848.570
OPERATIONS			
Sales	Metric Tons	4,405.502	4,234.808
Refinery Throughput	Metric Tons	1,555.943	2,003.674
MARKETING			
CPC Owned	Number	248	248
Dealer Owned	Number	795	775
Dealer controlled	Number	47	47
EMPLOYEES			
No. of employees at the year end	Number	2,658	2,610
Total emoluments for the year	Rs. Mn.	2,824.431	2,213.654
Value added per employee	Rs.	1,062,615	848,143

CORPORATE GOVERNANCE

Corporate Governance

As the major supplier of Petroleum fuel for National requirements, the Ceylon Petroleum Corporation affects the lives of all individuals and institutions in the country. The Board of Directors is therefore, committed to the practice of sound corporate governance and thereby maintain the highest standards in the operations of the Corporation. The Board believes that proper governance helps to discharge corporate responsibilities relating to transparency, disclosure and accountability. Moreover, they are of the view that strengthening corporate governance is a continuous process. This section describes some of the structures, processes and procedures of corporate governance in the Ceylon Petroleum Corporation.

Board of Directors

The Board of Directors comprises of six members, including the Chairman, appointed by the Minister of Petroleum Industries, in accordance with the Ceylon Petroleum Corporation Act. No. 28 of 1961 and its amendments. One such Director is a representative of the Treasury (Ministry of Finance). All Directors other than the Chairman and the Managing Director are Non-Executive Directors, Mr. L E Susantha Silva was appointed as the Managing Director with effect from 01 June 2012.

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

Board Meetings

Monthly Board Meetings are held on a regular basis, while special Board Meetings are convened as and when required.

Eighteen Board Meetings were held during the year under review, and there was full attendance at all of these meetings.

Compliance and Transparency

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

Composition of the Audit Committee

At the 55th Audit Committee meeting, 03 Non-Executive Directors namely Mr. Methsiri Wijegunawardena (Chairman – 55th Audit Committee), Ms. Champika Dilhara Amarasekera and Ms. Sandya Wijayabandara acted as members of the Committee. (Member)

Commencing from 56th Audit Committee to 58th Audit Committee meetings, 03 Non-Executive Directors were appointed and Dr. Hansa Wijayasuriya served as the Chairman of the Committee. The other two members were Ms. S P Wellappili and Ms. Sandya Wijayabandara.

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

Tasks of the Audit Committee

During the year under review, the Committee has focused its attention on the report submitted by the Auditor General on the affairs of the financial and operational aspects of CPC, evaluation of the performance of CPC Internal Audit, assessing the reports and replies sent with regard to the external and internal audit queries and reports, the methodology adopted for recoverability of trade debts, evaluation of progress of the ERP Project and the current position of the idle properties.

2. Audit Committee Meetings

Four Audit Committee meetings have been conducted during the year under review.

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

Serial No.	Date	Chairman of the Committee	No. of Committee Members	Names of Members attended
55	25.07.12	Mr.Methsiri Wijegunawardena	03	Mrs.Champika Dilahara Amarasekara Mrs.Sandya Wijayabandara.
56	04.10.12	Dr. Hansa Wijayasuriya	03	Ms. S P Wellappili Ms.Sandya Wijayabandara.
57	14.11.12	Dr. Hansa Wijayasuriya	03	Ms. S P Wellappili Ms.Sandya Wijayabandara
58	08.01.13	Dr. Hansa Wijayasuriya	03	Ms. S P Wellappili Ms.Sandya Wijayabandara

3. Work performed by the Audit Committee

The Audit Committee has made several decisions and recommendations on strategic issues for submitting to the Board of Directors for workable actions.

i. Discussion of the Report of the Auditor General for the year ended 31.12.2012

Deficiencies highlighted by the Auditor General's Report were detailed to prevent repetitions and for taking corrective action.

- ii. In identifying the causes and effects for the losses incurred by non-petroleum product sales, a detailed analysis and studies were carried out to propose or recommend immediate suitable actions for turning around the loss making units and improving other profitable ventures.

iii. Ensuring the adequacy of internal controls and the quality of products delivered to end users.

Control weaknesses identified due to the changes caused by implementing SAP system were addressed to recommend suitable controls.

Complaints of Dealers with regard to compliance of CPC Procedures was ensured with audits carried out at Filling Stations.

iv. Identification of Risks ranking on the basis of the value and the importance

A separate committee for addressing risk areas of CPC was formed and the top 10 risks were proposed to be addressed together with the options for mitigating the risks .

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.

Stock Review Committee

These are held weekly with the participation of CPSTL staff and representatives of CEB and IOC. The stock position is reviewed and the requirements for the three month future period is planned.

Taking into account, the country requirement as against the Refinery production, the quantity to be imported is identified and shipments are planned taking into consideration of available tank storage capacity. Regular close monitoring enables the Corporation to ensure uninterrupted supply of fuel in the country.

Procurement Committees (PC) and Tender Evaluation Committees (TEC)

The National Procurement Agency has issued a set of guidelines for the purchase of products, goods services and works. The relevant TEC and the PC function under the guidelines issued by the NPA to ensure transparency, minimize delays and to obtain financially, the most advantageous and qualitatively best services and supplies to CPC.

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 International Financial Reporting Systems, the Finance Act and the Corporation's Parent Act.

Internal Controls

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

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

Internal Audit

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

In addition to the audit assignments and programmes during the year under review, the Internal Audit has also focused on the following areas;

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

FINANCIAL STATEMENTS

- Statement of Comprehensive Income
- Statement of Financial Position
- Statement of Changes in Equity
- Statement of Cash Flow
- Notes to the Financial Statement

STATEMENT OF COMPREHENSIVE INCOME


For the year ended 31st December	Note	CPC		GROUP	
		2012 Rs. Mn.	2011 Rs. Mn.	2012 Rs. Mn.	2011 Rs. Mn.
Revenue	1	512,910.308	356,442.364	514,546.562	356,895.047
Cost of Sales	2	(568,572.793)	(428,070.572)	(575,399.595)	(433,969.689)
Gross Profit/(Loss)		(55,662.485)	(71,628.208)	(60,853.033)	(77,074.642)
Other Operating Income	3	434.700	230.413	543.118	378.436
Selling & Distribution Expenses	3.1	(12,633.096)	(10,861.465)	(2,773.532)	(1,142.937)
Administrative Expenses	3.2	(5,800.737)	(3,425.924)	(8,801.501)	(5,517.977)
Finance Charges	3.3	(18,359.678)	(9,000.571)	(18,360.200)	(9,002.041)
Finance Income	3.4	2,413.145	304.455	2,472.059	319.366
Income on Investment Property	3.5	38.976	24.657	38.976	24.657
Profit/(Loss) Before Income Tax		(89,569.175)	(94,356.643)	(87,734.113)	(92,015.138)
Income Tax expense		-	-	(75.914)	(752.287)
Profit/(Loss) After Tax before extra ordinary activities		(89,569.175)	(94,356.643)	(87,810.026)	(92,767.426)
Less: Hedging Expenses		(7,611.600)	-	(7,611.600)	-
Profit/(Loss) After Tax after extra ordinary activities		(97,180.775)	(94,356.643)	(95,421.626)	(92,767.426)
OTHER COMPREHENSIVE INCOME					
Loss on investment		(51.500)	(41.000)	(51.500)	(41.000)
Acturial Loss		(76.098)	(105.803)	(76.098)	(105.803)
Other comprehensive loss for the year		(127.598)	(146.803)	(127.598)	(146.803)
Total Other comprehensive loss for the year		(97,308.373)	(94,503.446)	(95,549.224)	(92,914.229)
Less : Non controlling interest		-	-	(586.383)	(529.739)
Profit/(Loss) for the year		(97,308.373)	(94,503.446)	(96,135.607)	(93,443.968)


The Notes appearing on pages 31 to 62 form an integral part of the Financial Statement


STATEMENT OF FINANCIAL POSITION

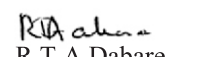
As at	Note	CPC				GROUP	
		31.12.2012 Rs. Mn.	31.12.2011 Rs. Mn.	31.12.2010 Rs. Mn.	31.12.2012 Rs. Mn.	31.12.2011 Rs. Mn.	31.12.2010 Rs. Mn.
ASSETS							
Non - Current Assets							
Property, Plant & Equipment	4	9,572.201	8,823.681	8,252.799	28,627.947	29,006.192	27,728.563
Investment Property	4.5	26.970	26.691	27.285	26.970	26.691	27.285
Intangible Assets	4.7				229.428	266.852	349.047
Investment in Subsidiary	5.1	5,000.000	5,000.000	5,000.000	-	-	
Other Investments	5.2	53.126	104.626	145.626	53.126	104.626	145.626
Investments in Fixed Deposits	5.3	5.000	5.000	5.000	5.000	5.000	5.000
Trade and Other Receivables - More than one year	6	16,110.986	4,168.548	6,699.985	14,682.463	742.965	3,538.115
Deferred Tax Asset		-	689.623	689.623	-	689.623	689.623
		30,768.283	18,818.169	20,820.318	43,624.935	30,841.948	32,483.259
Current Assets							
Inventories	7	62,189.825	37,078.486	41,407.414	62,550.296	37,450.028	41,814.202
Trade & Other Receivables - Due within one year	6	101,403.011	118,384.937	80,022.307	104,303.415	121,343.506	81,731.835
Income Tax Recoverable		246.990	246.990	244.357	628.057	525.174	574.893
Cash and Cash Equivalents	8	11,623.634	12,686.986	13,312.111	12,085.561	13,081.902	13,603.197
		175,463.460	168,397.399	134,986.189	179,567.329	172,400.609	137,724.127
Total Assets		206,231.743	187,215.568	155,806.507	223,192.264	203,242.557	170,207.386
EQUITY AND LIABILITIES							
Capital and Reserves							
Contributed Capital	9	1,000.000	1,000.000	1,000.000	1,000.000	1,000.000	1,000.000
Shares Held in C. P. S. T. L		2,500.000	2,500.000	2,500.000	2,500.000	2,500.000	2,500.000
Capital Reserve	10	4,992.686	4,992.686	4,992.686	4,992.686	4,992.686	4,992.686
Insurance Reserve				619.432			619.432
Reserve on consolidation		-	-		2,485.643	2,485.643	2,485.643
Retained Earnings		(237,037.201)	(139,728.828)	(46,480.698)	(233,748.588)	(138,240.147)	(46,051.496)
Non controlling interest		-			5,387.128	4,487.162	3,957.423
Total Equity		(228,544.515)	(131,236.142)	(37,368.580)	(217,383.131)	(122,774.656)	(30,496.311)
Non - Current Liabilities							
Retirement Benefits Liability		546.935	626.675	746.337	1,652.777	1,481.089	1,594.572
Deferred tax					366.065	1,243.095	712.662
Interest Bearing Loans & Borrowings	11	1,998.218	27,645.587	28,477.292	4,521.422	29,399.240	30,690.421
		2,545.153	28,272.262	29,223.629	6,540.265	32,123.424	32,997.654
Current Liabilities							
Trade and Other Payables	12	220,897.351	167,033.008	145,633.316	221,848.494	169,792.400	148,674.564
Interest Bearing Loans & Borrowings	13	211,163.063	122,975.749	18,147.451	212,015.945	123,930.697	18,860.788
Provision for Deemed Dividend Tax Expense		170.691	170.691	170.691	170.691	170.691	170.691
		432,231.105	290,179.448	163,951.458	434,035.130	293,893.788	167,706.043
Total Equity and Liabilities		206,231.743	187,215.568	155,806.507	223,192.264	203,242.557	170,207.386

The Notes appearing on pages 31 to 62 form an integral part of the Financial Statement


Tilak collure
Chairman


L E Susantha silva
Managing Director


W Sarath perera
Acting D.G.M -Finance


R T A Dabare
Finance Manager

STATEMENT OF CHANGES IN EQUITY

	Contributed Capital Rs. Mn.	Shares held in CPSTL	Capital Reserve Rs. Mn.	Insurance Reserve Rs. Mn.	Reserve on Consolidation Rs. Mn.	Retained Earnings Rs. Mn.	Shareholders fund Rs. Mn.	Non controlling Interest Rs. Mn.	Total Equity Rs. Mn.
Balance as at 31st December 2010	1,000.000	2,500.000	4,992.686	619.432	2,485.643	(46,051.496)	(34,453.735)	3,957.423	(30,496.312)
Comprehensive income									
Loss for the year						(93,297.165)	(93,297.165)		(93,297.165)
Other comprehensive income for the year						(146.803)	(146.803)		(146.803)
Total comprehensive income for 2011						(93,443.968)	(93,443.968)		(123,940.280)
Addition during the year							-		-
Surplus during the year				0.776		635.108	635.884		635.884
Transferred to retained earnings/Reversal				(620.208)		620.208	-		-
Balance as at 31 December 2011	1,000.000	2,500.000	4,992.686	-	2,485.643	(138,240.148)	(124,776.175)	4,487.162	(122,774.656)
Comprehensive income									
Loss for the year				-		(96,008.009)	(96,008.009)		(96,008.009)
Other comprehensive income for the year						(127.598)	(127.598)		(127.598)
Adjustments to CPSTL Retained earnings						627.167	627.167		627.167
Total comprehensive income for 2012				-		(95,508.440)	(96,135.607)		(95,508.440)
Balance as at 31st December 2012	1,000.000	2,500.000	4,992.686	-	2,485.643	(233,748.588)	(222,770.258)	5,387.128	(217,383.130)

