

ANNUAL REPORT

2006



Ceylon Petroleum Corporation

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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

Mr. Ashantha De Mel

DIRECTORS

Mrs. Kanthi Wijetunga
Mr. Methsiri Wijegoonawardena
Mr. M.U.M.Ali Sabry
Mr. David Charitha Goonaratne
Mr. Saliya Rajakaruna
Mr. Nihal Keppetipola

AUDITORS

The Auditor General

REGISTERED OFFICE

“Rotunda Tower”, No.109, Galle Road, Colombo 3.

Telephone : 2473644(9 lines)
Telegrams : 2473644 “LANKA OIL”
Cables : CEYPETCO
Telex : 221167,221235,221624
CEPETCO CE
Fax : 2473979

BANKERS

People’s Bank	Standard Chartered, Grindlays Bank
Bank of Ceylon	Citi Bank N.A.
Commercial Bank of Ceylon Ltd.,	Hatton National Bank Ltd.,



SENIOR MANAGEMENT

Ashantha De Mel
Chairman / Managing Director

Lalith Karunaratne
Deputy General Manager (Finance)

S.K. Cyril
Deputy General Manager (Admn./Corp. Affairs)

P.G.H. Samarawickrema
Engineering Manager

Ms. Geeta De Fonseka
Chief Legal Officer

Ms. R.T.A. Dabare
Finance Manager

K.S.W. Kottahachchy
Commercial Manager

Ms. H. Seneviratne
Manager Supplies

A. Lambiyas
Manager (Agro Chemicals)

K.K. Samarapala
Manager Security & Investigation

D.P.E.N. Rajapakse
Refinery Manager

J.R. Wickremasinghe
Deputy General Manager
(Planning & Development/Marketing)

N.R.R. Jayasekera
Deputy Refinery Manager
(Maint. & Projects)

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

K.S.K. Ettipola
Snr. Manager (Electrical)

B.C. Jayawardena
Deputy Refinery Manager
(Technical & Inst.)

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

R.A. Abel
Marketing Manager
(Business Development)

Justin Silva
Marketing Manager (Retail)

DIRECTORS' REPORT

14th December 2007
"Rotunda Tower"
No.109, Galle Road,
Colombo 3.

Hon. Minister of Petroleum & Petroleum Resources Development.

Hon. Sir,

In accordance with Section 32(3) of the Ceylon Petroleum Corporation Act, No. 28 of 1961, the Board of Directors, has the honour to present its report for the year ended 31 December 2006 together with the following documents.

- 1) The Income Statement of the Corporation for the year ended 31 December 2006.
- 2) The Balance Sheet of the Corporation as at 31 December 2006.
- 3) Cash Flow Statement for the year ended 31 December 2006.
- 4) The Report of the Auditor General on the Accounts for year ended 31 December 2006.

REVIEW OF THE YEAR

The Chairman's Report on the activities of the Corporation during the financial Year 2006 and activities which are likely to be undertaken by the Corporation in the future appears in pages 6 to 9

TURNOVER AND EXPORTS

Turnover of the Corporation in 2006 amounted to Rs. 211,013 Mil. compared with Rs. 174,555 Mil. in 2005. During the year, Petroleum products to the value of Rs. 8,714 Mil. were exported or sold for foreign currency (2005 -Rs. 7,159 Mil).

CAPITAL EXPENDITURE

Capital expenditure on acquisition of fixed assets and on projects in progress during the year amounted to Rs. 255 Mil. (2005- Rs. 78 Mil).

EMPLOYEES

The employee strength by end December was 2,618 in permanent cadre and 312 of Casual & Contract Cadre.



DIRECTORS' REPORT

Rs. Million

	2006	2005
PROFIT AND APPROPRIATIONS		
The Net Profit/(Loss) for the year before Taxation	(1,602)	9,840
Income Tax	(119)	(2,129)
Deemed Dividend	(55)	(1,105)
Retained Profit/(Loss) for the year	(1,776)	6,606
Cumulative Profit/(Loss) brought forward from the previous year	6,173	(433)
Cumulative profit/ (Loss) carried forward	4,397	6,173

CONTRIBUTION TO THE GOVERNMENT

Contribution to Government as Taxes, Duties and Special Levy amounts to Rs. 26,410 Mil (2005- Rs.33,024 Mil).

DIRECTORS

The names of the Directors of the Corporation are given on Page 2. The Directors have no direct or indirect interest in any contract or proposed contract with the Corporation.

DONATIONS

During the year charitable donations amounting to Rs.0.396 Mil (2005 - Rs. 0.358 Mil) were made by the Corporation.

Yours faithfully,

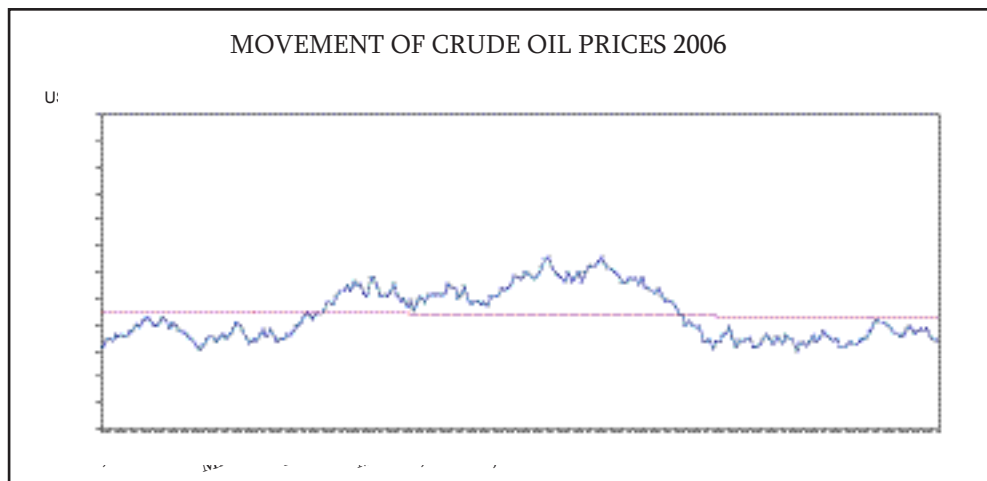
Ashantha De Mel
CHAIRMAN



CHAIRMAN'S REPORT

Introduction

Sri Lanka continued on an economic expansion path in 2006 achieving 7.4 percent growth rate, the highest since 1978. This was a commendable achievement despite several major challenges such as the highest international oil prices, escalation of terrorist activities, increase counter terrorism measure, natural disasters such as floods and landslides and the need to accelerate post 'Tsunami' reconstruction work.



The international oil prices surged twenty one percent during first half of 2006 amid disruption of supply from Nigeria and Iraq and conflict over nuclear program of Iran, fighting in Lebanon between Israel and Islamic militia Hezbollah has pushed the oil price to the highest in July. The warm weather, high crude stock levels and gentle geopolitical situation have brought the price level around USD 55 per barrel during the fourth quarter.

The Government decided to discontinue the provision of fuel subsidies from July, 2006 allowing CPC to adjust domestic fuel prices based on costs. Immediate implementation of this policy was really a difficult one for Ceylon Petroleum Corporation. However, CPC had to adjust the domestic fuel prices seven times during the year in line with the costs except Kerosene. Un-recovered cost of Kerosene for the year 2006 was Rs. 2,115 million.

Financial Results

The Corporation has recorded a loss of Rs. 1,722 million during the financial year 2006. Selling Kerosene at a subsidized rate was the main reason for the loss. Crude oil prices which increased by 40% when compared with the previous year has increased by another 25% during 2006. The average CIF price for the year recorded as USD 65.1 per barrel while Gasolene and Gas Oil CIF prices indicated as USD 74.7 and USD 79.6 respectively.

Sri Lanka Rupee found much volatile when compared with the previous year and the depreciation against the US Dollar is 5.24 Percent. Pricing formulae which give one and half percent profit margin was in operation upto 30th June, 2007 and the Government has settled subsidy for the period amounting to Rs. 9.4 billion by way of setting off against taxes.

Crashing oil prices in the fourth quarter of the year has a negative impact on refinery profitability and this scenario is also one of the contributing factor in incurring a loss for the year.



CHAIRMAN'S REPORT

Effective operation of storage facilities has helped CPC to maintain strategic stock levels and increasing Government debts have created undue pressure to CPC's working capital.

Contribution to the Country and Social Responsibilities

CPC has contributed a massive amount of Rs. 26 billion to the Government coffers by duties and taxes during the year 2006.

Excise duty rate of a litre of Petrol and Diesel is Rs. 20.00 and Rs. 2.50 respectively. Petrol is liable to VAT at 15% and CPC pays maximum limit service charges amounting to Rs. 50 million.

It is noticeable that the net contribution which is Taxes paid net of subsidy has increased by Rs. 5.2 billion when compared to financial year 2005.

Production

Refinery completed 37 years of operation. It had operated for 364 stream days and processed 2,152,836 metric tones of crude oil during the year. The middle distillate recovery as a percentage of weight of crude intake was 42.19% and own use and handling losses were 4.89%.

Import of Crude Oil and Refined Products

The Corporation has imported 2,152,750.163 metric tons of crude oil at a cost of USD 1,028,700,175. The average crude oil (CIF) cost per bbl. is USD 65.07. The average crude oil (CIF) cost per barrel is USD 65.07 compared to USD 52.14 during the previous year.

The freight charges for importing crude oil average to USD 8.80 per metric ton when compared to 9.39 per MT. in the previous year.

Refined Bulk Products Imports were metric tons of 1,319.46 and C&F value was USD Million 761.3.

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 under 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 activities and specific charges for distribution and data processing services rendered to CPC.

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



CHAIRMAN'S REPORT

In order to improve operational efficiency, CPSTL ventured into a pipeline project which links Kolonnawa and Muthurajawela storage tanks.

Marketing

With the exposure to competitive marketing and in order to retain our market share, CPC launched dealer retention programmes during 2006. Under this program, financial assistance was granted to refurbish outlets, promote good housekeeping and customer attention programs. CPC is planning to introduce a branded lubricant with foreign collaboration and initial discussions are in progress at present. CPC has also ventured into bunkering with a strategic partner and the commercial operations are to be commenced.

The islandwide dealer network of CPC comprises 253 Corporation owned dealer operated (CODO) outlets, 675 Dealer owned dealer operated (DODO) outlets and 48 Dealer Controlled (DD) outlets.

It was clearly noticed that our retail market share has improved by five percent when compared to the previous year.

Revenue

Revenue for the year had reached Rs. 197 billion when compared to the previous revenue of Rs. 167 billion. Increase in domestic prices and gaining market share is the main reason to increase the revenue by Rs. 30 billion.

The Corporation was responsible for over 75% of Petrol, Diesel and Kerosene sales in the country. The country's demand data reveals that there was a noticeable increase in Petrol and Kerosene sales during the year when compared to the previous year.

During the year 2006, 285 million litres of Diesel, 724 million litres of Furnace Oil and 87 million litres of Naphtha had been sold to CEB and to Private Power Producers to generate electricity.

Agro Chemicals

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

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

Human Resource Development and Welfare

The employment strength by end of the year was 2,618 on the permanent cadre and 312 in casual cadre. The Corporation Cadre revised to suit urgent restructuring needs.



CHAIRMAN'S REPORT

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 amounts to Rs. 30 Mill. during the year under review.

A gratuity equivalent to ½ months 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. Corporation also provided financial assistance to the CPC employees' Sports Club with a view to encourage sports activities. It maintains three 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 of employees locally and abroad. Funds are also allocated for improving the knowledge of English and Computer literacy of employees to upgrade their working environment.

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

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

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 obligation to minimize environmental pollution and concerned about the environment safety in handling and usage of petroleum products. In line with world environmental standards, CPC is planning a modernization project at refinery in order to produce low sulphur Diesel.