The Notes appearing on pages 31 to 62 form an integral part of the Financial Statement

STATEMENT OF CASH FLOW

		CPC		GROUP	
For the year ended 31st December	Notes	2012 Rs. Mn.	2011 Rs. Mn.	2012 Rs. Mn.	2011 Rs. Mn.
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash generated from operations	14	(50,699.387)	(93,710.317)	(49,807.891)	(90,124.146)
Interest Paid		(18,359.678)	(9,000.571)	(19,084.230)	(9,647.458)
Retiring Gratuity Paid		(39.000)	(42.801)	(102.938)	(95.551)
Income Tax/WHT paid		689.623	(2.633)	574.622	(172.134)
Net Cash Generated from Operating activities		(68,408.442)	(102,756.322)	(68,420.436)	(100,039.288)
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisition of Property, Plant & Equipment		(1,280.428)	(989.091)	(1,356.747)	(2,835.864)
Proceeds from Sale of Property, Plant & Equipment		15.762	40.674	16.098	48.604
Income from Investment		0.003	0.003	0.003	0.003
Interest Received		2,413.145	304.455	2,472.059	319.366
Net Cash Used in Investing Activities		1,148.481	(643.959)	1,131.413	(2,467.892)
CASH FLOWS FROM FINANCING ACTIVITIES					
Loans obtained during the period				1,135.400	150.269
Net lease financing during the period					(15.420)
Repayment of Long Term Loans		62,539.945	119,016.505	61,480.735	117,835.346
Non controlling interest					
Net Cash From/(Used in) Financing Activities		62,539.945	119,016.505	62,616.135	117,970.195
Net Increase/(Decrease) in Cash & Cash Equivalents					
Cash & Cash Equivalents at Beginning of the Year		11,655.102	(3,961.122)	11,704.819	-
Cash & Cash Equivalents at End of the Year	8	6,935.086	11,655.102	7,031.931	15,463.015

The Notes appearing on pages 31 to 62 form an integral part of the Financial Statement

SIGNIFICANT ACCOUNTING POLICIES

1.

CORPORATE INFORMATION 1.1

General

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

1.2 Principal Activities and Nature of Operations

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

1.3 Parent Entity and Ultimate Parent Entity & Subsidiary Company

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

1.4 Date of Authorization for Issue

The Consolidated Financial Statements of the Ceylon Petroleum Corporation for the year ended 31 December 2012 were authorized for issue in accordance with a resolution of the Board of Directors on 18th February 2014.

2.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES 2.1

Basis of Preparation

The Financial Statements are prepared under the historical cost basis (except revaluation) in accordance with Sri Lanka Accounting Standards (SLFRSs / LKASs) introduced by Institute of Chartered Accountants of Sri Lanka with effect from 1 January and in accordance with the provisions of the Finance Act No. 38 of 1971. These are the Corporation's first annual financial statements prepared in accordance with SLFRSs / LKASs.

The financial statements have been prepared in compliance with SLFRSs / LKASs. Subject to certain transition elections and exceptions disclosed in Note 19. The Corporation has consistently applied the accounting policies used in the preparation of its opening SLFRS

statement of financial position at 1 January 2011 throughout all periods presented, as if these policies had always been in effect, Note 18(a)/(b)/(c) discloses the impact of statement of the transition to SLFRSs / LKASs on the Corporation's reported financial position, financial performance and cash flows including the nature and effect of significant changes in accounting policies from those used in the Corporation's financial statements for the year ended 31 December 2011 prepared under previous Sri Lanka Accounting Standards.

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

2.1.1 Basis of Consolidation

The CPC's Financial Statements comprise the consolidation of the financial statements of the Ceylon Petroleum Storage Terminal Limited (CPSTL) which is an integral to the CPC as CPC owns 2/3rd of Shares of CPSTL. The Group financial statements comprise consolidation of CPC's Financial Statements with CPSTL.

2.1.2 Accounting Standards issued but not adopted

(a) New Standards, amendments and interpretations issues but not effective for the financial year beginning 1 January 2012 and not early adopted:

(i) SLFRS 13, 'Fair Value Measurement' aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across SLFRSs.

(ii) SLFRS 9, 'Financial Instruments' addresses the classification, measurement and recognition of financial assets and financial liabilities. SLFRS 9 replaces the parts of LKAS 39, that relate to the classification and measurement of financial instruments. SLFRS 9 requires financial assets to be classified into two measurement categories; those measured at fair value and those measured at amortized cost. The determination is made at initial recognition and classification depends on the entity's business model. The Corporation yet to assess the SLFRS 9's full impact.

(iii) SLFRS 12, 'Disclosures of interests in other entities' including the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates etc.

There are no other SLFRSs that are not yet effective that would be expected to have a material impact on the Corporation.

2.1.3 Statement of Compliance

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

2.1.4 Going Concern

These financial statements are prepared on the assumption that the corporation is a going concern i.e. as continuing in operation for the foreseeable future. It is therefore assumed that that the corporation has neither the intention nor the necessity of liquidating or of curtailing materially the scale of its operation even though the corporation has suffered a loss of Rs 96,135 Million and a negative equity position of Rs 217,383 Million as per the financial statements prepared for the year ended 31st December, 2012. The General Treasury has provided Treasury Guarantee on behalf of CPC to foreign currency loans of US\$ 1,000 million for Bank of Ceylon and US\$ 650 million for People's Bank. All Letter of Credits are operated through BOC & People's Bank.

2.1.5 Comparative Information

As discussed in 2.1, with the adoption of Sri Lanka Accounting Standards (SLFRs / LKASs), the comparatives have been adjusted where necessary to conform with the change in the presentation in the current year.

2.2 Summary of Significant Accounting Judgments, Estimates and Assumptions

The preparation of financial statements in conformity with Sri Lanka Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Corporation's accounting policies. The areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed below:

Pension obligation (gratuity)

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

The management determines the appropriate discount rate at the end of each year. This is the interest rate that should be used in determining the present value of estimated future cash flows expected to be required to settle the pension obligation. In determining the discount rate, management considers the interest rates of government bonds in the absence of deep market for corporate bonds in Sri Lanka.

Other key assumptions for pension obligation are based on current market conditions. Additional information is disclosed in Note 24.

Impairment of available-for-sale equity instruments

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

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 re-translated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to Income Statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in foreign currency are translated using the exchange rates at the date when the fair value is determined.

2.3.2 Taxation

Current Tax

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

The provision for income tax is based on the elements of income and expenditure as reported in the Financial Statements and computed in accordance with the provisions of the Inland Revenue Act No. 10 of 2006 and the amendments thereto. However, during the current year, no tax liability has arisen due to loss making position of the Corporation and five year tax holiday granted with effect from year of assessment 2011/12.

Deferred Taxation

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

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

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

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

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

Sales Tax

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

Sales tax recoverable and payable in respect of taxation authorities is included as a part of receivable and payables in the Balance Sheet.

2.3.3 Borrowing Costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying asset, which are assets that necessarily take a substantial period of time to get ready for their intended use or sell, are added to the costs of those assets until such time as the assets are substantially ready for their intended use or sale.

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

2.3.5 Trade and Other Receivables

Trade receivables are amounts due from customers for selling fuel. Trade receivable are recognized initially at fair value and subsequently measured at amortized cost using effective interest method. .

Other receivables and dues from Related Parties are recognized at cost less provision for impairment.

2.3.6 Cash and Cash Equivalents

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

For the purpose of cash flow statement, cash and cash equivalents consist of cash in hand and deposits in banks net of outstanding bank overdrafts.

Investment with short maturities i.e. three months or less from the date of acquisition is also treated as cash equivalent.

2.3.7 Property, Plant & Equipment

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

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

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 Measurement

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

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

2.3.9 Cost Model

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

2.3.10 Subsequent Costs

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

2.3.11 Restoration Costs

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

2.3.12 De-recognition

The carrying amount of an item of property, plant & equipment is derecognized on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of an item of property, plant & equipment is included in the Income Statement when the item is derecognized.

2.3.13 Depreciation

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

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

Depreciation rates are as follows:-

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

2.3.14 Capital Work in Progress

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

2.3.15 Impairment of non-financial assets

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the assets carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.3.16 Borrowing Costs

Borrowings are recognized initially at fair value, (net of transaction cost incurred). Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the comprehensive income statement over the period of borrowings using the effective interest method.

Fees paid on the establishment of a loan facility are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down the fee is capitalized as a prepayment for liquidity services and amortized over the period of the facility which it relates.

2.3.17 INVESTMENTS

2.3.17.1 Investment in Subsidiaries

Investments in Subsidiaries are accounted under the cost method of accounting in CPC's Financial Statements in accordance with the Sri Lanka Accounting Standard No. 26 (Revised 2005) on Consolidated and Separate Financial Statements.

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

2.3.18 Investment Properties

2.3.18.1 Basis of Recognition

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

2.3.18.2 Measurement

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

2.3.18.3 Depreciation

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

2.3.18.4. De-recognition

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

3. PROVISIONS & LIABILITIES

3.1 Provisions

Provisions are recognized when the Corporation has a present obligation (legal or constructive) as a result of a past event, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material,

provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

3.2 Provision of Gratuity

A provision is made in the financial statement for retirement gratuities from the first year of service for all employees. The liability recognized in the balance sheet in respect of gratuity is the present value of the obligation at the end of the reporting period. CPC has calculated the retirement benefits costs using the projected unit credit method as recommended in LKAS -19. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of government bonds, in the absence of a deep market for corporate bonds in Sri Lanka.

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

3.3 Defined Contribution Plans – Employees’ Provident Fund & Employees’ Trust Fund

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

3.4 Capital Reserve

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

3.5 Insurance Reserve

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

3.6 Trade payables

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

3.7 Financial Instruments

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

(i) Available-for-sale investments

Available for sales investments are non-derivatives that are either designated in this category or not classified in any of the other category. The Corporation's available for sale assets comprise investments in equity securities, (both listed and non-listed) other than those qualifying as cash equivalents.

(ii) Loans and receivable

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Corporation's loans and receivables comprise trade receivables, staff loans and cash equivalents, and are included in both current and non-current asset. Loans and receivables are

Initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and Receivables are measured at amortized cost using the effective interest method less a provision for impairment.

(iii) Financial liabilities at amortized cost

Financial liabilities at amortized cost include trade payables, bank debt and long term debt. Trade payables are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payable to fair value (please refer 2.3.5 and 4.6 for recognition and measurement).

Impairment of financial assets

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

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

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

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

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Impairment losses on available for sale equity instruments are not reversed.

4. INCOME STATEMENT

4.1 Revenue Recognition

Revenue is the gross inflow of economic benefits during the period arising in the course of ordinary activities of an entity when those inflows result in equity, other than increases relating to contribution from equity participants.

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

4.2 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.

4.3 Interest Income & Expenses

Interest expenses and income are recognized on accrual basis.

4.4 Dividends

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

4.5 Rental Income

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

4.6 Profit/(Loss) from Sale of Property, Plant & Equipment & Other Income

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

4.7 Gains or Losses arising from Investment Securities

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

4.8 Operating Expenses

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

5. CONTINGENT LIABILITIES, COMMITMENTS & LITIGATION

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

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

Litigation also includes worker disputes before the labour tribunals and other agencies like Human Rights Commission, Parliamentary Ombudsman amicably settled or mostly decided in favour of the CPC. Except for the disclosures made in Hedging transactions, CPC is of the opinion that they will not cause any material impact on the financial stability of the CPC and therefore, no related provisions are made.

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

- (i) Deemed Dividend Tax matters relating to Year of Assessment 1997/98 are pending before Court of Appeal with regard to the basis of computation of Deemed Dividend Tax.
Decision of the Board of Review was that Deemed Dividend tax shall be computed on the book profit of the Corporation. CPC appealed against the decision of Board of Review.
- (ii) CPC has filed a case in Court of Appeal against the decision given by the Board of Review. Decision of Board of Review was that liability of Turnover Tax for sale of bunker oil for the quarters ending 31.02.1994 to 31.12.1997 for export sales which cannot be considered.
- (iii) There is an appeal pending before Tax Appeal Commission with regard to basis of computation of Deemed Dividend Tax for the year 2007/08.

6. DIRECTOR'S INTEREST IN CONTRACTS

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

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

Mr. L E Susantha Silva - Director

Mr. B Saman Kumara - Director

Mrs. Sandya Wijayabandara - Director

Mr. L E Susantha Silva is a Director of Housing Development Finance Corporation (HDFC).

CPSTL is a company which is engages in storage and distribution of liquid petroleum products within Sri Lanka. CPC has paid throughput charges amounting to Rs. 9.4 Bn. in the year 2012 to CPSTL. The Director's fees are paid in terms of the provisions in the Public Enterprises Circular No. PED 58 dated 29 April 2011.

7. HEDGING TRANSACTIONS

Standard Chartered Bank vs. CPC

Standard Chartered Bank (SCB) instituted proceedings against Ceylon Petroleum Corporation (CPC) in the Commercial High Court of London against CPC. The Commercial High Court of London was the agreed forum in terms of the ISDA Master Agreement signed between CPC & SCB. SCB claimed the between 12 December 2008 and 14 August 2009 CPC became liable to make nine payments to SCB and ordered CPC to pay US\$ 166,476,281 plus costs of £ 2,967,546 by 08 August 2011. In September 2011, CPC filed an Appellant's Notices setting out grounds for appeal against the judgment in appeal. On 31 October CPC paid £ 500,000 into Court by way of security for SCB's costs of the Appeal. On 27th July, the English Court of Appeal delivered the Judgment in favour of SCB. On the advice given by the counsels of CPC and the Hon. Attorney General, an application for permission to appeal to the Supreme Court of England was made on behalf of CPC.

Hon. Attorney General (AG) by letter dated 20.02.2013 informed that SCB through their lawyers has informed the AG that they are willing to settle the claim against CPC by accepting a sum of US\$60 Mn in full and final settlement and also stated that AG was of the view that it may be advantageous to the CPC to enter in to this settlement given that the outcome of the appeal to UK Supreme Court was uncertain.

The CPC Board resolved to accept the settlement proposal and Cabinet approval too was granted 04.04.2013 for CPC to enter into the draft deed with SCB. Clearance from the Hon. Attorney General Was also obtained the proposed Deed of Settlement as decided by the Cabinet.

In consultation with the Treasury, approval was obtained by CPC in terms of Section 16 of the Financial Act No.38 of 1971 and Section 24(ii) (e) of the CPC Act No.28 of 1961 to borrow US\$60 Mn from the People's Bank in order to pay this amount to SCB as full and final settlement under the draft Deed of Settlement. As per the approval of the Board of Directors and the Cabinet of Ministers, US\$ \$60 Mn was paid to SCB under the Deed of Settlement entered between the parties.

The Draft Deed of Settlement was entered onto by CPC on 29 May 2013. The payment of US\$ 60 Mn under the above Deed was remitted to SCB on 03 June 2013.

8. EVENTS AFTER THE BALANCE SHEET DATE

Where necessary, all the material events after the Balance Sheet date have been considered and appropriate adjustments/disclosures have been made in the Financial Statements.

9. DIRECTOR'S RESPONSIBILITY STATEMENT

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

NOTES TO THE FINANCIAL STATEMENTS

	CPC 2012 Rs. Mn	CPC 2011 Rs. Mn	GROUP 2012 Rs. Mn	GROUP 2011 Rs. Mn
1. REVENUE				
Sale of Petroleum Products	512,910.308	356,442.364	512,910.308	356,442.364
Terminal Charges & Other Income	-	-	1,636.254	452.683
	512,910.308	356,442.364	514,546.562	356,895.047
2. COST OF SALES.				
As Per Gross Margin	540,114.897	429,165.159	540,114.897	429,165.159
Operation Loss/Gain	324.297	284.552	324.297	284.552
Exchange Variation (Crude/Bulk)	33,253.812	7,843.352	33,253.812	7,843.352
Interest CEB/IPP/Aviation Customers	(5,120.213)	(9,222.491)	(5,120.213)	(9,222.491)
Direct Expenses & others	-	-	6,826.802	5,899.117
	568,572.793	428,070.572	575,399.595	433,969.689
3. OTHER OPERATING INCOME				
Dividend Income	0.003	0.003	0.003	0.003
Fines Recovered from Contractors	-	-	-	-
Sundry Income	428.081	223.906	518.139	356.602
Rent Income	6.616	6.504	24.976	21.831
	434.700	230.413	543.118	378.436
3.1 SELLING & DISTRIBUTION EXPENSES				
Selling And Distribution Cost	11,159.293	9,753.276	1,299.729	34.748
Aviation Cost	1,077.129	816.123	1,077.129	816.123
Deprecation	396.674	292.066	396.674	292.066
	12,633.096	10,861.465	2773.532	1,142.937
3.2 ADMINISTRATIVE EXPENSES				
Administrative Cost	5,800.737	4,466.006	(8,801.501)	6,558.059
Exchange Variation	-	(1,040.082)	-	(1,040.082)
	5,800.737	3,425.924	(8,801.501)	5,517.977
A sum of Rs 192.01 million was incurred as legal & other related expenses in connection with two hedging cases during the year, included under administrative expenses.				
3.3 FINANCE CHARGES				
Interest on Long Term Loans	188.769	2,847.863	188.769	2,847.863
Interest on Bank Overdrafts	0.352	100.95	0.352	100.95
Interest on Foreign Bills Payables & Other Bank Loans	18,170.557	6,051.757	18,170.557	6,051.757
Others	-	-	0.522	1.470
	18,359.678	9,000.571	18,360.200	9,002.041
3.4 FINANCE INCOME				
Treasury Bill Interest Income	436.151	282.189	495.065	297.100
Interest on R.F.C. A/C	19.044	22.266	19.044	22.266
Interest on Credit invoice	1,957.950	0.000	1,957.950	
	2,413.145	304.455	2,472.059	319.366
3.5 INCOME ON INVESTMENT PROPERTY				
Flower/ Thurstan & Rental Filling Station	38.976	24.657	38.976	24.657

NOTES TO THE FINANCIAL STATEMENTS

4. PROPERTY, PLANT & EQUIPMENT

4.1 Gross carrying Amounts

Cost	CPC						Total	GROUP Rs.Mn
	Land & Buildings	Vested Property	Plant, Mach & Equip	SPM Facility	Motor Vehicles	Furn/Fittings Off. Equip & Other Assets		
	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn	
Bal as at 01/01/2011	1,587.776	1.016	3,879.116	2,142.422	369.942	1,536.831	9,517.103	29,221.655
Additions	68.524	-	60.932	-	3.304	46.151	178.911	7,561.333
Additions HO New Building	1,540.595	-	32.934	-	-	192.922	1,766.451	1,766.451
Disposals	(1.747)	-	-	-	(1.307)	(0.022)	(3.076)	(12.208)
Bal as at 31/12/2011	3,195.147	1.016	3,972.982	2,142.422	371.939	1,775.882	11,459.388	38,537.231

4.2 Depreciation

Bal as at 01/01/2011	204.310	0.369	2,515.885	1,290.634	207.940	1,088.155	5,307.293	11,128.998
Charge for the Year	42.671	0.010	294.955	-	14.996	63.957	416.589	1,556.693
Disposals	(0.301)	-	-	-	(1.307)	(0.019)	(1.628)	(10.76)
Bal as at 31/12/2011	246.680	0.379	2,810.840	1,290.634	221.629	1,152.093	5,722.254	12,674.931
Net Book Value as at 31.12.2011	2,948.467	0.637	1,162.142	851.788	150.310	623.789	5,737.134	25,862.300
Cost as at 31.12.2010	1,587.776	1.016	3,879.116	2,142.422	369.942	1,536.831	9,517.103	29,221.653
Acc.Dep as at 31.12.2010	204.310	0.369	2,515.885	1,290.634	207.940	1,088.155	5,307.293	11,128.998
Net Book Value as at 31.12.2010	1,383.466	0.647	1,363.231	851.788	162.002	448.676	4,209.810	18,092.655

As at 31.12.2012

Cost	CPC						Total	GROUP Rs.Mn
	Land & Buildings	Vested Property	Plant, Mach & Equip	SPM Facility	Motor Vehicles	Furn/Fittings Off. Equip & Other Assets		
	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn	
Bal as at 01/01/2012	3,195.147	1.016	3,972.982	2,142.422	371.939	1,775.882	11,459.388	38,537.231
Additions	32.379	-	57.773	-	13.078	118.903	222.133	247.924
Additions HO New Building	-	-	-	-	-	-	-	0.000
Disposals	-	-	(15.374)	-	-	(0.458)	(15.832)	(16.317)
Bal as at 31/12/2012	3,227.526	1.016	4,015.381	2,142.422	385.017	1,894.327	11,665.689	38,768.838

4.2 Depreciation

Bal as at 01/01/2012	246.680	0.379	2,810.840	1,290.634	221.629	1,152.093	5,722.255	12,674.932
Charge for the Year	66.462	0.010	301.356	-	13.042	135.179	516.047	1,671.879
Disposals	-	-	(0.741)	-	-	(0.458)	(1.199)	(1.684)
Bal as at 31/12/2012	313.142	0.389	3,111.455	1,290.634	234.671	1,286.814	6,237.104	14,345.127
Net Book Value as at 31.12.2012	2,914.384	0.627	903.926	851.788	150.346	607.513	5,428.585	24,423.710

4.3 Assets and Capital Project in Progress

	CPC			GROUP		
	2012 Rs.Mn	2011 Rs.Mn	2010	2012 Rs.Mn	2011 Rs.Mn	2010
Refinery Expansios projet(SOREM)	809.102	808.884	585.735	809.102	808.884	585.735
Buildings	15.888	1.363	1,223.207	15.888	1.363	1,223.207
Plant & Machinery	15.004	2,098.766	2,127.395	15.004	2,098.766	2,127.395
Storage Facility	2,185.169	54.262	11.447	2,185.169	54.262	11.447
Re-structuring of Filling Stations	3.736	19.540	50.225	3.736	19.540	50.225
Others	1,114.717	103.731	44.982	1,175.34	161.077	5,637.899
	4,143.615	3,086.547	4,042.991	4,204.237	3,143.893	9,635.908

4.4 Net Book Values

Property Plant & Equipment	5,428.585	5,737.134	4,237.093	24,423.710	25,862.300	18,092.655
Assets & Capital Projects in Progress	4,143.615	3,086.547	4,042.991	4,204.237	3,143.893	9,635.908
Total Carrying Amount of Property , Plant & Equipments	9,572.201	8,823.681	8,280.084	28,627.947	29,006.192	27,728.563

NOTES TO THE FINANCIAL STATEMENTS

4.5 Investment Property

Gross carrying amount

Cost

	2012 Rs.Mn	CPC 2011 Rs.Mn	2010 Rs.Mn	2012 Rs.Mn	GROUP 2011 Rs.Mn	2010
Balance as at 1.1.	32,344	32,169	32,169	32,344	32,169	32,169
Add: Additions	1,226	0,174	-	1,226	0,174	-
Balance as at 31.12	33,570	32,344	32,169	33,570	32,344	32,169
Depreciation						
Balance as at 1.1.	5,653	4,884	4,120	5,653	4,884	4,120
Add: Charge for the year	0,947	0,769	0,764	0,947	0,769	0,764
Balance as at 31.12	6,600	5,653	4,884	6,600	5,653	4,884
Net Book Value	26,970	26,691	27,285	26,970	26,691	27,285

No fair value carried out at the balance sheet date and step will be taken to obtain professional valuation in 2013.

4.6 The useful lives of the assets is estimated as follows

	2012	2011	2010
Freehold Land	Nil	Nil	Nil
Buildings	40 Years	40 Years	40 Years
New Head Office building	50 Years		
Refinery Tanks & Pipelines	40 Years	40 Years	40 Years
Refinery Plant & Machinery	10 Years	10 Years	10 Years
Other Location Tanks	40 or 20 Years	40 or 20 Years	41 or 20 Years
Other Locations Pipelines	10 or 5 Years	10 or 5 Years	10 or 5 Years
Plant & Machinery	10 or 5 Years	10 or 5 Years	10 or 5 Years
Browsers & Tank Lorries	5Years	5Years	5Years
Vans & Coaches	4Years	4Years	4Years
Furniture/Fittings & Office Equipments up to 31.12.1998	Fully	Fully	Fully
Furniture/Fittings & Office Equipments up to 31.12.1999	3 Years	3 Years	3 Years
SPM Facility - Tank Farm	40 Years	40 Years	40 Years
- Pipelines	20Years	20Years	20Years

4.7 Intangible Assets

Cost of Valuation

	ERP Project	Sap ERP User License	Automation of Offshore Pipeline Project	Total
Balance at 1st January 2011	410.974	-	-	410.974
Additions	-	-	-	-
Disposals/Transfers	-	-	-	-
Balance at 31st December 2011	410.974	-	-	410.974
Balance at 1st January 2012	410.974	-	-	410.974
Additions	-	9,380	37,794	47,174
Transfers	-	-	-	-
As at 31st December 2012	410.974	9,380	37,794	458,148

Accumulative Depreciation and Impairment

As at 1st January 2011	61,928	-	-	61,928
Additions	82,195	-	-	82,195
Disposals/Transfers	-	-	-	-
As at 31st December 2011	144,122	-	-	144,122
As at January 2012	144,122	-	-	144,122
Charge for the Year	82,195	0,482	1,921	84,597
Transfers	-	-	-	-
As at 31st December 2012	226,317	0,482	1,921	228,720

Net Book Value

As at 31st December 2012	184,657	8,898	35,873	229,428
As at 31st December 2011	266,852	-	-	266,852
As at 31st December 2010	349,047	-	-	349,047

NOTES TO THE FINANCIAL STATEMENTS

5. INVESTMENTS

5.1 Non-Current

a) Investment in Associated Company

Unquoted

Ceylon Petroleum Storage Terminals Ltd.
Additions to Investments

	CPC			GROUP		
	2012 Rs .Mn	2011 Rs .Mn	2010 Rs .Mn	2012 Rs .Mn	2011 Rs .Mn	2010 Rs .Mn
	5,000.000	5,000.000	2,500.000	0.000	0.000	
			2,500.000	0.000	0.000	
	5,000.000	5,000.000	5,000.000	0.000	0.000	0.000

b) Other Investments -Available for sale investments

Quoted

Lanka Cement Ltd.
5,000,000 Ordinary Shares of Rs.10/= each fully paid

	99.000	140.000	50.500	99.000	140.000	50.500
Fair value transfer to equity	(51.500)	(41.00)	89.50	(51.500)	(41.000)	89.500
	47.500	99.000	140.000	47.500	99.000	140.000

Unquoted

Associated News Papers of Ceylon Ltd.