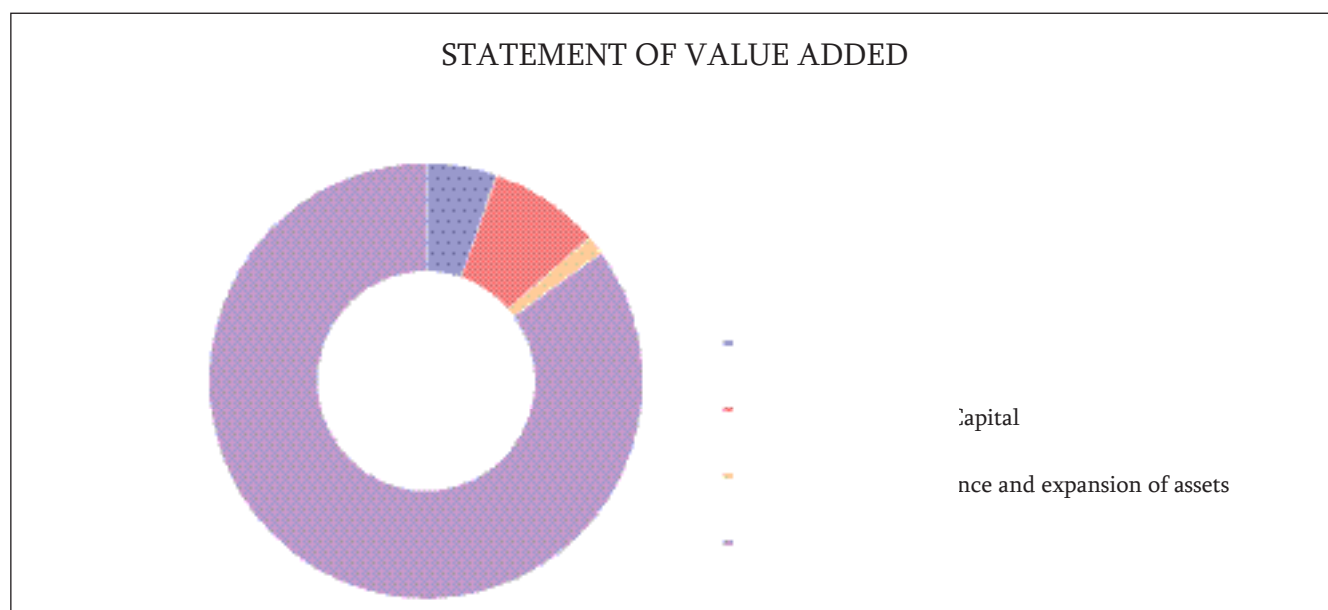
Acknowledgement

On behalf of the Board of Directors of Ceylon Petroleum Corporation, I would like to thank all members of CPC team who had coped admirably with constant pressures and changes. I also thank the Hon. Minister of Petroleum and Petroleum Resources Development and his Officials, the Treasury, the Central Bank, our business partners and customers for their co-operation and support.

Ashantha De Mel
Chairman & Managing Director
CEYLON PETROLEUM CORPORATION

STATEMENT OF VALUE ADDED

Rupees Million	2006		2005	
Turnover	211,012		174,555	
Bought in materials & services	(182,065)		(132,682)	
Value Added	28,947		41,873	
Applied the following way		%		%
To pay employees				
Wages & fringe benefits	1,511	5.22	681	1.63
To pay providers of capital				
Interest on loans	2,463	8.51	1,260	3.00
To provide maintenance and expansion of assets				
Depreciation	339	1.17	303	0.72
Retained Profit/(Loss)	(1,776)	(6.14)	6,605	15.78
To pay Government				
Taxes, duties, Stamp Duty and Contribution to the General Treasury	26,410	91.24	33,024	78.87
Value Added	28,947	100.00	41,873	100.00



HIGHLIGHTS

FINANCIAL	UNIT	2006	2005
Gross Revenue	Rs.Million	211,012.8	174,555.0
Gross Profit	Rs.Million	10,123.7	17,350.4
Operational Profit / (Loss)	Rs.Million	860.7	11,100.4
Finance charges	Rs.Million	2,463.1	1,260.6
Profit/(Loss) Before Taxation	Rs.Million	(1,602.4)	9,839.8
Net Profit/(Loss) after Taxation	Rs.Million	(1,721.6)	7,710.9
Capital and Reserves	Rs.Million	10,917.1	12,673.5
Long Term Borrowings	Rs.Million	16,705.2	19,113.4
Capital Expenditure	Rs.Million	255.0	78.0
Contribution to Exchequer	Rs.Million	26,410.0	29,790
IMPORTS			
Crude Oil Imports	Metric Tons	2,152.75	2,008.41
Refined Bulk Products Imports	Metric Tons	1,319.46	1,361.47
C&F Value	US\$ Million	761.3	654.3
	Rs.Million	79,146	68,409
DIRECT EXPORTS			
Volume	Metric Tons	43.35	-
Value	US\$ Million	23.09	-
Cost Value	Rs.Million	2,429.45	-
OPERATIONS			
Sales	Metric Tons	3,307	3,325
Refinery Throughput	Metric Tons	2,153	1,970
MARKETING			
Dealer Owned Outlets	Number	675	662
Dealer Controlled Outlets	Number	48	49
Corporation Controlled Outlets	Number	253	255
EMPLOYEES			
No. of employees at the year end	Number	2,930	2,866
Total emoluments for the year	Rs.Million	1,642	1,219
Value added per employee	Rs.Million	9.96	14.78



FINANCIAL STATEMENTS

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ACCOUNTING POLICIES

GENERAL POLICIES

Basis of Accounting

The Financial Statements are prepared under the historical cost basis (except revaluation) in accordance with generally accepted accounting principles of the Accounting Standards laid down by the Institute of Chartered Accountants of Sri Lanka and the provisions of the Finance Act No.38 of 1971. Adjustments have not been made for inflationary factors in these accounts. The accounting principles are applied consistently on accrual basis and the relevant Accounting Policies have been explained below.

Accounting for Investments in Associate Companies

The results of associate companies are accounted for on the cost method, whereby income is recognised only to the extent those dividends are distributed from net accumulated profits. The effect on financial statements of adopting equity method of accounting from the results of associate companies is disclosed in notes to the financial statements.

Conversion of Foreign Currencies

All foreign currency transactions are translated to rupees at the exchange rate prevailing at the time of the transactions were effected. Monetary Assets and Liabilities in foreign currencies are translated to rupees at the exchange rate prevailing at the Balance Sheet date. All exchange gains and losses resulting from translation are accounted in the Income Statement.

Taxation

a) Current Taxation

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.

b) Deferred Taxation

Deferred Taxation is provided on the liability method. The tax effect of all timing differences

which occur where items are allowed for income tax purposes in a period different from that when they are recognised in financial statements is included in the provision for deferred taxation at current rates of taxation.

Deferred tax assets are recognised for all deductible timing differences and carry forward of unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible timing differences and carry forward of unused tax losses can be utilised. The carrying amount of deferred tax asset is reviewed at each balance sheet date and reduced by the extent that is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

However, no provision has been made in these financial statements in the current year in view of accumulated tax losses.

ASSETS AND BASES OF THEIR VALUATION

Property, Plant & Equipment

The cost of property, plant & equipment (other than vested property) is at their cost of purchase or construction together with any incidental expenses thereon. Vested property is stated at the value placed on it in the year of acquisition. Expenditure incurred for the purpose of acquiring, extending or improving assets of a permanent nature by means of which to carry on the business or for the purpose of increasing the earning capacity of the business has been treated as capital expenditure. Cost of maintenance and repairs are expensed as incurred. The property, plant & equipment are recorded at cost (or revaluation) less accumulated depreciation which is provided for on bases specified below.

Depreciation

Depreciation is provided in consistent with the previous years on straight line basis over their expected useful lives of the assets concerned. Depreciation rates are as follows

ACCOUNTING POLICIES

	Percentage
Freehold Land	Nil
Buildings	2.5
Refinery Tanks & Pipelines	2.5
Refinery Plant & Machinery	10
Other Location Tanks	2.5 or 5
Other Location Pipelines	10 or 20
Plant & Machinery	10 or 20
Browsers & Tank Lorries	20
Vans & Coaches	25
Fur/Fittings & Office Equip upto 3 1/12/98	100
Fur/Fittings & Office Equip wef 0 1/01/99	33 1/3
SPM Facility - Tank Farm	2.5
- Pipelines	5
- Buoy	10

A full years depreciation is charged in the year of purchase.

Investments

All investments are stated at cost less amounts written off and provision made for diminution in market value.

Inventories

Inventories are consistently valued at the lower of cost or net realisable value. In general, cost is determined on a first-in first-out basis and includes direct costs on transport, and insurance. Manufactured product cost includes all insurance on average applicable purchase cost and operating expenses but not general administrative expenses. Production expenditure is based on actual quantities produced. Actual production does not vary substantially from the normal level of activity.

Net realisable value is the price at which stocks can be sold in the normal course of business after allowing for cost of realisation and where appropriate the cost of conversion from their existing state to a finished product.

Stores material are stated at weighted average basis and a provision is made for obsolete, slow moving which were remaining stores over 5 years and defective stocks.

Trade and Other Receivables

Trade and other Receivables are stated at the amounts which they are expected to realise. Adequate provision has been made for bad and doubtful debts.

Cash and Cash Equivalents

For the purpose of Cash Flow Statement, cash & cash equivalents comprise cash in hand, Deposit held at call with banks, Net of Bank overdrafts . In the Balance Sheet Bank overdrafts are included in borrowings in current liabilities.

LIABILITIES AND PROVISIONS

Capital expenditure commitments & contingent liabilities

Capital expenditure commitments and contingent liabilities as at the date of the Balance Sheet have been disclosed separately in the notes to the Financial Statements.

DEFINED BENEFIT PLANS

Retirement Benefit Plan - Provision had been made for employees completing over one year service in line with SLAS 16 and changes are made with retrospective effect. The provision is not funded externally nor actuarially valued.

Defined Contribution Plan - Corporation contributes 15% and 3% of employees monthly salary to Employee's Provident Fund (EPF) and Employee's Trust Fund (ETF) respectively which are recognised as expenses in the income statement.

Capital Reserve

Specific amounts received from Govt. consolidated fund and the net value of re-structuring sale proceeds which will eventually form the issued capital of the successor to CPC are credited to a Capital Reserve.

Government Grants And Subsidies

Subsidy received from GOSL as compensation to the losses incurred by the Corporation due to non-adjustment of petroleum prices in line with pricing

ACCOUNTING POLICIES

formulae has been recognised as a part of revenue of the year.

Insurance Reserve

An amount equivalent to the actual cost of insurance, on imports other than crude oil and refined products which are not insured with a third party while in transit is credited to insurance reserve.

INCOME STATEMENT

Revenue excludes all taxes relating to revenue, trade and other discounts appearing on the invoice, rebates and other deductions of a rebate nature and represents invoice value of goods sold. Export sales have been stated at invoice value on FOB basis.

Borrowing cost except for the amounts eligible for capitalisation are recognised as an expense in the period applicable.

All other expenditure incurred in the running of the Corporation and maintaining the Property, Plant & Equipment in a state of efficiency has been charged to revenue in arriving at Profit or Loss for the year.

Functions of expense method which presents fairly all elements of Corporation's performance is adopted in presentation of expenses in income statement.

Movement of reserves has shown in the Notes to the Financial Statements. Gains and losses of a revenue nature on the disposal of Property, Plant & Equipment have been accounted for in the Income Statement. Where the gain or Loss is of Capital nature such gains and losses have been treated as an Extra-Ordinary item.

COMPARATIVES

Where necessary, comparative figure have been adjusted to conform with changes in presentation in the current year.

INCOME STATEMENT

FOR THE YEAR ENDED 31 ST DECEMBER

Rupees Million	Note	2006	2005
REVENUE	01	196,766.560	161,851.696
Cost of Sales		(186,642.843)	(142,717.522)
GROSS PROFIT		10,123.717	19,134.174
Other Operating Income	02	1,289.835	940.595
Selling & Distribution Expenses		(8,483.809)	(7,760.995)
Administrative Expenses		(2,068.991)	(1,213.360)
OPERATING PROFIT	03	860.752	11,100.414
Finance Charges	04	(2,463.126)	(1,260.606)
Profit/(Loss) on Ordinary Activities before Taxation		(1,602.374)	9,839.808
Taxation on Ordinary Activities	05	(119.251)	(2,128.919)
Profit/(Loss) on Ordinary Activities after Taxation		(1,721.625)	7,710.889
Profit/(Loss) for the year		(1,721.625)	7,710.889

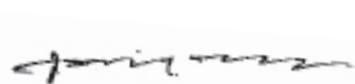
E.P.S (Please refer Note No 25 to the Financial Statement)

(Accounting Policies on pages 14-16 and Notes on pages 21-29 are an integral part of these financial statements)

BALANCE SHEET

AS AT 31 ST DECEMBER

Rupees Million	Notes	2006	2005
ASSETS			
Non Current Assets			
Property, Plant & Equipment	06	4,426.735	4,512.748
Investment in Subsidiary/Associated Companies	07	2,500.000	2,500.000
Other Investments	07	48.126	5.626
Trade & Other Receivables - more than one year	08	5,778.388	6,638.233
		12,753.249	13,686.607
Current Assets			
Inventories	09	27,432.182	17,659.686
Trade & Other Receivables - due within one year	08	21,116.909	16,652.434
Cash in Hand and at Bank	10	12,931.064	21,107.939
		61,480.155	55,420.059
Total Assets		74,233.404	69,106.666
EQUITY & LIABILITIES			
Capital & Reserves			
Contributed Capital	11	1,000.000	1,000.000
Capital Reserve	12	4,992.686	4,992.686
Revaluation Reserve	13	25.696	25.696
Insurance Reserve	14	502.088	482.210
Accumulated Profit/(Loss)		4,396.670	6,172.863
Total Equity		10,917.140	12,673.455
Non Current Liabilities & Deferred Income			
Retirement Benefits/Obligations	15	514.348	377.381
Interest Bearing Loans & Other Payables - due after one year	16	16,705.229	19,113.382
		17,219.577	19,490.763
Current Liabilities			
Trade & Other Payables	17	42,546.222	32,448.990
Interest Bearing Borrowings - due within one year	18	3,494.706	3,388.226
Provision for Deemed Dividend		55.759	1,105.232
		46,096.687	36,942.448
Total Equity & Liabilities		74,233.404	69,106.666



Ashantha De Mel
Chairman



Lalith Karunaratne
DGM (Finance)



Mrs. R.T.A. Dabare
Finance Manager

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 ST DECEMBER 2006

	Contributed Capital	Capital Reserve	Revaluation Reserve	Insurance Reserve	Accum. Profit / (Loss)	Total
Bal. as at 31/12/04	1,000.000	1,917.043	25.696	474.013	(432.626)	2,984.126
Surplus during year	-	-	-	8.197	-	8.197
Net Profit for the year	-	-	-	-	7,710.889	7,710.889
Deemed Dividend	-	-	-	-	(1,105.400)	(1,105.400)
Net re-structuring sale proceeds	-	3,075.643	-	-	-	3,075.643
Bal. as at 31/12/05	1,000.000	4,992.686	25.696	482.210	6,172.863	12,673.455
Surplus during year	-	-	-	19.878	-	19.878
Net Profit/(Loss) for the period	-	-	-	-	(1,721.625)	(1,721.625)
Deemed Dividend	-	-	-	-	(54.568))	(54.568)
Bal. as at 31/12/06	1,000.000	4,992.686	25.696	502.088	4,396.670	10,917.140

Note: 1. **Deemed Dividend** - Provision had been made as per Sec 53(1) (d) of Inland Revenue Act No. 38 of 2000.

CASH FLOW STATEMENT

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 ST DECEMBER

Rupees Million	2006	2005
CASH FLOW FROM OPERATING ACTIVITIES		
Net Profit/(Loss) from operating activities	(1,602.374)	9,839.809
Adjustments for :		
Depreciation	338.992	303.687
Property, Plant & Equipment	-	0.181
Foreign Currency Translation	(496.408)	129.842
Investment Income	(125.100)	-
Interest Received	(781.634)	(680.718)
Provision for Insurance Reserve	19.878	8.197
Provision for stores non moving items	(30.762)	(67.095)
Provision for bad & doubtful debts & recoveries	5.352	23.523
Interest Expenses	2,463.126	1,260.606
Adjustment for valuation of shares	12.500	8.750
Provisioner for retirement benefit obligation	146.356	33.902
Profit on sale of Property, Plant & Equipment	(8.278)	(3.150)
Operating Profit/(Loss) before Working Capital changes	(58.352)	10,857.534
Changes In Working Capital		
(Increase)/Decrease in Inventories	(9,772.496)	(4,066.365)
(Increase) /Decrease in Trade & Other Receivables	(3,792.915)	(3,434.619)
Increase /(Decrease) in Trade & Other Payables	12,285.241	(1,838.767)
Cash Generated from Operating Activities	(1,338.522)	1,517.783
Interest Paid	(2,463.126)	(1,260.606)
Retirement benefit paid	(9.389)	(9.176)
IT/WHT paid	(3,223.008)	(802.935)
Net Cash Generated from Operating Activities	(7,034.045)	(554.934)
CASH FLOW FROM INVESTING ACTIVITIES		
Acquisition of Property, Plant & Equipment	(260.019)	(371.718)
Proceeds from Sale of Property, Plant & Equipment	15.318	8.925
Income from Investments	125.100	-
Interest Received	781.634	680.718
Net Cash used In Investing activities	662.033	317.925
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from Indian Line of Credit	-	673.551
Repayment on Long Term Loans	(2,478.143)	(1,652.688)
Net Cash from (used in) Financing Activities	(2,478.143)	13,020.883
Net Increase/(Decrease) in Cash & Cash Equivalents	(8,850.155)	12,783.874
Cash & Cash Equivalents at Beginning of the Year	20,938.652	8,154.778
Cash & Cash Equivalents at End of the year	12,088.497	20,938.652
Note i Cash & Cash Equivalent at the Beginning of the Year		
Call Deposits	5.000	5.000
Cash in Hand & Bank	21,102.941	8,333.877
	21,107.941	8,338.877
Bank Overdrafts	(128.088)	(13.056)
Adjustment for foreign currency translation	(41.201)	(171.043)
	20,938.652	8,154.778
Note ii Cash & Cash equivalent at the end of the year		
Call Deposits	5.000	5.000
Cash in Hand & Bank	12,926.064	21,102.941
	12,931.064	21,107.941
Bank Overdrafts	(304.959)	(128.088)
Adjustment for foreign currency translation	(537.608)	(41.201)
	12,088.497	20,938.652

NOTES TO THE ACCOUNTS

1. REVENUE

	2006		2005		
	Qty M.Lts	Value Rs.Mil	Qty M.Lts	Value Rs.Mil	
DOMESTIC SALES					
Super Petrol(90 Octane)	459.647	34,812.391	422.440	27,485.113	
Unleaded Petrol(95 Octane)	23.367	1,864.951	16.559	1,148.549	
Auto Diesel	1,572.776	92,474.646	1,572.226	78,104.774	
Super Diesel	5.594	349.805	13.856	725.285	
Kerosene	250.243	13,209.914	226.603	11,430.279	
Furnace Oil	960.922	36,421.645	1,025.964	30,165.885	
Naphtha	86.916	3,519.323	181.151	5,682.889	
Avn. Gasolene	0.207	35.176	0.195	23.219	
Avn. Turbine Fuel	234.675	13,142.666	215.916	10,151.202	
Others	94.604	4,038.837	78.556	2,478.772	
Total Domestic Sales		<u>199,869.354</u>		<u>167,395.967</u>	
EXPORTS					
(a) Direct Exports			US\$		US\$
		Mil.		Mil.	
Naphtha	62.86	2,429.45	23.090	-	-
		<u>2,429.45</u>		<u>-</u>	<u>-</u>
(b) Indirect Exports					
Avn. Turbine Fuel	150.298	8,714.047	84.540	163.840	7,159.012
		<u>8,714.047</u>		<u>7,159.012</u>	<u>77.42</u>
Total		<u>211,012.846</u>		<u>174,554.979</u>	
Less: Ex.duty, TT, & VAT		<u>(14,246.286)</u>		<u>(12,703.283)</u>	
		<u>196,766.560</u>		<u>161,851.696</u>	

* Subsidy amounting to Rs. 9,418 Mil has been included in respective accounts.

* VAT amounting to Rs. 11,983 Mil included in the sales has been removed to show the actual sales of CPC and comparative figures have been adjusted accordingly.

2. OTHER OPERATING INCOME

	Rupees Million	2006	2005
Treasury Bill Interest Income		299.114	471.328
Interest on R.F.C. A/C		482.521	209.390
Dividend Income		125.100	0.000
Interest on Credit Invoice		185.139	83.013
Sundry Income		152.464	146.826
Rent Income		11.050	7.243
Comm. on Lubricants Sales		34.447	22.795
		<u>1,289.835</u>	<u>940.595</u>

3. OPERATING PROFIT /(LOSS)

	Rupees Million	2006	2005
Operating Profit is stated after charging following:			
Chairman's Remuneration		1.233	1.126
Directors' Remuneration		0.093	0.175
Auditor's Remuneration		1.125	1.227
Depreciation		338.475	303.687
Defined Benefit Obligations		131.499	34.201
Donation to Sri Lanka Sumithrayo		0.396	0.358

NOTES TO THE ACCOUNTS

4. FINANCE CHARGES

Rupees Million	2006	2005
Interest charge - Long term loans	250.337	216.327
- Bank overdrafts	0.523	4.520
- Other Bank loans and foreign bills payable within one year	2,212.266	1,039.759
	2,463.126	1,260.606

5. INCOME TAX

Rupees Million	2006	2005
Current Tax Expenses on Ordinary Activities for the Year (5.1)	117.531	2,125.518
Deemed Dividend Tax	54.568	1,103.634
Social Responsibility Levy	1.721	8.073
Deferred Income Tax	173.820	3,237.225
Deferred Taxation Charge/(Reversal)	-	-
Income tax expense reported in the Income Statement	173.820	3,237.225

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

Accounting Profit (Profit before Tax)	(1,423.760)	9,839.809
Aggregate Disallowed Items	639.485	411.894
Aggregate Allowable Expenses	(1,670.936)	(871.123)
Adjustment of Income/(Loss) not subject to Tax	2,455.211	0.000
		9,380.580
Other Source of Income - Interest Income	516.622	681.044
Less: Utilisation of brought forward tax losses	(180.818)	(3,521.568)
Taxable Profits	335.804	6,540.056
Tax on Profit from Operations		
Operating income	-	1,904.179
Other source of income - Interest Income	117.531	221.339
	117.531	2,125.518
Tax Rate Applicable for Operating Income	35%	32.5%
Social Responsibility Levy	1%	1%
Deemed Dividend Tax	25%	25%
Income Tax	117.531	2,125.518
Deemed Dividend Tax	54.568	1,103.63
Social Responsibility Levy	1.721	8.073
	173.820	3,237.225

NOTES TO THE ACCOUNTS

6. PROPERTY PLANT & EQUIPMENT

6.1 Tangible Assets

	Land & Bldgs.	Vested Property	Plant / Mach & Equip	SPBM Facility	Motor Vehicles	Furn / Fittings & Other Equip & Other Assets	Total
COST							
Bal. as at 01.01.06	1,040.518	1.016	4,194.279	2,141.244	251.249	277.722	7,906.028
Additions	63.523	0.000	301.692	0.077	79.522	12.686	457.500
Disposal	(0.015)	0.000	(7.967)	0.000	(5.236)	0.000	(13.218)
Balance as at 31/12/06	1,104.026	1.016	4,488.004	2,141.321	325.535	290.408	8,350.310
DEPRECIATION							
Bal. as at 01.01.06	120.364	0.310	1,874.712	1,115.836	248.922	266.817	3,626.961
Charge for the year	17.905	0.010	236.918	64.493	10.004	9.662	338.992
Disposal	0.000	0.000	(0.942)	0.000	(5.236)	0.000	(6.178)
Balance as at 31/12/06	138.269	0.320	2,110.688	1,180.329	253.690	276.479	3,959.775
NET BOOK VALUE	965.757	0.696	2,377.316	960.992	71.845	13.929	4,390.535
Cost as at 31/12/05	1,040.518	1.016	4,194.279	2,141.244	251.249	277.722	7,906.028
Acc. Depreciation	120.364	0.310	1,874.712	1,115.836	248.922	266.817	3,626.961
NET BOOK VALUE (as at 31 /12 /05)	920.154	0.706	2,319.567	1,025.408	2.327	10.905	4,279.067

The Land & Buildings representing a cost of Rs 1,922,844/- with an accumulated depreciation of Rs 643,192/- in books of accounts had been valued by the Govt. valuer for Rs 280 Mil in March'94 is decided to be acquired by the Govt..