61,206 Ordinary Shares of Rs.10/= each
fully paid.

0.539 0.539 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 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 5.086 5.086

5.626 5.626 5.626 5.626 5.626 5.626

5.2 Total

53.126 104.626 145.626 53.126 104.626 145.626

The unquoted investments classified as available for sale investments are carried at cost.

The maximum exposure to credit risk at the reporting date is the carrying value of equity securities classified as available for sale.

None of the financial assets classified as available for sale is either past due or impaired.

5.3 Investments in Fixed Deposit

5.000	5.000	5.000	5.000	5.000	5.000
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NOTES TO THE FINANCIAL STATEMENTS

6. TRADE & OTHER RECEIVABLE

	CPC		CPC		CPC	
	2012		2011		2010	
	Rs. Mn With in one Year	Rs. Mn After one Year	Rs. Mn With in one Year	Rs. Mn After one Year	Rs. Mn With in one Year	Rs. Mn After one Year
Trade Receivables	97,378.525	-	115,027.437	-	77,764.748	-
Other Receivables	3,251.512	13,684.29	2,234.689	2,404.27	848.772	5,054.175
Deposits	12.297	697.32	13.291	200.14	23.360	30.064
Advance	499.601	-	961.718	-	1,206.802	-
Prepayments	221.211	-	105.926	-	136.75	-
Loans & Advances to Employees	39.865	1,729.38	41.876	1,564.14	41.872	1,615.746
	101,403.011	16,110.986	118,384.937	4,168.548	80,022.307	6,699.985

	GROUP		GROUP		GROUP	
	2012		2011		2010	
	Rs. Mn With in one Year	Rs. Mn After one Year	Rs. Mn With in one Year	Rs. Mn After one Year	Rs. Mn With in one Year	Rs. Mn After one Year
Trade Receivables	97,763.121	-	115,515.164	-	77,814.4882	-
Other Receivables	3,280.734	12,255.76	3,251.226	(1,021.31)	852.5944	1,892.305
Deposits	12.297	697.32	13.291	200.14	23.3601	30.064
Advance	591.565	-	1,052.514	-	1,288.7959	-
Prepayments	221.211	-	105.926	-	136.7533	-
Loans & Advances to Employees	2,434.487	1,729.38	1,405.384	1,564.14	1,615.8431	1,615.746
	104,303.415	14,682.463	121,343.506	742.965	81,731.835	3,538.115

	CPC			GROUP		
	2012 Rs.Mn	2011 Rs.Mn	2010 Rs.Mn	2012 Rs.Mn	2011 Rs.Mn	2010 Rs.Mn
Crude Oil	13,955.461	9,471.725	12,763.153	13,955.461	9,471.725	12,763.153
Other Raw material	1,002.053	912.660	724.625	1,002.053	912.660	724.625
Finished Products	45,577.306	25,125.832	26,688.198	45,577.577	25,125.832	26,688.198
Other Materials & Supplies	1,997.516	1,910.181	1,573.349	2,529.557	2,453.564	2,151.977
Less: Provision for Non Moving Items	(342.511)	(341.912)	(341.912)	(514.352)	(513.753)	(513.753)
	62,189.825	37,078.486	41,407.414	62,550.296	37,450.027	41,814.202

8. CASH AND CASH EQUIVALENTS

Components of Cash and Cash Equivalents

Cash & Bank Balances	11,623.634	12,686.986	13,312.111	12,085.561	13,081.902	13,603.197
	11,623.634	12,686.986	13,312.111	12,085.561	13,081.902	13,603.197

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

Cash and cash equivalents	11,623.634	12,686.986	13,312.11	12,085.561	13,081.902	13,603.20
Bank overdrafts (Note 14)	-	-	(15,019.91)	(365.08)	(345.20)	(15,019.91)
	11,623.634	12,686.986	(1,707.801)	11,720.479	12,736.703	(1,416.715)
Add/Less: Adjustment for foreign currency translation	(4,688.548)	(1,031.88)	(2,253.32)	(4,688.55)	(1,031.88)	(2,253.32)
	6,935.086	11,655.102	(3,961.123)	7,031.931	11,704.819	(3,670.037)

9. CONTRIBUTED CAPITAL

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

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

NOTES TO THE FINANCIAL STATEMENTS

	CPC			GROUP		
	2012	2011	2010	2012	2011	2010
	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn
10. CAPITAL RESERVE						
Balance as at 01 st January	4,992.686	4,992.686	4,992.686	4,992.686	4,992.686	4,992.686
Balance as at 31 st December	4,992.686	4,992.686	4,992.686	4,992.686	4,992.686	4,992.686

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

11. INTEREST BEARING LOANS & BORROWINGS

11.1 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.	569.695	645.655	721.615	569.695	645.655	721.615
Indian line of credit	-	-	184.335	-	-	184.335

11.2 L.T. Loans assigned to CPSTL

Treasury (Exim Bank) Loan - (Interest 12.0 p.a %) repayment comm Oct. 2004 in 24 equal 1/2 yearly installments of final Loan value	1,428.523	1,999.932	2,571.342	1,428.523	1,999.932	2,571.342
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11.3 B.O.C Long Term Loan

	0.000	25,000.000	25,000.000	0.000	25,000.000	25,000.000
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11.4 Peoples Bank Term Loan

	-	-	-	2,523.204	1,753.654	2,213.130
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12. TRADE & OTHER PAYABLES

Foreign Bills Payable	189,355.413	152,532.169	122,297.904	189,355.413	152,532.169	122,297.904
Other Creditors						
- Amount due to Inland Revenue & Custom Dept.	2,213.257	1,892.467	261.449	2,213.257	1,892.467	261.449
- Accrued Expenses	3,293.949	1,996.824	20,628.685	3,411.621	2,083.403	20,957.138
- Refundable Deposits & Others	16,943.900	7,948.758	2,393.666	18,311.032	10,521.762	3,187.024
- Amount due to Related Parties	1,479.231	2,662.790	51.612	945.569	2,762.598	1,971.048
- Payable to SCB	7,611.600	0.000		7,611.600		-
	220,897.350	167,033.008	145,633.317	221,848.493	169,792.400	148,674.564

13. INTEREST BEARING LOANS AND BORROWINGS WITHIN 01 YEAR

Bank & Other loans						
- Wholly Repayable within one year	211,163.063	122,975.749	3,127.539	211,650.863	123,585.499	3,752.715
- Bank Overdraft			15,019.912	365.082	345.199	15,108.073
	211,163.063	122,975.749	18,147.451	212,015.945	123,930.697	18,860.788

NOTES TO THE FINANCIAL STATEMENTS

14. CASH GENERATED FROM OPERATIONS

	CPC		GROUP	
	2012 Rs.Mn	2011 Rs.Mn	2012 Rs.Mn	2011 Rs.Mn
Profit/(Loss) before tax from continuing operations	(97,308.373)	(94,503.446)	(95,473.31)	(92,161.94)
Adjustment for :				
Depreciation	516.994	417.357	1,672.827	1,557.383
Amortisation			84.597	82.195
Foreign Currency Translation	(3,656.660)	1,221.438	(3,656.660)	1,221.438
Investment Income	(0.003)	(0.003)	(0.003)	(0.003)
Interest Received	(2,413.145)	(304.455)	(2,472.059)	(319.366)
Adjustment to Market Value(Quoted Share)	51.500	41.000	51.500	41.000
Provision for Insurance Reserve	-	0.776	-	0.776
Provision for Stores Non Moving Items	21.602	-	21.602	-
Provision for Bad & Doubtful Debts & Recoveries	(0.396)	(0.588)	(0.396)	(0.588)
Interest Expenses	18,359.678	9,000.571	19,084.230	9,647.458
Prior Year Adjustments (Retained Earning)	-	635.108	-	635.108
Provision for Retirement Obligation	(40.731)	(76.862)	274.635	(17.933)
Provision for impairment- Staff Loans			0.820	2.798
(Profit)/Loss on Sale of Property, Plant & Equipment	(1.130)	(39.225)	(1.466)	(47.155)
Platinum Reserve	97.520	-	97.520	-
Operating Profit/(Loss) before Working Capital changes	(84,373.144)	(83,608.329)	(80,316.164)	(79,358.830)
Changes in Working Capital				
(Increase)/ Decrease in Inventories	(25,230.461)	4,328.928	(25,219.390)	4,364.173
(Increase)/ Decrease in Trade and Other Receivable	5,039.874	(35,830.608)	3,038.106	(38,066.954)
Increase/ (Decrease) In Trade and Other Payables	53,864.343	21,399.692	52,689.564	22,937.465
Cash Generated from/ (Used in) operating activities	(50,699.387)	(93,710.317)	(49,807.884)	(90,124.146)

NOTES TO THE FINANCIAL STATEMENTS

15. RELATED PARTY TRANSACTIONS

Six Directors of the CPC (As noted below) continue to be the directors of the directors of the Ceylon Petroleum Storage Limited (CPSTL) due to equity ownership.

1. L.E. Susantha Silva
2. Major General M R W De Soyza
3. Mrs. S. Wijayabandara
4. Mr. Bandula Saman Kumara
5. Mrs. R.M.D.K. Ratnayake
6. Mr. M. Wijayagunewardena

Primary objective of CPSTL is to provide Storage and transport activities and provision of IT services. During the year under review CPC has paid Throughput charges of Rs.Mn.9,443.96 (2011- Rs.Mn.8,250.66) and transport charges of Rs. Mn.1549.66 (2011- Rs.Mn.1,467.87) to CPSTL.

16. FINANCIAL RISK FACTORS

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

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

(a) Market risk

(i) Foreign exchange risk

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

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

As at 31st December 2012, if LKR had depreciated by 1% against USD with all other variables held constant, will result in foreign exchange loss of LKR 3,991,994,046.

(ii) Interest rate risk

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

(b) Credit risk

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

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

(c) Liquidity risk

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

Surplus cash held over and above balance required for working capital management is invested in interest bearing financial instruments such as savings accounts and short term repo investments/ time deposits. At the reporting date, the Corporation held repo investment of Rs. 6,875,299,488 and other liquid assets (time deposits) of Rs.9, 231,942,424 that are expected to readily generate cash inflows for managing liquidity risk.

(d) Price Risk

The corporation is exposed to the commodity price risk of petroleum products & other raw materials imported from overseas countries in US Dollars and other currencies. Cost reflective price mechanism is not in place in deciding domestic retail sales prices of petroleum products in line with international oil price movements. The Corporation regularly holds weekly stock review meetings at which future product requirements are discussed and planned for the required future importation. At the same time the corporation continuously interacts with the General Treasury by giving financial information of Petroleum products to make suitable timely managerial decisions.

17. CAPITAL MANAGEMENT

Primary objective of the capital management is to ensure for Safeguard Corporation's ability to ensure going concern status in order to provide returns for equity share holders and benefits to other stake holders. The Corporation had sustained a loss of Rs. 89,657 Mil (without tax adjustments) for the current year and had a negative net asset position of Rs. 220,883 million as at end of the year 2012 due to accumulated losses for last five years. The external auditors have mentioned that the corporation's ability to continue as going concern without the financial assistance from the government of Sri Lanka and other financial institutions was doubt full.

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

18. TRANSLATION TO SLFRS / LKAS

In preparing its opening SLFRS / LKAS balance sheet, the Corporation has adjusted the amounts reported previously in financial statements prepared in accordance with Sri Lanka Accounting Standards (SLASs). An explanation of how the transition from SLASs to SLFRS / LKAs has affected the Corporation's financial position, financial performance and cash flows is set out below.

(a) Initial elections upon adoption

Set out below are the applicable SLFRS 1 – 'First time Adoption of Sri Lanka Accounting Standards' exemptions and exceptions applied in the conversion from SLASs to new SLFRSs / LKASs.

(i) SLFRS 1 exemption options

- **Exemption for fair value measurement of financial assets or financial liabilities at initial recognition**

The Corporation opted to fair value its financial assets and financial liabilities from the transitional date i.e. 1 January 2011 by using the option provided in SLFRS 1.

- **Exemption for business combinations**

The Corporation elected to apply SLFRS 3 prospectively to business combinations occurring after its transitional date, Business combinations occurred prior to the transitional date has not been restated.