6.2 Assets and Capital Project in Progress

Rupees Million	2006	2005
1. Buildings	28.346	13.710
2. Plant & Machinery	3.149	204.426
3. Storage Facility	4.704	13.928
4. Others	0.000	1.617
	36.199	233.681

NOTES TO THE ACCOUNTS

6.3 Summary of Property, Plant & Equipment (W.D.V)

Rupees Million.	2006	2005
Property, Plant & Equipment	4,390.535	4,279.067
Assets & Capital Projects in Progress	36.200	233.681
	4,426.735	4,512.748

7. INVESTMENTS

Rupees Million	2006		2005	
	At Cost	Market Value	At Cost	Market Value
7.1 Investment in Associate Company				
Unquoted				
Ceylon Petroleum Storage Terminals Ltd*				
2,500,000,000 Ord. Shares of Rs.10/- each fully paid	2,500.000	-	2,500.000	-
Country of incorporation Sri Lanka				
Percentage of equity held 33.33%				
Principal Activity - Storage & Distribution of Petroleum Fuel				
Total	2,500.000	-	2,500.000	-
7.2 Other Investments				
Quoted				
Lanka Cement Ltd.**				
5,000,000 ordinary shares of Rs. 10/- each fully paid	42.500	42.500	30.000	30.000
Sub Total	42.500	42.500	30.000	30.000
Unquoted				
Associate Newspapers of Ceylon Ltd.				
61,206 Ordinary shares of Rs. 10/- each fully paid	0.539	-	0.539	-
Lanka Leyland Ltd.				
100 Ordinary shares of Rs.10/- each fully paid	0.001	-	0.001	-
International Coop/Petroleum Association***				
5499 shares of US\$ 100/- each fully paid	5.086	-	5.086	-
Incorporated in USA				
Sub Total	5.626	5.626	5.626	5.626
Total	48.126	48.126	35.626	35.626

* The effect of adopting the equity method could not be given due to the unavailability of Financial statements of Ceylon Petroleum Storage Terminals Ltd.

** A provision for Rs. 8.0 Mil is made for diminution in Market Value of Lanka Cement Ltd. Investment worth Rs. 50.5 Mil at cost.

*** Since termination of Lubricant business, there is no direct trade connection with the Organization.

NOTES TO THE ACCOUNTS

8. TRADE & OTHER RECEIVABLES

Rupees Million	2006		2005	
	Within 1 -year	After 1 -year	Within 1 -year	After 1 -year
Trade Receivable	18,326.910	-	13,486.620	-
Other Receivable	2,456.744	4,969.282	2,964.985	6,012.848
Deposits	10.809	41.653	5.533	37.306
Advances	22.059	-	20.092	-
Prepayments	50.385	-	32.515	-
Loans & Advances to Employees	250.002	767.453	142.689	588.079
	21,116.909	5,778.388	16,652.434	6,638.233

Other receivable includes Rs. 5,595 Mil. being an equivalent sum of Long Term Loans transferred to CPSTL and a sum of Rs. 376 Mil. paid in 1999 as an Income Tax advance .

Trade & Other Receivables and Loans & Advances to employees are after charging a provision for Bad & Doubtful Debts amounting to Rs 446 Mil. (2005 Rs. 450 Mil.) and Rs. 3.195 Mil. (2005 Rs.3.606 Mil.) respectively.

9. INVENTORIES AND WORK IN PROGRESS

Rupees Million	2006	2005
Crude Oil	8,336.551	6,989.119
Other Raw Materials	428.468	935.136
Finished Products	17,786.684	9,058.312
Other Materials & Supplies	1,131.819	959.221
Less: Provision for non moving items	(251.340)	(282.102)
	19,095.631	10,670.567
	27,432.182	17,659.686

10. CASH & BANK BALANCES

Rupees Million	2006	2005
Fixed Deposit	5.000	5.000
Cash & Bank Balances	12,926.064	21,102.939
	12,931.064	21,107.939

11. CAPITAL

Rupees Million	2006	2005
Initial contribution in pursuance of Section 23 (1) of Act No. 28 of 1961	10.000	10.000
Voted by Appropriation Act No.23 of 1964	4.000	4.000
Voted by Appropriation Act No.15 of 1967	20.000	20.000
Contribution to Capital in 1976	60.000	60.000
Contribution to Capital in 1979	13.110	13.110
Contribution to Capital in 1980	10.710	10.710
Total contributed by Govt of Sri Lanka	117.820	117.820
Transferred from General Reserve in 1987	750.000	750.000
Transferred from Retained Profits in 1987	132.180	132.180
	1,000.000	1.000.000

(No Authorised capital has been fixed by the Parliament)

NOTES TO THE ACCOUNTS

12. CAPITAL RESERVE

Rupees Million	2006	2005
Balance as at 01 January	4,992.686	1,917.043
Net re-structuring sale proceeds	-	3,075.643
Balance as at 31 December	4,992.686	4,992.686

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

13. REVALUATION RESERVE

Rupees Million	2006	2005
Balance as at 01 January	25.696	25.696
Surplus /(Deficit) on revaluation	-	-
Balance as at 31 December	25.696	25.696

14. INSURANCE RESERVE

Rupees Million	2006	2005
Balance as at 01 January	482.210	474.013
Charged to Profit & Loss Account	19.878	8.197
Balance as at 31 December	502.088	482.210

15. RETIREMENT BENEFIT OBLIGATIONS

Rupees Million	2006	2005
Balance as at 1 January	377.381	700.419
Less; Payments made during the year	9.389	357.239
	367.992	343.180
Add; Charged to Profit & Loss account	131.499	34.201
Benefit China Bay Employees	14,857	0.000
Balance as at 31 December	514.348	377.381

16. INTEREST BEARING LOANS & OTHER PAYABLES

Rupees Million	2006	2005
16.1 LT Loans not assigned to CPSTL		
Treasury (ADB) Loan - (Interest 14.0% p.a.) Repayable in forty ½ yearly instalments of Rs.37.977 Mil each commencing July'01	1,025.452	1,101.411
Indian Line of Credit - (Interest LIBOR+0.5 p.a.) Repayable in twelve half yearly Instalments of Rs.1,228.030 Mil each commencing May'06	10,798.096	12,416.081
16.2 LT Loans assigned to CPSTL		
NDB Loan -(Interest 16.0%p.a.) Repayable in 1st instalment of Rs.12.3 Mill. before 31/03/2001 and balance Rs.1 1.9 Mil of 83 Equal instalments	23.800	166.600
Treasury (Exim Rank) Loan (Interest 12.0%) repayment commencing Oct.2004 in 24 equal 1/2 yearly instalments of final loan value	4,856.979	5,428.388
	16,704.327	19,112.480
Compensation Payable to former owners of properties vested in the CPC	0.902	0.902
	16,705.229	19,113.382

NOTES TO THE ACCOUNTS

16.3 Loans repayable within five years from 31 Dec.2006 is as follows;

Amount due within 1-2 years	3,127.236	6,373.475
Amount due within 3-5 years	9,310.269	9,310.359
Amount due after 5 years	4,266.822	3,428.646
	16,704.327	19,112.480

17. TRADE & OTHER PAYABLES

Rupees Million	2006	2005
Foreign Bills Payable	36,195.771	25,548.792
Other creditors -Amount due to Inland Revenue & Custom Dept.	1,977.670	3,693.976
-Accrued expenses	1,838.253	1,086.930
-Refundable deposits & others	2,534.528	2,119.292
	42,546.222	32,448.990

18. INTEREST BEARING BORROWINGS - DUE WITHIN ONE YEAR

Rupees Million	2006	2005
Bank & Other Loans -wholly repayable within one year	3,189.747	3,260.138
Bank Overdrafts	304.959	128.088
	3,494.706	3,388.226

19. EMPLOYEES

Rupees Million	2006	2005
19.1 Staff Cost		
Salaries & Wages	1,221.585	1,013.055
Bonus	129.689	84.739
Provident & Trust Fund contribution	159.459	87.707
Gratuity provision	131.499	33.902
	1,642.232	1,219.403
19.2 Average No. of employees		
Managerial & Administration	600	594
Selling & Distribution	1,168	1,086
Manufacturing	850	810
	2,618	2,490
19.3 Contract & Casual employees	312	312

20. COMMITMENTS FOR CAPITAL EXPENDITURE

Rupees Million	Amount Approved	Amount Spent Up to 31.12.2006
Fuel Quality improvement & Storage Facilities - Refinery	29.000	4.704
Refinery main Plant (minor modifications)	39.000	3.149
Other capital expenditure	6.000	2.804
Re-Construction of Filling Stations	63.000	25.541
	137.000	36.199

NOTES TO THE ACCOUNTS

21. TRANSACTIONS WITH RELATED PARTIES

CPSTL, an Associated Company having 1/3 rd ownership by CPC. Mr. Asantha de Mel Chairman/Managing Director/CPC and Mr. Methsiri Wijegoonewardena Director/CPC performed duties as Chairman/C.E.O and Director of CPSTL.

The cost of Storage, Terminalling & Distribution facilities provided by the Company during the year is Rs.7,155 Mil. CPC has also absorbed Rs. 43.52 Mil as interest in excess of 12 % p.a. of the Long Term loans transferred to CPSTL.

22. POST BALANCE SHEET EVENTS

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

23. CONTINGENT LIABILITIES

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

24. EARNINGS PER SHARE

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

25. SEGMENTAL REPORTING

Corporation activities are limited to a sector of the down stream segment of petroleum industry and Geographically within Sri Lanka.

26. CORPORATE INFORMATION

26.1 Domicile & Legal Form - Ceylon Petroleum Corporation is a public corporation incorporated under Ceylon Petroleum Corporation Act No.28 of 1961 and domiciled in Sri Lanka. The registered office of the Corporation is located at No.109, Galle Road, Colombo 3.

26.2 Principle Activities and Nature of Operations The principal activities are importing, refining, selling & distributing and exploring petroleum products in Sri Lanka.