- **Exemption for fair value as deemed cost**

Since the Corporation to continue with the cost model for property, plant and equipment this exemption was not elected.

The other remaining voluntary exemptions do not apply to the Corporation as there are no such transactions covering those exemptions.

(ii) SLFRS mandatory exceptions

- **Exception for estimates**

SLFRS estimates as at 1 January 2011 are consistent with the estimates as at the same date made in conformity with SLASs.

The other compulsory exceptions of SLFRS 1 have not been applied as these are not relevant to the Corporation:

- Derecognition of financial assets and financial liabilities; and
- Non-controlling interests.

SLFRS 1 requires an entity to reconcile equity, comprehensive income and cash flows for prior periods. The Corporation's first time adoption did not have an impact on the total operating, investing or financing cash flows. The following tables represent the reconciliation from SLASs to SLFRS / LKAS for the respective periods noted for equity, earnings and comprehensive income.

Explanatory notes to the reconciliation

- (a) The Corporation's investment in Lanka Cement limited previously stated at cost less allowance for decline in value. The investment on quoted shared now classified as "Available-for-sale" financial instrument as per LKAS 32 – Financial Instruments – Presentation and carried at fair value. Accordingly previously adjusted fall in value of Rs 19.25 million was adjusted at the transitional date against retained earnings and investment is carried at fair value. The changes in fair value are recognized in other comprehensive income.
- (b) The difference between the carrying value and initial fair value of the loans accounted as prepaid staff benefits and amortized over the remaining period of loan balances. The amounts recognized as prepaid staff benefit as at 1 January 2012 amounting to Rs 277.936 million

Other Adjustments

- (c) Revaluation adjustments included under inventories amounted to Rs. Million 25.696 was realized and all inventories are carried at cost.
- (d) The transfer of amounts from retained earnings to insurance reserve was revised as the reverse is not created under a statute or according to a accounting standard.
- (e) As per SLAS actuarial gains/losses arising from experience adjustments and changes in actuarial assumptions that were previously recognized in the income statement, now included in other comprehensive income.
- (f) Retained earnings.

The following is a summary of transition adjustments to the company's retained earnings from SLAS to SLFR's.

	31.12.2011	1.1.2011
Retained earnings as reported under SLAS	(138,945.517)	(46,138.101)
Changers due to transition to SLFRS	705.370	86.605
Retained earnings as reported under SLFRS	(138,240.147)	(46,051.496)

Adjustments to the statement of cash flows

The transitional from previously applied Sri Lanka Accounting Standards had no significant impact on cash flows generated by the Corporation.

NOTES TO THE FINANCIAL STATEMENTS

18(a)

31 December 2011

31 December 2010

	Note	Prior SLFRS	Adjustments	SLFRS figures	Prior SLFRS	Adjustments	SLFRS figures
ASSETS							
Non-current assets							
Property, plant and equipment		29,006.192		29,006.192	27,728.563		27,728.563
Investment property		26.691		26.691	27.285		27.285
Investment in subsidiary		-		-	-		-
Other investments	(a)	36.876	67.750	104.626	36.876	108.750	145.626
Investment in fixed deposits		5.000		5.000	5.000		5.000
Intangible assets		266.852	-	266.852	266.852	-	349.047
Trade and other receivables > one yea	(b)	697.017	45.948	742.965	3,721.049	(182.934)	3,538.115
Deferred tax asset		689.623		689.623	689.623		689.623
		30,728.250	113.698	30,841.948	32,475.248	(74.184)	32,483.259
Current assets							
Inventories	(c)	37,475.724	(25.696)	37,450.028	41,839.898	(25.696)	41,814.202
Trade and other receivable	(b)	122,557.678	(1,214.172)	121,343.506	81,731.835		81,731.835
Income tax receivable		525.174		525.174	525.174		574.893
Cash and cash equivalents		13,081.902		13,081.902	13,081.902		13,603.197
		173,640.478	(1,239.868)	172,400.609	137,178.808	(25.696)	137,724.127
TOTAL ASSETS		204,368.728	(1,126.170)	203,242.557	169,654.056	(99.880)	170,207.386
EQUITY AND LIABILITIES							
Capital and reserves							
Contributed capital		1,000.000		1,000.000	1,000.000		1,000.000
Shares held in CPSTL		2,500.000		2,500.000	2,500.000		2,500.000
Capital reserves		4,992.686		4,992.686	4,992.686		4,992.686
Revaluation reserve	(c)	25.696	(25.696)	-	25.696	(25.696)	-
Insurance reserve	(d)	620.208	(620.208)	-	620.208		619.432
Reserves on consolidation		2,485.643		2,485.643	2,485.643		2,485.643
Retained earnings	(f)	(138,945.517)	705.370	(138,240.147)	(46,138.101)	86.605	(46,051.496)
Non Controlling interest		4,487.162		4,487.162	4,487.162		3,957.423
		(122,834.122)	59.466	(122,774.656)	(30,026.706)	60.909	(30,496.311)
Non-current Liabilities							
Retirement benefit liability		1,481.089		1,481.089	1,481.089		1,594.572
Deferred Tax		1,243.095		1,243.095	1,243.095		712.662
Interest bearing loans and borrowings		29,398.338	0.902	29,399.240	30,689.519	0.902	30,690.421
		32,122.523	0.902	32,123.424	33,413.703	0.902	32,997.654
Current liabilities							
Trade and other payables		170,978.938	(1,186.538)	169,792.400	148,836.255	(161.691)	148,674.564
Interest bearing loans and borrowings		123,585.498		123,585.498	18,860.788		18,860.788
Provision for deemed dividend		170.691		170.691	170.691		170.691
Bank Overdraft		345.199		345.199	345.199		-
		295,080.326	(1,186.538)	293,893.788	168,212.933	(161.691)	167,706.043
Total equity and liabilities		204,368.727	(1,126.170)	203,242.556	171,599.930	(99.880)	170,207.386

NOTES TO THE FINANCIAL STATEMENTS

18(b)	2011		
	Note	Prior SLFRS	Adjustments SLFRS figures
Revenue		356,895.047	356,895.047
Cost of sales		(433,969.689)	(433,969.689)
Gross loss		(77,074.642)	(77,074.642)
Other operating income		274.360	(104.076) 378.436
Selling and distribution expenses		(1,142.937)	(1,142.937)
Admin expenses		(5,572.038)	(54.061) (5,517.977)
Finance charges		(9,002.041)	(9,002.041)
Finance income		319.366	319.366
Income on investment property		24.657	24.657
Loss before tax		(92,173.275)	(92,015.138)
Tax expenses		(752.287)	(752.287)
Profit for the year		(92,925.562)	(92,767.426)
Other comprehensive income			
Fair value gains / (losses) on available for sale financial instruments	(e)	-	41.000 (41.000)
Acturial Gains/(Loss)			105.803 (105.803)
Total comprehensive income for the year		(92,925.562)	(92,914.229)
Less : Non controlling Interest			(529.739)
			(93,443.968)



විගණකාධිපති දෙපාර්තමේන්තුව கணக்காய்வாளர் தலைமை அபிபதி திணைக்களம் AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය } EH/B/CPC/1/12/01
எனது இல. }
My No. }

ඔබේ අංකය }
உமது இல. }
Your No. }

දිනය } 7/September 2014
திகதி }
Date }

**The Chairman
Ceylon Petroleum Corporation**

Report of the Auditor General on the Financial Statements of the Ceylon Petroleum Corporation (CPC) and the Consolidated Financial Statements of the CPC and its Subsidiary for the year ended 31 December 2012 in terms of Section 14(2)(c) of the Finance Act, No. 38 of 1971

The audit of financial statements of the Ceylon Petroleum Corporation (CPC) and the consolidated financial statements of the CPC and its subsidiary for the year ended 31 December 2012 comprising the statements of financial position as at 31 December 2012 and the statements of comprehensive income, statements of changes in equity and cash flow statements for the year then ended and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act, No. 38 of 1971 and Section 31 of the Ceylon Petroleum Corporation Act, No. 28 of 1961. My comments and observations which I consider should be published with the Annual Report of the Corporation in terms of Section 14(2)(c) of the Finance Act appear in this report. A detailed report in terms of Section 13(7)(a) of the Finance Act will be issued in due course.

1.2 Management's Responsibility for the Financial Statement

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

1.3 Auditor's Responsibility

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

1

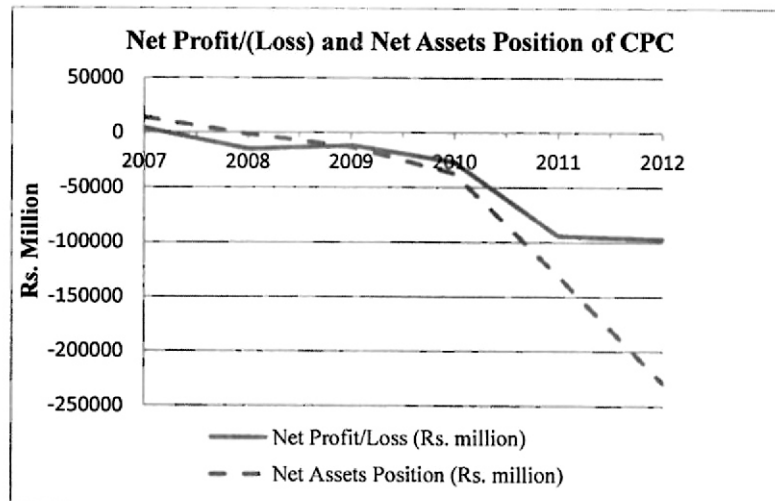
2.2 Comments on Financial Statements

2.2.1 Appropriateness of Going Concern Assumption

(a) Capital Erosion of the Corporation

The Corporation had sustained losses of Rs. 97,308 million for the year 2012 and had negative net assets position of Rs. 228,545 million as at the end of the year under review due to incurring heavy losses during the year under review and for the previous four years. Further, the negative impact on the losses incurred by the Corporation on Hedging transaction had caused to increase the loss of the Corporation for the year 2012 and as a result the net assets position was further eroded. Thus, the ability of the Corporation to continue as a going concern without the financial assistance from the General Treasury and other financial institutions is doubtful. The net profit/(loss) and the net assets position of the Corporation for the year under review and previous five years are depicted in the table and the chart given below.

Year	Net Profit/(Loss)	Net assets position as at the end of the year
	Rs. Mn.	Rs. Mn.
2007	3,984	13,568
2008	(14,952)	(1,416)
2009	(11,567)	(13,038)
2010	(26,923)	(39,952)
2011	(94,503)	(131,324)
2012	(97,308)	(228,545)





(b) Sector wise Consumption

Even though the domestic retail prices of petroleum products were revised upward in 2011 and 2012 in order to address these financial difficulties of the Corporation, the Corporation had continuously sustained losses.

The followings are the loss making products of Corporation for the year 2011 and 2012.

Sector	Total losses for the year ended 31 December	
	2012	2011
	Rs. Mn	Rs. Mn
Transport		
Petrol 90 Octane	(3,168)	-
Lanka Auto Diesel	(29,654)	(62,045)
Total loss from the sector	(32,822)	(62,045)
Power Generation		
Lanka Auto Diesel	(9,034)	-
Naphtha	(1,048)	(798)
Fuel Oil - 3500	(8,718)	(9,206)
Fuel Oil - 1500	(23,223)	(18,313)
Fuel Oil - 1500 (L/S)	(11,733)	(5,764)
Total loss from the sector	(53,756)	(34,081)
Aviation		
Avteur Local	(476)	(718)
Total loss from the sector	(476)	(718)
Industries		
Fuel Oil - 1500	(2,003)	(4,248)
Fuel Oil - 800	(904)	(1,790)
Ind. Kerosene	(364)	(832)
Total loss from the sector	(3,271)	(6,870)
Domestic		
LP Gas (K.G)	(377)	(224)
Kerosene	(3,525)	(6,886)
Total loss from the sector	(3,902)	(7,110)
Farmers		
Agro Chemicals	(2)	(5)
Total loss from the sector	(2)	(5)



Export		
Naphtha Export	(43)	(675)
Furnace 1500 Export	(70)	(329)
Total loss from the sector	(113)	(1,004)
Total Loss	(94,342)	(111,833)

According to the above table, other than Petrol 90 Octane in Transport Sector and Lanka Auto Diesel in Power Generation Sector, all other products have been making losses continuously during the years 2011 and 2012.

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

The following observations are made.

- As two third of the total shares of the Ceylon Petroleum Storage Terminal Ltd (CPSTL) is held by the Corporation, it should have prepared and presented consolidated financial statements for the year 2010 and onwards. However, the Corporation had prepared consolidated financial statements for the year 2011 based on unaudited financial statements of the CPSTL, and as a result, the convergence, in accordance with first time adoption of SLFRS 1, of the financial statements of group had also been made on the same basis which leads to the serious doubtfulness of the accuracy.
- According to the previous Sri Lanka Accounting Standards ("SLASs") applied before 1 January 2012, the Group should have recognized the gain on acquisition of the CPSTL (subsidiary) in profit or loss immediately. However, the business acquisition related gains of Rs. 2,485.6 million had not been recognized in profit or loss in accordance with SLFRSs and instead it had been shown as Reserves on Consolidation in the statement of financial position of the Group of the years 2012, 2011 and 2010.
- According to the notes to the financial statements, it was disclosed that Corporation had computed the retirement benefit costs using the projected unit credit method as recommended in LKAS 16. However, it was revealed that the Corporation had computed the retirement benefits using the software issued by the Institute of Chartered Accountants of Sri Lanka, which had been permitted only to small and medium size enterprises (SME). Accordingly, the requirement of provisions of gratuity as per the **LKAS 19 – Employee Benefits** had not been followed.



- (d) According to the information made available it was observed that 08 court cases had been settled at a sum of Rs. 347.43 million, which unfavorable to the Corporation after the reporting period but before authorization of financial statements for issue. Further, there were some unsettled major court cases as at the end of the year under review. However, an appropriate provision or disclosures for legal obligations as at the end of the year under review had not been made in financial statements as required by **LKAS 37 – Provisions, Contingent Liabilities and Contingent Assets**.

2.2.3 Accounts Receivable and Payable

The details of the long outstanding balances of the Corporation as at end of the year 2012 with compared to the previous year are as follows.

Item	Total dues as at 31 December	
	2012	2011
	Rs.	Rs.
Dealers	947,723,789	790,349,862
Aviation	29,887,871,353	14,710,932,214
Power Plants	17,064,591,449	8,974,762,742
Government Consumers	48,600,291,544	90,024,815,525
Private Consumers	574,893,541	263,130,856
Agro Chemical	26,534,377	22,917,925
Lubricant	535,322,865	196,153,207
Others	74,544	87,773,021
Total	97,637,303,460	115,070,835,353

The following observations are made in this regard.

- (a) Out of total outstanding balance of Rs. 97,637,303,460 as at 31 December 2012, a sum of Rs. 236,070,922 is outstanding for more than 3 years and out of which a sum of Rs. 158,526,585 had been settled by a Treasury bond issued during the year 2013. *(More details are in Annexure I).*
- (i) The legal action had been taken against 28 debtors who had sustained outstanding balances of Rs. 20,162,906 and supplying of petroleum products had also been stopped. At the meantime, the dealership of the above 13 customers with outstanding balances of Rs. 6,928,864, had been cancelled.



- (ii) Further, a bad debt provision of Rs. 134,165 had been made for one customer who had an outstanding balance of Rs. 322,760 for over 5 years, and despite of such outstanding amount and bad debt provision, petroleum products had been continuously supplied to such customer.
 - (iii) There was a dispute over the amount of Rs. 13,958,506 with Maganeguma – Peliyagoda.
- (b) Instances of providing credit facilities exceeding bank guarantees and credit limits during the year 2012 to 13 e-bank and 5 day credit dealers, 6 aviation customers and 2 power plant customers were observed in an audit test check. (*Annexure 2*)
- (c) According to the audit test check, it was observed that the Corporation had provided credit facilities aggregating Rs. 33,981.1 million to two dealers, a power plant customer and two aviation customers without bank guarantees during the year 2012.
- (d) According to the Board decision dated 08 August 2006 and the letter dated 24 March 2008 of the Senior Deputy Finance Manager (Revenue) of the Corporation, an interest rate of 24 per cent per annum is required to be charged to the customers on overdue balances. However, it was revealed that such decision had not been properly implemented by the management of the corporation. The following observations are made in this regard.
- (i) The System Application and Products (SAP) system of the Enterprise Resource Planning (ERP) system introduced and implemented by the CPSTL, which used by the Corporation for data processing and monitoring of stock levels, does not facilitate to calculate the interest charges on unsettled invoices over the credit period. Therefore, the Corporation had used to calculate the interest manually on unsettled invoices and to update the SAP System. Accordingly, it was observed that a proper system had not been designed and implemented by the Corporation to ensure the accuracy and completeness of interest charges on overdue balances.
 - (ii) At the audit test check revealed that the interest charges aggregating Rs. 154,156 on overdue balances of aviation customers for the year 2011 had been recognized as income for the year 2012. Such instances are included in *Annexure 3*.
- (e) Services had continuously been provided to Cheque on Delivery (COD) customers on hard cash basis without collecting the amount receivable due to lack of proper control over the collection of dues. For an example, some of COD customers, from whom a sum of Rs. 58,399,795 should have been recovered due

to cheque returned had been categorizes into hard cash customers and provided services, instead of collecting dues from them. As a result, there is a default risk in amounts receivable. The following observations are also made in this connection.

- (i) During the year 2012, there were 1,579 instances of cheque returns valued at Rs. 1,388,713,962 which is noted as an excessive amount.
- (ii) Due to lack of proper control in this regard, it was revealed that customers had used such practice to manage their working capital. According to the audit examination carried out on cheque returns during the year under review, 213 such instances, with outstanding balance of Rs. 147.7 million with regard to eleven customers were observed.

2.2.4 Transactions not Supported by Adequate Authority

In terms of Section 8.3.3 of the Public Enterprise Circular No. PED/12 of 2 June 2003, bonus could be paid to employees out of the profit earned by the Corporation. Nevertheless, the Board of Directors had approved and paid bonus amounting to Rs. 147 million, Rs. 148 million, Rs. 179 million, Rs. 175.6 million and Rs. 220.9 million in the years of 2008, 2009, 2010, 2011 and 2012 respectively despite the losses occurred to the Corporation in these respective years.

2.2.5 Hedging Transactions

According to the Hedging transactions of the Ceylon Petroleum Corporation, the Corporation was cited as a party in the arbitration proceeding pertaining to hedging contracts entered into with several commercial banks. As such a sum of US dollars 60 million (Rs. 7,612 million) had been paid to the Standard Chartered Bank (SCB) on 3 June 2013 under the Deed of settlement entered between the parties. Further, a sum of US dollars 15.3 million had been incurred by the Corporation as legal and other charges. At the meantime, an arbitration award given in favor of the Corporation amounted to US dollars 1.3 million (Rs. 153 million) with regard to the transaction with the Citi Bank.

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

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



Reference to Laws, Rules, Regulations and Management Decisions

Non-compliance

- | | |
|---|---|
| <p>(a) Section 3.2 of the Public Enterprises Circular No. PED/12 of 2 June 2003 on Public Enterprises Guidelines for Good Governance.</p> | <p>The Board of Directors of the Corporation did not include at least one member in the field of Petroleum industry.</p> |
| <p>(b) Finance Circular No. 124 dated 24 October 1997 of the Ministry of Finance and Planning.</p> | <p>Even though, covering up duties of a vacant post should be limited to a period of 03 months, 16 employees had been appointed for covering duties of vacant posts for the period ranging 02 months to 02 years to the end of the year under review.</p> |

3 Financial Review

3.1 Financial Result

According to the financial statements presented, the operation of the Corporation for the year under review had resulted in a net loss of Rs. 97,308 million as compared with the corresponding pre-tax net loss of Rs. 94,503 million for the preceding year, thus indicating a further deterioration of Rs. 2,805 million in the financial results.

The main contributory factors for the continuous financial losses and capital erosion of the Corporation were revealed as inefficiency of refinery operations with low margin, poor yields and frequent stoppages, and as a result importation of refined petroleum products to meet the demand of the country, export of Naphtha and furnace 1500, the provision of fuel to SriLankan Airlines Ltd and Mihin Lanka (Pvt.) Ltd at concessionary rates which were lower than the contract customer price, heavy losses occurred on Hedging transactions, Corporation's increased borrowings from the banking sector to finance its oil bills, inefficiencies in procurement process of petroleum products of the Corporation, provision of furnace oil at subsidized rate to Ceylon Electricity Board (CEB), lack of proper stock level maintenance program and storage facilities, payment of demurrages etc.

4 Operating Review

4.1 Operating Inefficiencies

The following observations are made.

(a) Inefficiency in Refinery Operations

Out of the country's current petroleum products demand approximately a one third is expected to be met from imported crude oil which undergoes the refining



process locally in the refinery owned by the Corporation at Sapugaskanda. However, according to the Manufacturing Account of the Oil Refinery, the quantity of crude oil imported by the Corporation had decreased from 1,930,069 metric tons to 1,619,826 metric tons or by 16.1 per cent during the year under review as compared with the preceding year.

The Crude Oil intake per annum with compared to the budgeted quantity for the year 2012 and previous nine years are as follows.

Year	Quantity of Crude Oil intake (processed) for the Production		Difference	
	Budgeted	Actual	Quantity	Percentage
	(Metric Tons)	(Metric Tons)	(Metric Tons)	
2012	2,242,500	1,596,058	646,442	28.83
2011	2,415,000	2,003,607	411,393	17.03
2010	2,242,500	1,752,716	489,784	21.84
2009	2,415,000	2,005,915	409,085	16.94
2008	2,242,500	1,870,237	372,263	16.60
2007	2,415,000	1,899,079	515,921	21.36
2006	2,415,000	2,140,132	274,868	11.38
2005	2,277,000	1,977,751	299,249	13.14
2004	2,415,000	2,216,646	198,354	08.21
2003	2,242,500	2,023,605	218,895	09.76

The existing 45 years old refinery, which was commissioned in 1969, is not able to cater the increasing demand of petroleum products in the country and this refinery is operating with low margin when compared with the modern world refineries operating with advanced technologies including facilities to produce petroleum products at lower cost whereby maximizing the refinery operating efficiency. However, the Corporation was not yet able to implement the proposed Sapugaskanda Oil Refinery Expansion and Modernization (SOREM) Project in order to ensure that petroleum products are supplied to the market in a cost effective manner. *"As per the Chairman of the Corporation, even though the original design capacity of the Refinery is 6,900 Tons per day, now it is not possible to achieve this capacity due to the types of crude, downstream restrictions and more stringent product specifications. To operate the refinery more profitably, it is required to upgrade the low value bottoms to high value products and this has been addressed in the SOREM Project."*



(b) Provision of Fuel to SriLankan Airlines Ltd and Mihin Lanka (Pvt) Ltd at Concessionary Rates

Even though, SriLankan Airlines Ltd. and Mihin Lanka (Pvt) Ltd. were contract customers, Fuel had been issued to them at concessionary prices which were lower than the contract customer price and when compared with the contract customer price, the Corporation had incurred losses of Rs. 669.8 million and Rs. 456.6 million during the years of 2011 and 2012 respectively, on sale of Aviation Turbine Fuel to the above companies at extraordinary concessionary prices. Details are as follows.

Name of the Company	Amount of Losses Incurred During the Year			
	2012		2011	
	US\$ Mn	Rs. Mn	US\$ Mn	Rs. Mn
SriLankan Airlines Ltd	3.29	423.97	5.47	627.16
Mihin Lanka (Pvt.) Ltd	0.25	32.58	0.38	42.61
Total	3.54	456.55	5.85	669.77

Despite providing fuel at concessionary prices to these two companies, the settlement of outstanding fuel bills are very poor and as a result, the outstanding balance had exceeded the approved credit limits. The outstanding balance as at end of the year under review and preceding two years are given below.

Name of the Company	Outstanding Balance as at 31 December		
	2012	2011	2010
	Rs.	Rs.	Rs.
SriLankan Airlines Ltd	25,890,118,810	12,351,426,871	541,542,674
Mihin Lanka (Pvt.) Ltd	3,416,102,041	1,227,020,419	361,235,191

The bank guarantee for credit sales provided by Mihin Lanka (Pvt) Ltd was amounted to US\$ 200,000 (LKR 21,900,000) and accordingly, the credit limit also should be less than or equivalent to such amount to minimize the risk. However, the credit limit granted to such Company by the Corporation as at 31 December 2012 was Rs. 3,200,000,000 and the credit facilities provided by the Corporation at that date was Rs. 3,416,102,041. Accordingly, the credit limit granted by the Corporation had exceeded the bank guarantee (Rs. 21,900,000)



by Rs. 3,178,100,000. At the meantime, the credit facilities provided by the Corporation to such company had exceeded the credit limit by Rs. 216,102,041 and the bank guarantee by Rs. 3,394,202,041. Accordingly, it was observed that out of the total outstanding balance of Rs. 3,416,102,041 as at end of the year under review, which not covered by the bank guarantee was an unsecured outstanding balance. However, SriLankan Airlines Ltd. and Mihin Lanka (Pvt) Ltd. had settled sums of Rs. 18.8 billion and Rs. 4.9 billion respectively by utilizing Treasury Bonds during the year 2013.

(c) Increase of Borrowings from the Banking Sector

The Corporation had increased its borrowings from the banking sector to finance its oil bills and it had resulted to increase the sustained losses of the Corporation and to erode further the net assets position of the Corporation. Further, it was observed that CPC had incurred a huge finance cost for the year ended 31 December 2012 with compared to the preceding years as depicted below which shows an increasing trend.

Year	Bank Borrowings as at 31 December	Finance Cost	Annual Loss on Ordinary Activities	Finance Cost as a Percentage of Loss from Ordinary Activities
		Rs. Mn	Rs. Mn	%
2012	399.52	18,359.68	89,569.18	20.5
2011	310.06	9,000.57	94,503.45	9.5
2010	168.02	6,858.90	26,922.82	25.5

The Corporation had exceeded the limits of the General Treasury indemnity issued to the banks on behalf of the Corporation to secure the foreign currency loans as at end of the year under review is given below.