NOTES TO THE ACCOUNTS

27. RELATED PARTY TRANSACTIONS DURING THE YEAR 2006 ARE GIVEN BELOW:

Sales Summary for the year 2006 - Government Institutions

Rupees Million	2006	2005
Sri Lanka Air Force	59,448	43,331
Sri Lanka Army	1,151,904	925,895
Ceylon Electricity Board	18,245,953	21,403,935
Ceylon Government of Railway	1,824,484	1,426,661
Ceylon Transport Board	4,141,785	2,680,169
Embassies	10,593	8,317
Hospitals	42,835	18,349
Sri Lanka Navy	2,656,813	1,366,341
Superior Courts Complex	0,727	0,608
Sri Lanka Bureau of Foreign Employment	0,779	1,546
Central Environmental Authority	0,383	0,330
Heavy Equipment Training Centre	6,541	6,616
Fisheries Harbour Corporation	1,656	0,836
State Mining & Mineral Corporation	-	3,530
Peoples Bank	1,862	1,215
Mahara Prisons	1,159	0,829
Irrigation Dept	-	2,832
Welikada Prisons	5,906	4,532
Govt Factory	1,551	1,492
Air Lanka Catering Services	31,246	14,987
Central Bank of Sri Lanka	5,646	2,100
Sri Lanka Broadcasting Corporation	2,689	2,452
Coconut Research Institute	4,254	3,411
Tea Research Institute	6,356	5,734
Sri Lanka Rupavahini Corporation	8,836	5,851
Independent Television Network	0,806	0,330
Provincial Council & Pradeshiya Sabha's	379,433	188,771
Road Development Dept	11,256	36,387
Highways Dept	-	67,383
Postal Dept	13,818	10,909
Colombo Port Commission	3,763	3,381
Universities	1,876	1,525
Aurvedic Drugs Corporation	7,030	4,772
Technical Services Institute	0,082	0,048
State Timber Corporation	9,028	9,221
S.L Institute of Information Technology	14,237	12,678
Land Reclamation Board	22,696	15,530
Bank of Ceylon	4,134	3,064
Police Dept	237,488	189,702
Road Development Authority	91,689	123,080
State Engineering Corporation	5,780	4,140
Sri Lanka Ports Authority	467,657	347,846
Town Councils	300,434	222,785
Sri Lanka Telecom	81,319	60,007
National Water Supply & Drainage Board	26,530	17,327
Ministry of Nation Building & Estate Infrastructure Development	1,214	-
Sri Lanka Institute of Development Administration	0,396	-
Mahaweli Engineers & Planning Construction	0,149	-
State Pharmaceuticals Corporation	4,223	-
Ministry of Education	0,402	-
Colombo District Land Reclamation Development Board	10,840	-
National Institute of Business Management	0,442	-
	29,904,128	29,251,285

SELECTED FINANCIAL DATA

DOMESTIC SALES OF BULK PRODUCTS

(A) VALUE - Rupees Million

	1999	2000	2001	2002	2003	2004	2005	2006
Petrol	13,884.371	14,614.769	16,258.637	18,514.426	22,461.268	25,015.266	28,633.662	36,677.342
Auto Diesel	21,074.774	35,674.876	48,472.452	52,668,931	52,084.773	64,578.380	78,104.774	92,474.646
Hvy*/Sup Diesel	924.466	1,342.637	1,904.453	1,902.580	1,698.721	1,711.525	725.285	349.805
Kerosene	3,259.600	4,432.654	5,512.753	5,938.386	5,683.438	7,775.135	11,430.279	13,209.914
Furnace Oil	4,002.276	6,932.905	11,836.009	15,126.837	16,238.837	17,509.316	30,165.885	36,421.645
TOTAL	43,145.488	62,997.843	83,984.304	94,151.160	98,167.037	132,904.732	149,059.885	179,133.352

(B) QUANTITY - Thousand Metric Tons

	1999	2000	2001	2002	2003	2004	2005	2006
Petrol	212.9	224.4	249.5	286.1	337.9	350.3	334.1	367.6
Auto Diesel	1,376.8	1,683.8	1,624.9	1,728.3	1,523.0	1,583.3	1,330.1	1,335.3
Hvy*/Sup Diesel	40.0	46.7	49.0	46.9	39.5	31.6	11.7	4.7
Kerosene	243.3	229.1	227.8	228.8	184.6	171.8	178.0	196.6
Furnace Oil	557.5	736.7	748.8	757.6	648.3	771.7	972.8	911.1
TOTAL	2,430.5	2,920.7	2,900.0	3,047.7	2,733.3	2,908.7	2,826.7	2,815.3

(C) RETAIL SELLING PRICES IN PETROLEUM PRODUCTS

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

	1999	2000	2001	2002	2003	2004	2005	2006
Super Petrol	50.00	50.00	50.00	49.00	53.00	70.00	80.00	95
Auto Diesel	13.20	24.50	26.50	30.00	32.00	44.00	50.00	92
Super Diesel	18.50	29.80	31.80	35.30	37.30	49.30	55.30	65.30
Kerosene	10.40	18.40	17.40	24.00	25.50	25.50	30.50	48
Furnace Oil								
- 1000 Sec	7.20	14.60	16.50	21.20	23.20	24.70	31.40	44.40
- 1500 Sec	6.80	14.00	15.80	20.70	22.30	24.30	30.30	43.30
- 3500 Sec	6.20	12.40	14.10	18.90	20.70	22.00	28.00	41

- Heavy diesel sales terminated from 0 1/06/96.
- Retail prices revised monthly as per Formulae from Feb. 2002

SELECTED FINANCIAL DATA

INCOME & EXPENDITURE

Rupees Million	1999	2000	2001	2002	2003	2004	2005	2006
Gross Income Less: Taxes**	44,499	63,159	74,351	80,114	85,900	121,540	161,852	196,767
Income from Investment	300	181	120	1,118	162	-	-	-
Cost of Sales	41,196	70,688	62,734	67,211	75,471	106,750	142,718	186,643
Margin	3,303	(7,529)	11,617	12,903	10,429	14,789	19,134	10,124
Extra ordinary Item	-	-	-	2,530	-	-	-	-
Working & Establishment Expenses including interest	3,634	8,714	10,178	6,765	5,715	10,344	9,294	11,726
Kerosene subsidy and other levies paid to the Treasury	500	-	-	-	-	-	-	-
Profit/ (Loss) before Tax	(531)	(16,062)	1,559	9,786	4,874	4,445	9,840	(1,602)

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

CAPITAL STRUCTURE

Rupees Million	1999	2000	2001	2002	2003	2004	2005	2006
CAPITAL EMPLOYED								
Capital	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0	1000.0	1,000.0	1,000.0
Reserves	(174.8)	(16,221.8)	(15,039.4)	(8,589.1)	(2,253.8)	1,984.1	11,673.4	9,917.1
L/T Liabilities	2,454.4	3012.7	4,787.0	6,644.6	8,476.5	7,699.9	19,113.4	16,705.2
Gratuity Prov.	408.4	462.2	482.8	424.8	556.8	700.4	377.4	514.3
Total	3,688.0	(11,746.9)	(8,769.6)	(519.6)	7,779.5	11,384.4	32,164.2	28,136.6

REPRESENTED BY

Fixed Assets								
Including Work-in-Progress	4,988.5	5,905.4	7,630.2	10,844.7	4,504.4	4,450.7	4,512.7	4,426.7
Investment	323.7	316.2	338.7	57.8	2,173.8	2,176.1	2,535.6	2,548.1
Net Current Assets	(1,624.2)	(17,968.5)	(16,738.5)	(11,422.1)	(1,101.3)	4,757.6	25,115.9	21,161.8
Total	3,688.0	(11,746.9)	(8,769.6)	(519.6)	7,779.5	11,384.4	32,164.2	28,136.6

SELECTED FINANCIAL DATA

SUMMARISED CASH FLOW STATEMENT

Rupees Million	2003	2004	2005	2006
Net profit/(Loss) from operating activities	4,874.194	4,444.837	9,839.809	(1,602.374)
Extra ordinary Item	-	-	-	-
Adjustments for items not Involving movement of Cash	988.365	776.807	1,017.725	1,544.022
Operating Profit/(Loss)before changes in items of working capital	5,862.559	5,221.644	10,857.534	(58.352)
Changes in working capital				
Increase/(Decrease) in Inventories	1,844.676	(5,157.403)	(4,066.365)	(9,772.496)
Increase/ (Decrease) in Trade & other receivables	(384.386)	789.614	(3,434.619)	(3,792.915)
Increase/ (Decrease) in Trade & other payables	(1,777.402)	2,862.133	(1,838.767)	12,285.241
Less: Gratuity \Tax & Int. Paid	(617.268)	(880.768)	(2,072.717)	(5,695.523)
Cash generated from operating activities	4,913.411	2,835.220	(554.934)	(7,034.045)
Cash used in investing activities	(3,421.404)	246.165	317.925	662.033
Cash used from financing activities	1,880.885	1,050.684	13,020.883	(2,478.143)
Net (Decrease)/Increase in cash and cash equivalents	3,372.892	4,132.069	12,783.874	(8,850.155)
Cash and Cash equivalents at beginning of the year	820.860	4,193.752	8,154.778	20,938.652
Cash and cash equivalents at end of the year	4,193.752	8,325.821	20,938.652	12,088.497

FOREIGN EXCHANGE EARNINGS & PAYMENTS

	1998	1999	2000	2001	2002	2003	2004	2005	2006
Aviation Fuel Sales									
Foreign Airlines US\$Mill	26.2	24.5	40.9	31.1	32.4	48.3	57.0	77.42	84.51
Direct Exports US\$Mill	17.4	17.2	27.6	16.5	13.1	-	7.0	-	23.09
Total US\$ Mill	43.6	41.7	68.5	47.6	45.5	48.3	64.0	77.42	107.63
Rupee equivalent Rs.Mill	2,615.1	3,017.4	5,345.9	3,561.5	3,977.7	3,500.8	6,458.5	7,159.012	11,143.492
Import Cost									
Crude Oil - US\$.Mill	270.0	260.3	489.1	353.9	408	431	597	747.2	1,028.5
Refined Prod - US\$.Mill	176.4	173.5	303.5	304.0	286	300	464	653.0	761.3
Total - US\$.Mill	446.4	433.8	792.6	657.9	694	731	1061	1,400.7	1,789.8
Avg.Crude (C&F) Price									
US\$/Bbl	13.47	19.39	28.27	24.67	25.00	29.29	37.38	52.14	65.07
Avg.Exch. Rate US\$1= Rs.	65.70	71.17	77.27	89.62	96.34	96.42	101.90	100.53	103.96

SELECTED FINANCIAL DATA

OTHER MANAGEMENT INFORMATION

Rupees Million	2003	2004	2005	2006	
TRADING RESULTS					
Revenue	111,389.486	135,351.978	174,554.979	211,012.846	
Profit / (Loss) after Taxation	4,874.194	3,907.86	7,710.890	(1,721.625)	
ASSETS EMPLOYED					
Property, Plant & Equipment	4,504.432	4,450.672	4,512.748	4,426.735	
Net Current Assets	(6,785.125)	(2,728.739)	18,477.611	15,383.468	
Total	(2,280.693)	1,721.933	22,990.359	19,810.203	
FUNDS EMPLOYED					
Capital	1,000.000	1,000.000	1,000.000	1,000.000	
Reserves	(2,253.785)	1,984.126	11,673.455	9,917.140	
Total	(1,253.785)	2,984.126	12,673.455	10,917.140	
Capital Expenditure	(5,266.000)	(255.000)	(78.000)	(255.000)	
EMPLOYEES EARNINGS					
Wages	1,461.006	1,201.357	986.434	1,221.59	
Bonus	186.671	101.931	84.739	129.69	
Annual Average Earnings per Employee (Rs.)	759,298	531,520	419,410	461,188	
No. of Employees	2,170	2,452	2,554	2,930	
FINANCIAL RATIOS					
Return on capital employed	%	-	130.9	60.84	(15.77)
Return to turnover	%	5.67	3.22	4.76	(0.87)
Debtors to Turnover	%	0.04	0.06	0.08	0.09
Turnover to Fixed Assets	times	19.07	27.31	35.87	44.45
Finished stock to turnover	times	0.05	0.07	0.06	0.09
Current ratio	times	0.70	0.92	1.48	1.33
Liquid ratio	times	0.45	0.53	1.00	0.74
Interest cover	times	9.96	6.78	8.81	0.35

STATEMENT OF VALUE ADDED

The accounts of the Ceylon Petroleum Corporation for the year ended 31 December 2006 were audited 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.