Name of the Bank	Outstanding Amount as at 31 December 2012		Security – General Treasury Indemnity		Exceeded Amount over the Security	
	US\$ Mn.	Rs. Mn.	US\$ Mn.	Rs. Mn.	US\$ Mn.	Rs. Mn.
Bank of Ceylon	1,789.39	230,741	900	115,938	889.39	114,803
People's Bank	1,274.79	164,384	200	25,764	1,074.79	138,620

4.2 Management Inefficiency

The following observation is made.

No proper evaluation of the risk involved in linking the Corporation data base to Enterprise Resource Planning (ERP) system developed by the Ceylon Petroleum Storage Terminal Ltd with the assistance of the Indian Oil Company (the parent company), the major industry competitor of the Corporation, had been made by the Corporation. Since the Corporation has to commit significant amount of its resources (both capital and human) for this purpose, a proper and in-depth analysis of the impacts that would arise through this system integration should have been made with the assistance of experts in the field of Enterprise Resource Planning System. Further, it was observed that there was no agreement or a Memorandum of Understanding between the Corporation, Ceylon Petroleum Storage Terminal Limited and Lanka Indian Oil Company with regard to their respective responsibilities under this Project before implementation. It was also important to have an agreement/memorandum as a precautionary measure, taking into account the significant outlay of capital and human resources utilized by the Corporation to upgrade its equipment etc. to be compatible with the Enterprise Resource Planning System introduced by the Ceylon Petroleum Storage Terminal Limited.

4.3 Procurement of Petroleum Products

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

Accordingly, it was observed that the Corporation had sustained an estimated loss of Rs. 3.2 billion during the short period of 06 months from 01 January to 30 June 2012 due to inefficiencies such as lack of a comprehensive procurement plan, weaknesses in the procurement procedure, failure to carry out reliable laboratory tests on time, lack of coherence communication and preparedness to meet the challenge of a volatile market, overpayments, delays in placing orders for procurement of petroleum products, uneconomical blending of high and low octane petrol, etc. Such issues had created a negative impact on the reputation of the Corporation as well as the economy of the Country.

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



Description	Value		
	US\$	Ex. rate ^{1/} Actual rate ^{2/} Rs.	Rs.
Registration of suppliers without charging registration fees	7,200.00	130.0000 ^{2/}	936,000
Loss sustained by the Corporation as a result of allowing the supplier (A Singapore based oil company) to use "Platts" prices for any five days in B/L month (BK/52/2011, BK/53/2011, BK/56/2011, BK/58/2011, BK/59/2011)	2,284,459.61	114.6035 ^{2/}	261,807,074
Loss sustained by the Corporation due to deducting outturn quantity losses from invoice value of supplier (BK/10/2011)	-	-	16,438,314
Demurrage claimed by the suppliers due to operational inefficiencies and terminal constraints of Corporation	726,867.31	127.1608 ^{1/}	92,429,029
Demurrage claimed by other ships which had arrived on time but unable to discharge due to delays in discharging process of the Corporation	136,644.10	127.1608 ^{1/}	17,375,773
Demurrage payable due to delays in opening of Letters of Credit	31,366.67	127.1608 ^{1/}	3,988,611
Loss sustained by the Corporation due to delays in signing agreement with the selected supplier to import of Fuel Oil, and as a result procurements made from other suppliers on urgent basis at higher premium to avoid power cuts. (BK/49/2011)	1,995,000.00	127.1608 ^{1/}	253,685,796
Loss sustained by the Corporation as a result of changing of quantity basis Air to Vacuum basis (BK/011/062)	18,013.24	127.1608 ^{1/}	2,290,578
Loss sustained by the Corporation due to sale of Auto Diesel instead of Low Sulphur Fuel Oil	-	-	1,614,148,800
CPC had incurred an estimated loss due to changing the basis for calculating DES Colombo price for Gas Oil in favour of the seller and the option of selection of the month (either B/L or delivery month) was up to the seller.	5,499,781.67	127.1608 ^{1/}	699,356,637
Total			3,224,514,929



Ex. rate ¹ – (Exchange rates):

*Exchange rates according to the Central Bank Reports as at 31 December 2012
(Daily Indicative Rates of World Currencies – 31.12.2012)*

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

4.4 Assets Management

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

Nature of the Asset	Observation
(a) Wanathamulla – Halgahakumbura Land	This land had been acquired for Rs.10.6 million for the purpose of LP Gas Project and a Playground. However, it had not yet been utilized for the purpose.
(b) Mahena Land	According to the correspondence made available, the Corporation had paid a sum of Rs. 0.625 million for the acquisition of this land. However, this land had not been accounted in the books of the Corporation, and is being used by the previous owner since 1986.

4.5 Human Resource Management

Vacancies in 349 posts of different categories of the cadre including 72 vacancies in the executive grades (including Manager Internal Audit, Commercial Manager, DGM Marketing) and 277 in the skilled, semi-skilled and unskilled services staff and excesses in 2 posts of clerical and allied grades were observed as at 31 December 2012 while 29 posts in all categories of the staff had been filled on contract basis, and out of which the Chief Internal Auditor has been working as the DGM Finance on acting basis since the mid of the year 2011. Even though, approval of the General Treasury and the Cabinet of Ministers had been granted in the year 2011 for recruitments of staff including the post of Finance Controller on contract basis, the management of the CPC had not taken necessary actions to fill such posts yet.

The cadre position of the Corporation as at 31 December 2012 is as follows.



Categories	Approved cadre	Actual cadre			Number of Vacancies/ (Excess)
		Number of Permanent Staff	Number of Contract Basis Staff	Total Staff	
Executive Grade	372	300	01	301	71
Clerical and Allied Grade	1,286	1,277	11	1,288	(2)
Skilled, Semi-skilled and Unskilled Grade	1,347	1,060	10	1,070	277
Total	3,005	2,637	22	2,659	346

5 Accountability and Good Governance

5.1 Delays in Presentation of Financial Statements

According to the Public Enterprises Circular No. PED/12 of 02 June 2003, the draft annual report and accounts should be rendered to the Auditor General within 60 days after the close of the financial year. However, the financial statements for the year under review had been submitted to the Auditor General only on 28 March 2014.


5.2 Budgetary Control

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

6 Systems and Controls

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

- Property, Plant and Equipment
- Debtors and Other Receivables
- Trade Creditors and Other Payables
- Accounting
- Compliance with Laws, Rules, etc.
- Procurements
- Utilization of Resources
- Human Resources Management
- Assets Management
- Payment of Bonus


H.A.S. Samaraweera
Auditor General



Annexure 1

Long Outstanding Debtor Balances as at 31 December 2012

Type of customer	Total	Less than 1 Year	1-2 Years	2-3 Years	3-4 Years	4-5 Years	More than 5 Years
Dealers	947,723,789	921,264,713	6,732,321	5,147,824	20,140	36,770	14,522,021
Agro Chemical	26,534,377	17,949,328.06	239,809	0	1,660,066	58,379	6,626,795
Power Plants - CEB	27,823,749,142	21,680,771,075	6,142,978,067	0	0	0	0
Other Power Plants	17,064,591,449	17,064,591,449	0	0	0	0	0
Aviation	29,887,871,353	28,880,881,294	746,710,853	260279206	0	0	0
Govt. Customers	20,776,542,402	13,666,157,354	4,633,923,912	2,285,017,899	154,018,504	28,610,886	8,813,847
Private Consumers	574,893,541	318,430,503	34,035,329	200,724,194	14,090,475	0	7,613,039
Lubricant	535,322,865	491,957,482	15,775,077	27,590,306	0	0	0
Others	74,544	74,544	0	0	0	0	0
Grand Total	97,637,303,460	83,042,077,741	11,580,395,369	2,778,759,429	169,789,185	28,706,036	37,575,701



Annexure 2

Outstanding Balances Exceeding Bank Guarantees and Credit Limits

(i) E –Bank Dealers and 5 Day Credit Dealers

Account No	Bank Guarantee Value	Credit Limit	Outstanding Balance		Amount Exceeding Bank Guarantee
			Date	Amount	
	Rs.	Rs.		Rs.	Rs.
100570	3,700,000	3,750,000	14/04/2012	3,853,519	153,519
			06/05/2012	4,384,967	684,967
			06/05/2012	5,340,308	1,640,308
			07/05/2012	4,384,967	684,967
100170	Nil	Special Credit	08/11/2012	12,077,416	12,077,416
			03/12/2012	12,097,026	12,097,026
			05/12/2012	7,716,050	7,716,050
			07/12/2012	8,673,517	8,673,517
100322	3,000,000	3,500,000	13/02/2012	3,594,132	594,132
			15/02/2012	4,469,136	1,469,136
			22/02/2012	5,156,400	2,156,400
			24/07/2012	4,477,317	1,477,317
			09/10/2012	4,449,328	1,449,328
			15/12/2012	4,451,419	1,451,419
100228	Nil	Special Credit	24/02/2012	8,534,743	8,534,743
			31/12/2012	6,565,809	6,565,809
100499	4,050,000	4,050,000	22/08/2012	4,114,480	64,480
			02/10/2012	4,120,952	70,952
			10/11/2012	4,175,389	125,389
			23/11/2012	4,858,341	808,341
100413	2,500,000	2,500,000	28/04/2012	3,422,259	922,259
			06/05/2012	3,532,991	1,032,991
			12/05/2012	3,823,723	1,323,723
			21/05/2012	3,378,540	878,540



100465	9,000,000	9,000,000	08/04/2012	10,202,499	1,202,499
			16/04/2012	9,816,169	816,169
			21/04/2012	9,819,174	819,174
			12/05/2012	10,134,921	1,134,921
100470	12,000,000	12,000,000	01/12/2012	13,333,063	1,333,063
			05/12/2012	13,213,162	1,213,162
			10/12/2012	14,475,690	2,475,690
			14/12/2012	14,805,945	2,805,945
			15/12/2012	13,664,948	1,664,948
			20/12/2012	16,142,007	4,142,007
			22/12/2012	16,847,812	4,847,812
			24/12/2012	16,379,924	4,379,924
100486	3,800,000	3,800,000	07/04/2012	4,638,705	838,705
			14/04/2012	4,798,056	998,056
			04/04/2012	5,538,741	1,738,741
			14/04/2012	6,221,511	2,421,511
			23/09/2012	6,953,453	3,153,453
100627	6,500,000	6,500,000	21/02/2012	6,527,489	27,489
			11/07/2012	8,259,243	1,759,243
100641	8,350,000	8,350,000	21/04/2012	8,819,628	469,628
			21/04/2012	9,560,313	1,210,313
			23/04/2012	8,630,787	280,787
			24/04/2012	8,559,657	209,657
			04/05/2012	9,282,732	932,732
			21/05/2012	8,618,372	268,372
			29/12/2012	8,714,253	364,253
100649	8,500,000	8,500,000	12/03/2012	12,000,531	3,500,531
			16/03/2012	12,342,201	3,842,201
			17/03/2012	12,789,571	4,289,571
			20/03/2012	13,405,045	4,905,045
			21/03/2012	15,113,775	6,613,775
			24/03/2012	16,195,135	7,695,135
	7,000,000	7,000,000	17/04/2012	16,305,404	9,305,404
			26/04/2012	17,448,706	10,448,706



			04/05/2012	19,208,571	12,208,571
100042	16,000,000	16,000,000	12/12/2012	16,011,046	11,046
			14/12/2012	16,011,046	11,046
			15/12/2012	17,495,056	1,495,056

(ii) Aviation Customers

Account No	Bank Guarantee Value		Credit Limit	Outstanding Balance		Amount Exceeding Bank Guarantee
	Amount	Amount		Date	Amount	
	USD	Rs.	Rs.		Rs.	Rs.
101111	1200,000	152,400,000	150,000,000	08/10/2012	169,979,077	17,579,077
				09/10/2012	186,277,677	33,877,677
				15/10/2012	189,382,875	36,982,875
				22/10/2012	174,675,600	22,275,600
				24/12/2012	155,635,106	3,235,106
				25/12/2012	167,907,863	15,507,863
				26/12/2012	159,936,810	7,536,810
101115	175,000	22,225,000	44,075,000	05/01/2012	62,676,239	15,451,239
				09/01/2012	69,506,634	22,281,634
				23/01/2012	76,858,684	29,633,684
				02/02/2012	83,428,580	36,203,580
				03/05/2012	77,861,285	30,636,285
				13/12/2012	64,134,559	16,909,559
				27/12/2012	71,954,789	24,729,789
				31/12/2012	67,279,933	20,054,933
103135	100,000	12,700,000	12,500,000	14/11/2012	13,783,373	1,083,373
				15/11/2012	14,498,435	1,798,435
				18/11/2012	15,187,219	2,487,219
103261	65,000	8,255,000	8,125,000	17/07/2012	9,201,616	946,616
				01/11/2012	11,766,876	3,511,876
				03/11/2012	12,330,675	4,075,675
				11/11/2012	22,599,988	14,344,988
103488	400,000	50,800,000	50,000,000	03/05/2012	53,366,559	2,566,559
				11/06/2012	53,578,947	2,778,947
101142	200,000	21,900,000	3,200,000,000	31/12/2012	3,416,102,041	3,394,202,041

(USD 1 = SLR 127 as at 31 December 2012)



(iii) Power Plant Customers

Account No	Bank Guarantee Value	Credit Limit	Outstanding Balance		Amount Exceeding Bank Guarantee
			Date	Amount	
	Rs.	Rs.		Rs.	Rs.
*102305	263,520,000	285,341,497	03/01/2012	285,048,104	21,528,104
			25/02/2012	274,922,393	10,924,503
			24/03/2012	271,947,348	8,427,348
101858	Nil *	8,700,000,000	31/12/2012	8,073,055,528	8,073,055,528

* There was an agreement between the Corporation and the power plant customer relating to credit facilities.