My observations on these accounts that should be published in terms of Section 14 (2) (c) of the Finance Act are contained in my report of even date addressed to the Chairman of the Corporation.

(Sgd).

P.A. Pematilake

Auditor General

14th December 2007

Auditor General's Department,

Colombo 7

AUDITOR GENERAL'S REPORT

14th December 2007

LP/D/CPC/FA/06

The Chairman
Ceylon Petroleum Corporation

Report of the Auditor General on the Financial Statements of the Ceylon Petroleum Corporation for the year ended 31 December 2006 in terms of Section 14(2)(c) of the Finance Act No.38 of 1971

The audit of financial statements of the Ceylon Petroleum Corporation (CPC) for the year ended 31 December 2006 was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act No.38 of 1971. In carrying out this audit, I was assisted by a firm of Chartered Accountants in public practice. My 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 addition to this report.

1.2 Scope of Audit

Audit opinion, comments and findings in this report are based on a review of the financial statements presented to audit and substantive tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards, methods and practices to obtain reasonable assurance as to whether the financial statements are free of material misstatements. The audit included examination of evidence supporting the amounts and disclosures in financial statements and assessment of accounting principles and significant estimates and judgments made in the preparation of financial statements, evaluation of their overall presentation and determining whether accounting policies adopted were appropriate, consistently applied and adequately disclosed. Sub-sections (3) and (4) of Section 13 of the Finance Act No.38 of 1971 given discretionary powers to the Auditor General to determine the scope and extent of the audit.

2. Financial Statements

2.1 Opinion

So far as appears from my examination and to the best of my information and according to the explanations given to me, I am of opinion that the Ceylon Petroleum Corporation had maintained proper books of account for the year ended 31 December 2006 and except for the effects on the financial statements of the matters referred to in paragraph 2.3 of this report, the financial statements which are in agreement with the said books have been prepared and presented in accordance with Sri Lanka Accounting Standards and the stated accounting policies and Notes (Nos.1 to 27) to the financial statements give a true and fair view of the financial position of the Corporation as at 31 December 2006 and the financial results of its operation and cash flows for the year then ended.

2.2 Matter of Emphasis

Without further qualifying my opinion I draw attention to the following paragraph.

The Corporation had computed the Deemed Dividend Tax liability annually on the basis that 'statutory income' constitutes the 'profit' rather than 'taxable income' and that matter has now been referred to the Court of Appeal for determination. However, the contingent liability on accumulated Deem Dividend Tax amounting to Rs. 2,476 million (approximately) as at 31 December 2006 arising from the absence of a clear definition in the Inland Revenue Act to determine the "profit" used to compute such tax had not been disclosed in the financial statements.

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2.3. Comments on Financial Statements

Noted and necessary action has been taken to improve the situation.

2.3.1 Presentation of Financial Statements

The financial statements for the year ended 31 December 2006 which should have been presented for audit within 60 days after the closure of the financial year in terms of Public Enterprises Department Circular No PED/12 of 2 June 2003 were presented only on 23 May 2007.

2.3.2 Sri Lanka Accounting Standards (SLAS)

The following non compliances with SLAS were observed

- | | |
|---|---|
| (a) Arrears of Turnover Tax relating to the period 30 September 2003 to 30 September 2005 amounting to Rs.158 million settled during the year under review had not been recognized and treated as prior period items in terms of SLAS 10. | Noted. |
| (b) Deferred taxation had not been assessed and accounted for in the financial statements in terms of SLAS 14. | Noted. |
| (c) The Corporation had not revalued the assets to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date, as stipulated by SLAS 18. | Noted. |
| (d) It was not possible to verify the accuracy of the depreciation charge on assets purchased amounting to Rs 458 million during the year under review due to the non-availability of a proper procedure to identify the policy on depreciation as required by SLAS 18. Also the accounting policy for depreciation disclosed in the financial statements did not agree with the SLAS. | Noted and will be adjusted in year 2007. |
| (e) The investment made in the Associate Company amounting to Rs. 2,500 million had not been brought to account based on the equity method of accounting and disclosed as required in terms of SLAS 27. | CPSTL is a Private Limited Company where CPC has participated 33 1/3 % of Share Capital and does not involve actively in any major financial transactions of CPSTL. The non involvements in the financial decision making process of the associate company by CPC, it was decided not to use equity method of accounting policies in respect of investment. However, as proposed by the Cabinet Paper 25/2006 dated 14.07.2006 when CPC receives the balance 1/3 which is owned by SL Treasury & CPSTL assets & liabilities will be consolidated into the Balance sheet of CPC. |
| (f) The Commissioner General of Inland Revenue on 02 February 2007 had Issued additional assessments based on amendments made to the taxable profit for the years of assessment 2002/03 and 2003/04 amounting to Rs. 2,755 million and Rs. 2,209 million respectively. Appeals had been made against these assessments by the Corporation on 15 June 2007 but its had not been finalized do date. This position had not been disclosed in the financial statements in terms of SLAS 36. | Noted. |

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2.3.3 Accounting Deficiencies

The following accounting deficiencies were observed

- | | |
|---|--|
| (a) The throughput charges which are directly related to the cost of sales had been treated as marketing expenses and charged to the income statement thereby understating the cost of sales by Rs. 3,253 million. | We treat throughput charge as a Selling & Distribution expense since invoicing of a Customer and origination of throughput charges occurs at the same time. So this expenditure could not be treated as cost of sales. Furthermore, there is no basis to identify throughput charges in connection to closing stock. |
| (b) Interest on Long Term Loans shown in the financial statements had been overstated by Rs.82 million, due to recognition of the finance cost on the Asian Development Bank (ADB) Loan on cash basis. | Noted. |
| (c) Naphtha Export Sales amounting to Rs.2,429 million shown in the financial statements had been overstated by Rs.16 million due to accounting it on cash basis instead of on accrual basis. | Noted. |
| (d) Even though the provision for bad and doubtful debts had been made on a specific provision basis it had not been disclosed in the financial statements. | Noted. |
| (e) The land and building shown under Note-6.1 to the financial statements situated in Colombo, which had been occupied by the Government since the year 1993 had been legally transferred to the Government in the year 2005. But, it had not been adjusted in the financial statements. | Noted and will be adjusted in the financial year 2007. |
| (f) Even though the liability for payment of arrears of salary to Oil Workers based on the Arbitration award published in the Government Gazette on 11 January 2007 falls on the Corporation, no provision thereby had been made in the financial statements. | Noted. |

2.3.4 Accounts Receivable and Payable

The following observations are made

- | | |
|--|---|
| (a) The Corporation had not obtained Bank Guarantees from two Aviation Contract Customers whose balances amounted to Rs. 785 million outstanding as at 31 December 2006. | The payments records of these two customers in last Five years have fund satisfactory and therefore their exposure was not covered by Bank Gurantees. |
| (b) Fuel supply agreement of one Aviation customer, whose outstanding balance as at 31 December 2006 amounted to Rs. 30 million, had expired on 31 December 1997 but the Corporation continued to supply fuel based on that expired agreement. | Noted. |
| (c) The Corporation had sold fuel to selected 85 dealers ranked as "Best Dealers" based on their turnover, settlement of dues, etc. on five days credit period on Bank Guarantees obtained as security (Bank Guarantee commissions was on account of the Corporation). However, audit test check carried out | Adequate measures have been deployed to strengthen the credit control work in the year 2007. |

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revealed that 50 of those dealers had been sold fuel exceeding their Bank Guarantees and those excesses were in the range between 25- 265 per cent. Sales valued at Rs. 7.3 million made by the Corporation to a dealer against a Bank Guarantee of Rs. 2 million could be cited as an example. Total outstanding from those 85 dealers as at 31 December 2006 amounted to Rs. 376 million against the Bank Guarantee value of Rs. 274 million. Even though the Corporation has no mechanism to monitor the existing 85 dealers secured with Bank Guarantee that facility had been extended to all of its dealers since August 2006. The number of dealers as at 31 August 2006 was 781 and out of them only 215 including the above mentioned 85 dealers had used this facility. The bank commission amounting to Rs. 12 million per annum had been paid by the Corporation in respect of 215 Bank Guarantees recorded to Rs. 602 million.

(d) The Corporation had sold its products to its dealers giving 30 days credit period without any/adequate securities and credit limits. Penalty charges also had been imposed on delayed customer.

Only Government customers are given one month credit period without guarantee.

(e) Total amount outstanding from Government institutions other than Ceylon Electricity Board (CEB) as at 31 December 2006 amounted to Rs. 3,367 million and 46 per cent of that was outstanding over period exceeding three months. The amount outstanding from CEB and Private Power Producers as at 31 December 2006 amounted to Rs. 11,658 million (Rs. 9,435 million was outstanding more than three months) and Rs. 1,189 million (Rs. 436 million was outstanding over the period more than two months) respectively. Despite the liquidity problem faced by the Corporation, it has not derived any additional income from those outstanding because no interest had been charged therefore.

Noted.

(f) Aggregate Bank Guarantees of five aviation customers valued at Rs. 33 million only but, their aggregated outstanding balance as at 31 December 2006 amounted to Rs. 93 million.

Noted.

2.3.5 Lack of evidence for Audit

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

(a) Other Receivables had been included an amount of Rs.376 million paid in 1999 as Advance Corporate Tax. However, supporting documents in this regard were not made available to audit.

Noted.

(b) Although independent confirmations had been called for, the Government Departments and other Government Agencies included under Trade and

Requested but not received.

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Other Receivables amounting to Rs. 14,872 million had not confirmed their balances.

- (c) A sum of Rs.5,595 million included under Trade and Other Receivables (non current asset) and sum of Rs.94 million included under Trade and Other Receivables (current asset) due from the Associate Company had not been confirmed.
- (d) Throughput charges amounting to Rs. 482 million paid in 2004 and 2005, reversed as at 31 December 2006 and included under Trade and Other Receivables could not be satisfactorily verified due to the non-availability of sufficient information.
- (e) The Register of Fixed Assets maintained at the Head Office did not include the details of assets (except motor vehicles) purchased before year 2003 for identification.
- (f) Trade Debtors included the loans granted to purchase equipment, outstanding rental charges, interest on overdue balances, etc. which had not been considered as "trade debts" and as such the age analysis made available for audit was not accurate.
- (g) A sum of Rs. 3,469 million credited to the Capital Reserve during the year 2005 based on a report submitted by two firms of Chartered Accountants dated 8 November 2005, with a view to incorporating the value of net assets transferred to the Petroleum Company in 2003, could not be verified due to the non-availability of the valuation report.
- (h) The Corporation had failed to produce Title Deeds of five blocks of land valued at Rs 63 million relating to the Sapugaskanda Mini Terminal.

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

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

Reference of Laws, Rules

- (a) Ceylon Petroleum Corporation Act No. 28 of 1961.
 - (i) Section 8
 - (ii) Section 10 and SLAS 30
- (b) Section 23 of Inland Revenue Act No 38 of 2000

CHAIRMAN'S OBSERVATIONS

Requested but not received.

This 482 million is a refund made by CPSTL since they have to reconcile certain over stated rates during 2004 and 2005. We have a statement given by CPSTL on this transaction.