Annexure 3

Instances of interest charges on overdue balances of aviation customers for the year 2011 had been recognized as income for the year 2012.

Billing No	Invoice Date	Settlement Date	Credit Period	Invoice Value	Overdue Days		Overdue Interest	
					2011	2012	2011	2012
				Rs.			Rs.	Rs.
600842237	19/12/2011	6/1/2012	8 days	5,584,850.24	4	6	14,689	21,973
600848716	21/12/2011	11/1/2012	8 days	4,458,819.93	2	11	5,864	32,162
600848718	22/12/2011	11/1/2012	8 days	5,284,362.80	1	11	3,475	38,117
600843073	20/12/2011	6/1/2012	8 days	855,618.03	3	6	1,688	3,366
600841718	19/12/2011	6/1/2012	8 days	1,097,857.31	4	6	2,888	4,319
600839938	18/12/2011	6/1/2012	8 days	792,280.26	5	6	2,605	3,117
600839537	17/12/2011	6/1/2012	8 days	1,111,192.61	6	6	4,384	4,372
600846875	22/12/2011	13/1/2012	8 days	793,320.95	1	13	522	6,763
600845172	21/12/2011	13/1/2012	8 days	712,211.47	2	13	937	6,071
600841729	19/12/2011	2/1/2012	8 days	604,488.17	4	2	1,590	793
600843087	20/12/2011	2/1/2012	8 days	588,931.67	3	2	1,162	772
600845187	21/12/2011	2/1/2012	8 days	235,552.60	2	2	310	309
600846913	22/12/2011	2/1/2012	8 days	322,216.91	1	2	212	423
600841733	19/12/2011	9/1/2012	8 days	916,733.44	4	9	2,411	5,410
600846939	22/12/2011	10/1/2012	8 days	788,876.63	1	10	519	5,173
600838628	16/12/2011	12/1/2012	8 days	644,491.76	7	12	2,967	5,071
600839903	18/12/2011	12/1/2012	8 days	466,700.85	5	12	1,534	3,672
600839945	18/12/2011	12/1/2012	8 days	492,257.39	5	12	1,618	3,874
600845184	21/12/2011	12/1/2012	8 days	666,656.58	2	12	877	5,246
600824302	7/12/2011	13/1/2012	8 days	291,132.30	16	13	3,063	2,482
600826733	8/12/2011	13/1/2012	8 days	315,578.23	15	13	3,113	2,690
600828726	9/12/2011	13/1/2012	8 days	1,073,411.38	14	13	9,881	9,150
600829345	10/12/2011	13/1/2012	8 days	1,206,753.99	13	13	10,315	10,287
600829869	11/12/2011	13/1/2012	8 days	1,045,631.33	12	13	8,250	8,914
600831931	12/12/2011	13/1/2012	8 days	980,071.21	11	13	7,089	8,355
600832745	13/12/2011	13/1/2012	8 days	983,405.32	10	13	6,466	8,383
600835130	14/12/2011	13/1/2012	8 days	882,286.32	9	13	5,221	7,521
600836756	15/12/2011	13/01/2012	8 days	1,154,529.15	8	13	6,073	9,842
600836986	15/12/2011	13/01/2012	8 days	4,499,216.47	8	13	23,667	38,354
600838582	16/12/2011	13/01/2012	8 days	1,085,634.92	7	13	4,997	9,255
600839496	17/12/2011	13/01/2012	8 days	1,163,417.44	6	13	4,590	9,918
600839904	18/12/2011	13/01/2012	8 days	1,136,749.15	5	13	3,737	9,690
600841675	19/12/2011	13/01/2012	8 days	1,127,859.72	4	13	2,966	9,615
600843044	20/12/2011	13/01/2012	8 days	1,130,082.07	3	13	2,229	9,633
600845133	21/12/2011	13/01/2012	8 days	1,147,759.78	2	13	1,509	9,784
600846766	22/12/2011	13/01/2012	8 days	1,125,538.16	1	13	740	9,595
Total							154,156	324,471

TEN YEAR SUMMARY

DOMESTIC SALES OF BULK PRODUCTS

Rupees Mn.	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
(A) VALUE										
Petrol	22,461.27	28,761.37	28,633.66	36,677.34	46,579.62	66,433.73	60,055.14	65,157.91	90,498.78	117,600.05
Auto Diesel	52,084.77	74,520.99	78,104.77	92,474.65	113,737.17	151,070.45	119,046.26	122,360.42	165,800.16	246,441.20
Super Diesel	1,698.72	1,711.53	725,285	349,805	467,764	885.25	866.145	1,170.27	1,587.58	3,539.87
Kerosene	5,683.44	7,775.14	11,430.28	13,209.91	12,459.33	14,000.05	9,754.54	10,711.00	12,804.33	18,099.54
Furnace Oil	16,238.84	20,135.72	30,165.89	36,421.65	43,941.11	66,220.15	33,157.15	35,792.02	49,990.51	84,790.17
Total	98,167.04	132,904.73	149,059.89	179,133.35	217,184.99	298,609.63	222,879.22	235,191.62	320,681.36	470,470.83

(B) QUANTITY - Thousand Metric Tons

Petrol	337.90	350.30	334.10	367.60	382.10	383.75	415.67	484.26	563.37	618.67
Auto Diesel	1,523.00	1,583.30	1,330.10	1,335.30	1,449.70	1,371.32	1,427.33	1,422.12	1,848.66	1,930.40
Super Diesel	39.50	31.60	11.70	4.70	5.40	7.19	8.55	11.37	14.07	22.10
Kerosene	184.60	171.80	178.00	196.60	168.50	151.31	150.69	165.11	146.88	142.86
Furnace Oil	648.30	771.70	972.80	911.10	985.20	994.55	1,095.73	1,004.50	1,092.82	1,187.08
Total	2,733.30	2,908.70	2,826.70	2,815.30	2,990.90	2,908.11	3,097.97	3,087.35	3,665.80	3,901.11

(C) RETAIL SELLING PRICES IN PETROLEUM PRODUCTS

(Colombo Spot Price in Rs. Per Litre as at 31st December)

Super Petrol	53.00	70.00	80.00	95.00	92.00	120.00	115.00	115.00	125.00	159.00
Auto Diesel	32.00	44.00	50.00	92.00	60.00	70.00	73.00	73.00	76.00	115.00
Super Diesel	35.30	49.30	55.30	65.30	65.30	85.30	88.30	88.30	98.30	142.00
Kerosene	25.50	25.50	30.50	48.00	48.00	50.00	51.00	51.00	61.00	106.00
Furnace Oil										
Furnace Oil 1000"	23.20	24.70	31.40	44.40	44.40	33.90	34.90	40.00	52.20	92.20
Furnace Oil 1500"	22.30	24.30	30.30	43.30	43.30	31.70	32.70	40.00	50.00	65.00
Furnace Oil 3500"	20.70	22.00	28.00	41.00	41.00	25.00	26.00	40.00	50.00	65.00

INCOME & EXPENDITURE

Gross Income

Less Taxes	85,900.00	121,540.00	161,852.00	196,767.00	238.36	341.67	236,332.00	256,329.16	356,442.36	512,910.31
Income from Investment	162.00	-	-	-	-	-	-	-	-	-
Cost of Sales	75,471.00	106,750.00	144,501.00	187,231.00	221,724.00	338,514.00	233,250.00	265,603.76	428,070.57	568,572.79
Margin	10,429.00	14,789.00	17,350.00	9,536.00	16,641.00	1,835.04	3,082.00	(9,274.61)	(71,628.21)	(55,662.48)
Extraordinary Item	-	-	-	-	-	-	-	-	-	-

Working & Establishment
Expenses including Interest

	5,715.00	10,344.00	7,510.00	7,621.00	12,657.00	16,570.00	15,424.77	17,648.21	22,875.24	34,034.29
Hedging Expenses	-	-	-	-	-	-	-	-	-	7,611.60
Profit/(Loss) Before Tax	4,874.00	4,445.00	9,840.00	(1,915.00)	3,984.00	(14,735.00)	(12,342.64)	(26,922.82)	(94,503.45)	(97,308.37)

* Retail prices revised monthly as per Formulae from

** Taxes comprise provisional T. T. excise Duty and S.R.L.

TEN YEAR SUMMARY

Rupees Mn	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
CAPITAL STRUCTURE										
Capital Employed										
Capital	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	3,500.00	3,500.00
Reserves	(2,253.80)	1,984.10	11,673.40	10,065.90	12,567.80	(2,416.40)	(14,038.05)	(40,951.63)	(134,824.14)	(232,044.52)
L/T Liabilities	8,476.50	7,699.90	19,113.40	16,705.00	13,728.20	10,908.40	32,779.06	28,478.19	27,646.49	1,998.22
Gratuity Provision	556.80	700.40	377.40	514.30	541.40	566.50	735.20	746.34	626.68	546.94
Total	7,779.50	11,384.40	32,164.20	28,285.40	27,837.40	10,058.50	20,476.21	(10,727.10)	(103,050.98)	(225,999.36)
Represented										
Fixed Assets, Including work in Progress	4,504.40	4,450.70	4,512.70	4,460.90	4,374.60	4,624.00	5,041.00	8,280.08	8,850.37	9,599.17
Investment	2,173.80	2,176.10	2,535.60	2,553.10	2,546.90	2,541.90	2,541.90	2,541.90	5,041.88	5,058.13
Net Current Assets	(1,101.30)	4,757.60	25,115.90	21,271.50	20,915.90	2,892.60	12,214.67	(28,938.69)	(458,601.64)	(240,656.66)
Total	5,576.90	11,384.40	32,164.20	28,285.50	27,837.40	10,058.50	19,797.57	(18,116.71)	(444,709.39)	(225,999.36)
SUMMARISED CASH FLOW										
Cash Flow from Operating	4,874.19	4,444.84	9,839.81	(1,915.03)	3,984.18	(14,735.03)	(12,342.64)	(26,922.82)	(94,508.39)	(97,308.37)
Adjustment for Items not involving Movement of cash	988.37	776.81	841.68	1,431.85	1,928.20	1,922.02	4,986.48	5,778.64	(10,854.12)	12,935.23
Operating Profit/(Loss) before Working Capital	5,862.56	5,221.64	10,681.49	(483.18)	5,912.38	(12,813.00)	(7,356.16)	(21,144.18)	(83,654.28)	(84,373.14)
Change in Working Capital										
(increase)/Decrease in inventories	1,844.68	(5,157.40)	(4,066.37)	(9,184.44)	(13,321.53)	8,673.83	5,962.16	(15,922.08)	4,328.93	(25,230.46)
(increase)/Decrease in Trade and Other Receivables	(384.39)	789.61	(3,434.62)	(2,852.64)	(13,098.77)	(32,409.85)	(9,365.38)	(5,283.96)	(35,784.66)	5,039.87
(increase)/Decrease in Trade and Other Payables	(1,792.17)	2,862.13	(1,838.77)	11,099.33	23,813.34	39,946.80	57,438.63	25,211.64	21,399.69	53,864.34
Les Gratuity/Tax and Interest Paid	(617.27)	(880.77)	(2,072.72)	(5,613.11)	(3,268.48)	(4,625.38)	(4,871.60)	6,858.90	(9,000.57)	(17,709.06)
Cash Generating From Operational Activities	4,913.41	2,835.22	(730.98)	(7,034.05)	36.94	(1,227.61)	41,807.64	(24,169.25)	(102,756.33)	(68,408.44)
Cash Used in Investing Activities	(3,421.40)	246.17	317.93	662.03	1,165.99	40.61	(308.56)	(3,376.18)	(643.96)	1,148.48
Cash from/(Used in) Financing Activities	1,880.89	1,050.68	13,020.88	(2,478.14)	(3,326.04)	(1,001.41)	(21,339.77)	(4,379.07)	119,016.51	62,539.95
Net (Decrease)/Increase in cash & Cash Equivalents	3,372.89	4,132.07	12,607.83	(8,850.16)	(2,123.11)	(2,188.41)	20,159.31	(31,924.50)	15,616.22	(4,720.01)
Cash & Cash Equivalents at beginning of the year	820.86	4,193.75	8,325.82	20,933.65	12,083.50	9,960.39	7,771.98	27,963.38	(3,961.12)	11,656.10
Cash & Cash Equivalents at end of the year	4,193.75	8,325.82	20,938.65	12,083.50	9,960.39	7,771.98	27,931.29	(3,961.12)	11,655.10	6,935.09

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