Noted.

Noted.

Restructuring of CPC under privatization has been handled by PERC and the relevant documents were not available to CPC.

Noted.

Non Compliance

One member of the Board of Directors had resigned in August 2006 but the vacancy had not been filled up to 31 August 2007

Declarations from the Directors of the Corporation, stating their direct or indirect interests on contracts with the Corporation had not been disclosed with the financial statements.

Allowable expenses for the computation of tax are the expenses incurred in the production of income. However, the Corporation had deducted Loan interest applicable for loans assigned to its Associate Company when calculating taxable

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(c) Department of Public Enterprises Circular

No. PED/12 of 2 June 2003

(i) Paragraph 3.2

(ii) Paragraph 6.1

(iii) Paragraph 8.3.4

(iv) Paragraph 8.3.5

(v) Paragraphs 8.3.8 and 9.12

income which resulted under payment of Income Tax since 2004. The total under payment for the period 2004 – 2006 was Rs. 41 million.

The Board of Directors of the Corporation did not contain at least one member in the field of Petroleum, which is the main subject of the Corporation

Draft Annual Report for the year under review had not been submitted to audit.

The specified limits on telephone expenses which should be maintained by the Corporation according to the hierarchy of the officers had been increased without approval of the General Treasury.

Further, 41 mobile phones has been provided by the Corporation to its officers at the cost of the Corporation.

Officers who were not entitled to assign motor vehicles had been assigned with motor vehicles on the approval of the Board of Directors or the Chairman.

Fuel limits for such assigned motor vehicles had been decided either by the Board or by the Chairman.

The Chairman had granted approval to certain officers to claim reimbursement of the value of 100 – 120 litres of fuel per month for traveling between their residence and office in their private motor vehicles.

Following donations and contributions had been made during the year under review contrary to the provisions in this paragraph.

I As mentioned in my previous reports, the Thrift Society had functioned with the donations made by the Corporation. A sum of Rs.25 million had been released to the Society during the year under review to implement the Medical Scheme of the Corporation which could have been done by the Corporation itself.

II The balance outstanding from the loans granted to the members of the Society by the Corporation out of the Corporation funds as at 31 December 2006 amounted to Rs. 70 million and out of the income received from those loans a sum of Rs.2 million had been granted to the Society.

III According to an agreement made between the Society

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- (vi) Paragraphs 8.7
- (d) Department of Public Enterprises Circular No 130 of 18 March 1998.
- (e) Letter dated 19 February 1990 issued by the Ministry of Policy Planning and Implementation
- (f) Directives given by the Committee on public Enterprises (COPE) at the meeting held on 23 August 2006.
- and the Corporation, it was agreed to bear 50 per cent of the gratuity paid to the employees of the Corporation by the Thrift Society, in addition to the gratuity paid by the Corporation under Payment of Gratuity Act No 12 of 1983. Accordingly, a sum of Rs.567 million of special grant had already been released to the Society under the Corporation's restructuring process and the balance payable amounting to Rs. 100 Million had been provided for in the accounts.
- The Corporation had paid a sum of Rs.522 million as at 31 December 2006 as PAYE tax on behalf of employees contrary to the Circular instruction.
- Rate of interest on staff loans had been reduced from 7.2 per cent to 4.2 per cent without the authority of the General Treasury. The amount under recovered for the year under review was Rs.21 million.
- Services of private lawyers at a higher rate had been obtained without obtaining prior approval of the Attorney General. The amount so paid to the private lawyers during the year under review and the previous year were Rs.5 million and 8 million respectively.
- A sum of Rs. 0.5 million granted to the Ceylon Petroleum Corporation Retired and Retirement pending Employees welfare Association in 2005 had not been recovered up to 30 October 2007.

2.3.7 Transactions not supported by Adequate Authority.

The following observations are made

- (a) When Corporation requested the approval of the Management Services Department (MSD) to increase the annual bonus by Rs.5000 per employee in 2005; the MSD directed the Corporation to obtain the Cabinet approval for that. However, the Corporation had paid the said additional bonus to its employees subject to the approval of the Strategic Enterprises Management Agency (SEMA) but, its approval had also not been obtained. The amount so paid for 2005 and 2006 amounted to Rs. 12 million (approximately) and Rs. 11 million respectively.
- (b) The employees of the Corporation are not entitled to the cost of living allowance paid to the Government employees in terms of Management Services Department Circular No 27 of 17 January 2006, as their salaries are revised once in three years in terms of

Noted.

Corporation employees are eligible to the cost of living allowance as per Circular No. 29 dated 31.08.2006 issued by Management Services Department.

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the special Cabinet approval. However, with the Board approval, the Corporation had paid its employees a monthly allowance of Rs 1,000 as cost of living up to June 2006 and thereafter it had been increased to Rs. 1,375. The amount so paid for the year under review amounted to Rs 37 million.

- (c) The management of the Corporation had overridden the approval given by the Cabinet Appointed Procurement Committee (CAPC) in the following instance.

The CAPC had granted its approval to procure 40,000 US Barrels of Gas Oil (Diesel), 80,000 US Barrels of Gasoline (Petrol) 90 Octane, and 40,000 US Barrels of Gasoline 95 Octane. However, the Gas Oil quantity had been increased by 110,000 US Barrels by the management without the CAPC approval.

As a result of the above change, finance ceiling of around US \$ 14 million granted to the Corporation to procure the said cargo had exceeded by 64 per cent. Therefore, it should have been amended only with the approval of the CAPC and not with the approval of the Chairman of the Corporation

Lanka Indian Oil Company joint cargo partner was unable to establish Letter of Credit when the cargo was loaded and in turn CPC had to cover the fuel shipment in order to guarantee the energy security of the country.

3. Financial and Operating Review

3.1 Financial Results

According to the financial statements presented, the working of the Corporation for the year under review had resulted in a net loss of Rs1,602 million before tax as against the pre-tax net profit of Rs. 9,840 million in the preceding year, thus indicating an overall deterioration in financial result by Rs. 11,442 million. This deterioration was mainly due to increase in the oil prices in the world market and exchange gain for the year under review as against the exchange loss in preceding year, increase the interest expenditure on the foreign bills payable and other bank loans taken for fuel purchases. However, the overall sales volume has slightly decreased as against the previous year.

Noted.

3.1.1 Analytical Review of the Financial Result and Financial Position

The following observations are made.

- (a) The Liquidity Ratio of the year under review indicated 1.33 times as compared with 1.5 times for the preceding year thus showing a slight improvement while the Acid Test Ratio of the year under review had dropped from 1.02 to 0.74 times by showing a deterioration of 0.28 times.

Noted.

Noted.

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- (b) Loan Capital of the year under review as a percentage of Equity as compared with the preceding year had increased by 4 per cent, even though as a percentage of Total Assets it had decreased by 5 per cent.
- (c) Total quantity sold during the year under review had decreased by 18 Metric Tons (MT).
- (d) As compared with the gross profit margin of 10.71 per cent for the preceding year, the gross profit margin for the year under review amounted to 5.68 per cent thus indicating a drastic decrease of 50 per cent, mainly due to the increase of the cost of sales.
- (e) As compared with the preceding year, the total finance charges of the year under review had increased by 95 per cent while the total administrative expenditure had increased by 71 per cent whereas the total selling and distribution expenditure, which represent 65 per cent of the total overhead expenditure (previous year it was 76 per cent) had increased only by 9 per cent.

3.2 Performance

The following observations are made

- (a) It was observed that the Corporation has no adequate storage facilities for Naphtha and Furnace Oil. Hence, a gross loss of Rs. 5 million had been incurred by way of exporting 43,349 Metric Tones (MT) of Naphtha at lesser price while earning a sum of Rs. 153 million from selling of 59,935 MT in local market. If the Corporation had sold that quantity in local market it could be able to earn a gross margin of Rs. 111 million.
- (b) The Solvent had been continuously sold the Stockiest at a discount of 7 per cent where the margin of that product was lesser than the discount offered. Hence, the gross loss incurred by the Corporation during 2004, 2005 and 2006 was Rs. 22 million, Rs. 30 million and Rs. 142 million respectively.
- (c) The Corporation sells two types of Kerosene with same quality at different prices as Lanka Kerosene; for domestic use and Industrial Kerosene; for industrial use. The Corporation had to sell Lanka Kerosene at concessionary price and therefore, it's per litre price was Rs. 2.30 lower than the price per litre of Industrial Kerosene. Further, the Industrial Kerosene had also been sold by Rs. 8.69 per litre lower than the landed average cost of the year under review and reasons for the lower price was not made available for audit. However, it was observed that the expenses such as financial cost of working capital, storage terminal charges, CPSTL profit margin, marketing and distribution cost, TT (both Corporation and Dealer), dealer discount, etc. had not been recovered

CHAIRMAN'S OBSERVATIONS

Noted.

Noted.

Finance cost had been increased since grace period of Indian Line of Credit was lapsed in 2006 and the average LIBOR was increased by 150bps.

CPC has to export Naphtha since its sole buyer, CEB had storage tank repairs during the year.

Solvents prices are adjusted in a couple of occasions to match with its cost.

Both domestic and industrial prices were adjusted in 2007 in line with international oil prices.

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from the selling price of that product. However, the Corporation had not taken action to restrict the issuing Lanka Kerosene to industries as well. Due to the lapses mentioned above the Corporation had incurred a gross loss of Rs. 896 million by selling of Kerosene during the year under review.

- (d) The Corporation had incurred a sum of Rs. 243 million of loss during the year under review by downgrading of 24,266,768 litres of Aviation Turbine Fuel to Industrial Kerosene because average price different between two products were Rs. 10.00 per litre.
- (e) The storage facilities available for Super Diesel and Petrol (95 Octane) is only one tank for each product with the capacity of 6,230 MT and 8,050 MT respectively. Hence, its advantages have been enjoyed by the Lanka Indian Oil Company (LIOC) by way of overdrawing the Corporation stocks at all the time. For instance, the overdrawn quantity of Super Diesel during January – May 2006 was 1.927 MT.
- (f) The Corporation had sold Liquid Petroleum Gas (LPG) to a private company at FOB price per Metric Tone (MT) as per Saudi Armco Fuel Prices which in certain instances had not only been lesser than the Refinery gate price but it had been lesser than the Crude price per MT as well. Anyhow, the Corporation had incurred a gross loss of Rs. 24 million from LPG sales during the year under review because sales value was lesser than its cost of sales.
- (g) A net loss of Rs. 10 million from sale of Agro Chemical had been incurred by the Corporation during the year under review.

3.3 Delay in Projects

The following observations are made.

- (a) 53 items of capital works and procurements which had been originally planned for completion in 2003, 2005 and 2006 at an estimated cost aggregating to Rs. 797 million had been carried forward to 2007 by abnormally reducing its estimated cost by 28 per cent
- (b) The Corporation had purchased a land from Dematagoda in 2005 at a cost of Rs. 80 million to construct an office building, as it now occupies in a rented. Out building at an annual rental of about Rs. 61 million. Though the annual budget for the year 2005 had provided a sum of Rs. 570 million for the said construction, it had not yet been commenced and the estimated cost had been abnormally reduced to Rs. 539 million in 2007 budget.

CHAIRMAN'S OBSERVATIONS

A decision has been taken to avoid stockout situations in the country.

This is an unavoidable situation since CPSTL has 5,000 Mts. tanks and LIOC has the lesser market share for Super Diesel and Petrol 95 Octane.

Noted.

Certain projects on capital expenditure were revised in line with changing competitor patterns.

Lengthy procedure on Tenders is the cause for the delay.

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3.4 Transactions of a Contentious Nature - Storage and Distribution of Petroleum Products (Tank Farm at Muthurajawela)

The Muthurajawela Tank Farm has a total storage capacity of 250,000 cubic metres together with an additional tanker unloading facility situated 6.04 km from the shoreline via a single point mooring facility that could accommodate 60,000 MT capacity from ocean going tankers. It can also load 260 road tankers with a capacity of 6,000 to 33,000 liters during a working day via a fully automated tanker loading facility for distribution of diesel and kerosene. Total amount invested on this facility amounted to Rs. 12 billion and was commissioned in 2004.

Said Tank Farm had been built because of the existing facility would hardly be sufficient to cater for the increased demand as Port facility for importing and storage facility to keep sufficient stocks close to the demand centre was limited and the existing facilities at Kolonnawa were too old or in a state which require massive investment for upgrading.

However, due to restructuring the petroleum business in local market, a new company, Ceylon Petroleum Storage Terminal Limited (CPSTL) had been formed, and the functions of storage and distribution of fuel had been assigned to that Company. Therefore, the ownership of Muthurajawela Tank Farm had also been transferred to CPSTL in 2003.

Although the Muthurajawela Tank Farm is owned by the CPSTL, its operations to a large extent affect the performance of the Corporation. The under-mentioned deficiencies revealed that the Terminal had not been efficiently operated during the year under review to minimize operational losses and misuse of the Corporation's stocks.

- (a) At the conclusion of its three year period of operation, the Terminal had not been adequately utilized to serve US \$ 3 per MT of each shipment.
- (b) In spite of the fact that, enormous capital expenditure had been invested for terminal automaton, with an objective to have an efficient operation, its operators had been compelled to do manual adjustments subsequent to the automated process of loading in order to deliver the goods as per the criterion of the CPSTL, contradicting the prime objective of automated loading.
- (c) The accuracy of the issuing had neither been ensured by the gantry meters nor by the calibrated tongue levels (There was no standard period for recalibrating and normally every 2 years bowsers should be calibrated but, it had not been strictly adhered to.) of each and

Noted.

Noted.

Noted.

Operational activities of CPSTL is a responsibility of the Board of Directors of CPSTL. It is accepted that CPSTL's operational efficiency will have impact on distribution companies who are major shareholders of CPSTL. However, an investigation has been carried out by the management of CPSTL to find reasons for noted irregularities and the investigation report has already been forwarded. Corrective actions along with disciplinary proceedings will be in place soon.

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every compartment of the tank trucks (Bowers) due to mismatch of the level of the loaded volume with the indicated level of the tongue by a quantity more or less. Therefore, a fair business with client could not be seen.

- (d) Since only the bowser crew and the security personnel were involved in filling and sealing activities at the gantries, connivance could be taken place with involvement of those personnel.
- (e) A proper gantry meter calibration had not been done over the period of three years i.e. after installation of the gantry meters, though it should be done periodically.

Noted.

In addition to providing facilities such as storage, stock handling, distribution etc. the CPSTL had been assigned to recording, processing and providing information from the Corporation transactions too and the Corporation retains authorization and maintenance of accountability of those activities. Though the Corporation needs to implement effective policies and procedures to monitor the activities handled by CPSTL on its behalf, no such controls had been implemented up to date.

3.5 Management Inefficiencies

The following observations are made

- (a) Aviation fuel is priced using the previous month's mean Platt's Singapore prices (MOPS). As the MOPS prices were increased very frequently during nine months period of the year under review except in March, the Corporation could have gained considerable profit, had it used alternative pricing methods. For instance, the Corporation could have earned approximately Rs. 103 million and Rs. 118 million of additional revenue in January and April alone respectively, had it used the previous week' average MOPS.
- (b) The Aviation fuel was being sold to a particular Airline Company at a concessionary price as compared with the prices charged for the Contract Customers, VIP Flights, and Military Flights up to 15 October 2006 even after the restructuring of that Airline Company due to inability to renegotiate the terms and conditions in the agreement already entered with the predecessor. Since the management had not taken corrective action on time, the Corporation had incurred a loss of approximately Rs. 430 million during a nine months period of the year under review.
- (c) It was observed that seventeen cargoes were discharged through the Colombo Harbour even though there were adequate storage facilities in Muthurajawela Terminal, thus depriving the possibility of saving US \$ 1.161 million approximately equivalent to Rs.118 million as harbour dues. It was also observed that requirement of the Ceylon Electricity Board and others within

It was accepted practice to price Aviation fuel on monthly average MOPS. Furthermore, the monthly average MOPS has been agreed upon with Sri Lanka Treasury, CPC and the Airlines while maintaining one month stock at any given time.

Noted.

CPC has maximized the ullage of storage tanks when the final prices are low and enjoy the benefits in the financial year 2007.

Noted.

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the Colombo area could have been fulfilled through locally refined products stored in Kolonnawa.

- (d) The Corporation's practice is to keep one month Crude Oil requirement as inventory, which means that the throughput of the current month is purchased in the previous month and finished products will be sold in the subsequent month. The calculation of the Refinery margin is to adjust the throughput to maximize the Corporation profitability. However, the Corporation had not operated its Refinery at minimum capacity during July to October 2006 when the oil prices in the world market had been decreased considerably. The notional loss incurred by the Corporation due to non-adjusting the Refinery throughput during the period mentioned above amounted to US \$ 10 million.
- (e) The Corporation had permitted a Private Company to sell lubricants in its dealer network on payment of a commission of 2 per cent on the lubricant sales. According to the Agreement entered into between the Corporation and the Private Lubricant Company, the Corporation reserves the right to audit the sale of lubricants through the Corporation dealer network. However, without implementing a proper procedure to evaluate the correctness of lubricant sales reported by the Lubricant Company, the Corporation relies on the commission paid by that Company on its own calculation.
- (f) The Corporation had made a bad debts provision of Rs. 22 million for imports as a result of non-claiming vessel charges from suppliers on a timely basis. Nevertheless, such provision had not been made in respect of vessel surcharges amounting to Rs. 8 million due from seven suppliers and outstanding for over one year due to the same reason. Further, it was observed that no action had been taken to recover sums of Rs. 10 million on six vessel surcharges outstanding for less than one year.

Noted.

CPC has claimed for the amount from respective suppliers but yet to be settled.

3.6 Human Resource Management (HRM)

The following observations are made.

Human Resource (HR) is one of the core assets of any enterprise and the success of the organization depends on the degree of efficiency in its management. For this purpose, the corporation should have a realistic cadre with

appropriate skills to maximize productivity of its employees. However, as a result of the following lapses, it was observed that the Corporation had failed to manage its HR efficiently, and efficiently.

- (a) There is no realistic cadre. However, the total number in the cadre as approved for the year 2006 by the Board, vide Board Paper No. 10/1034 of 17 February 2005 stood at 2,931 whereas the existing cadre at the end of the year under review stood at 2,944.

Cadre position of CPC has been approved by SEMA.
Noted.

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- (b) The scheme of recruitment and promotion had not been updated even during the year under review.
- (c) Recruitments and promotions had not been effected systematically in line with the realistic cadre position and had not been reviewed periodically.
- (d) It was the responsibility of the HR Manager, to formulate an Effective Performance Appraisal System (EPAS) in order to maximize productivity for efficient cadre management. Further, the appraisal of performance for purpose of promotion, payment of incentives and increments should be done by an independent panel comprising members of the senior management. However, there was no EPAS and the Head of function had done the appraisal of performance of employees.
- (e) Two officers who did not possess adequate qualifications required for respective posts had been promoted as the Heads of HR Division.
- (f) The post of DGM (Marketing and Corporate Affairs) was created by the management without proper approval to promote the Manager (Restructuring). However, after his retirement, the DGM (Planning and Development) and the DGM (Administration) had been assigned to act in the posts of DGM (Marketing) and DGM (Corporate Affairs) respectively without following normal recruitment procedure though they did not possess qualifications and experience in the relevant fields. Since there are two responsible officials, two Marketing Managers and a Managing Director for both marketing and corporate affairs, the acting arrangements made are questionable.
- (g) According to the Succession Plan of the Corporation, suitable successors for the posts identified as key posts should be selected and trained two years before such posts fall vacant. Even though the Refinery Manger is scheduled to retire in October 2007, a suitable successor for the post had not been selected up to end of May 2007.

Preparation of realistic cadre is in progress.

Noted.

Positions of HR Division have been filled in accordance with accepted recruitment procedures.

Privatisation and connected issues were the main functional areas of Corporate affairs. Involvement of those issues are minimal at present and remaining issues are handled by both DGM (A) and DGM (P&D). Corporate planning is assigned to DGM (A) and some work related to Corporate affairs are assigned to other Senior Managers.

One of the senior Deputy Refinery Managers has been appointed as the Acting Refinery Manager.

3.7 The Corporate Plan

According to Paragraph 5.1 of the Circular No PED/12 of 2 June 2003 of the Department of Public Enterprises, the Corporate Plan had not been reviewed and updated annually. Also it had not been forwarded to the line Ministry, Department of Public Enterprises and the Auditor General at least 15 days before the commencement of each financial year.

Noted. However, approved Corporate Plan has now been submitted to the line Ministry, Department of Public Enterprises of SL Treasury and Auditor General.

3.8 Audit Committee

According to the Paragraph 7.4.1 of the Circular No PED/12 of 2 June 2003 of the Department of Public Enterprises, the Audit Committee should meet on regular basis at least once in three months but, it had met only once during the year under review.

Noted.

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3.9 Utilization of Corporation's Resources by Other Government Institutions

Noted.

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

Noted.

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

Noted.

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

Noted.

(b) 23 employees had been released to the Ministry and three other Government institutions while all perks were borne by the Corporation. In this connection a sum of Rs. 11 million had been incurred during the year under review.

(c) Another four employees had been released to another Ministry based on reimbursement of the cost.

3.10 Uneconomic Transactions

It was decided to dispose with a capital gain.

The Following observations are made

(a) The investments amounting to Rs 55.6 million made in Ordinary Shares of quoted and unquoted companies had not yielded any return for more than five years.

This amount has been subsequently claimed.

(b) The Corporation had paid Value Added Tax (VAT) of Rs. 9 million on the transactions which are not liable for the tax in terms of provisions in the Value Added Tax Act, No. 14 of 2002.

Noted.

(c) The Corporation had paid an interest amounting to Rs.11 million, relating to the loans assigned to the Terminal Company under restructuring the Corporation. However, the Corporation did not derive any economic benefit out of those loans.

Claims have been made and the settlement is yet to receive,.

3.11 Identified Losses

During the delivery of the Gas Oil (diesel) and gasoline (petrol) these two products had been contaminated at the discharge point of the ship and according to the Independent Inspectors' report, this was caused due to the negligence of staff of the Vessel and a loss of US \$ 65,380 (Approximately Rs. 7 million) had been identified by the Corporation. No action had been taken to claim the loss from the Shipping Company.

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3.12 Idle and Underutilized Assets

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

Nature of the Asset	Value Rs. Million	Comments
(a) Wanathamulla Halgahakumbura	10.563	This land is being illegally occupied by squatters since 1973
(b) Mahahena Land	0.624	This land is being used by the previous owner since 1986.
(c) Furnace Oil Stock at China Bay	21.416	1, 581,493 litres of Furnace Oil which had been fully provided for in the financial statements had been lying idle in the custody of an outside party for a longer period.

3.13 **Budgetary Control**

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

4. **Systems and Controls**

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

- (a) Property, Plant and Equipment
- (b) Debtors and Other Receivables
- (c) Trade Creditors and Other Payables
- (d) Accounting
- (e) Investments
- (f) Inventories
- (g) Loans and Advances
- (h) Manufacturing
- (i) Utilization of Motor Vehicles
- (j) Human Resource Management

Sgd. P.A. Pematilaka
Auditor General



GLOSSARY 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 realised or realised but not recognised 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 authorised 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 to finance the day-to-day operations (current assets less current liabilities)

ABBREVIATIONS

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