

**PERFORMANCE REPORT**

**2010**

**Department of Public Enterprises**

# **Performance Report 2010**

## **Department of Public Enterprises**

## **Vision**

**“To be the apex body, which ensures good governance of Public Enterprises in Sri Lanka”**

## **Mission**

**“Strengthening governance in public Enterprises through best practices to optimize performance and to safeguard the public interest”**

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## Chapter 1 Overview

The SOE portfolio consists of 81 state Corporations set up under various statutes and fully government owned companies incorporated under the Companies Act no 7 of 2007. The government is also a partial owner of several companies incorporated under the Companies Act. The total turnover of SOEs at Rs.954 billion is equivalent to the recurrent expenditure of the national budget whilst the total turnover of the top 5 enterprises at Rs.584.4 billion exceeds the total turnover of all the 245 Companies listed in the Colombo Stock Exchange at Rs.570.3 billion<sup>1</sup>. The size of these SOEs along with the wide spectrum of sectors it operates makes SOEs strategic to the development of the country.

The government having established its clear policy of non privatization of SOEs in 2005 in the Mahinda Chintana Vision for the Future, encourages SOEs to adopt innovative management reforms so that they will become commercially efficient and reduce their reliance on government assistance by orienting them towards a dividend paying entrepreneurial culture.

As such in 2010 amongst its many initiatives to enhance the performance of underperforming SOEs and state assets, the government set up the Ministry of State Resources and Enterprise Development which is responsible for the restructuring of 23 SOEs, appointed private sector entrepreneurs and professionals to the boards of strategic SOEs, strengthened the regulatory function of

utilities (electricity, petroleum and water) through the establishment of agencies such as the Public Utilities Commission of Sri Lanka and consolidated the monitoring and supervisory function of the Department of Public Enterprises of the Treasury.

In this regard it is encouraging to note, that despite facing challenges both structural and external the performance of SOEs in 2010 with entities such as Ceylon Electricity Board (CEB) earning profits, Sri Lanka Ports Authority (SLPA) embarking on private public partnerships, Peoples Bank winning the Peoples award for the 5<sup>th</sup> consecutive year, Bank of Ceylon (BoC) and National Savings Bank (NSB) maintaining AA and AAA ratings respectively, etc made a positive difference to the overall performance of SOEs.

Yet many SOEs still continue to incur losses and remain as under performing entities. While losses of Sri Lanka Transport Board (SLTB) and CPC could be mainly attributed to non cost reflective pricing policies pursued due to the government discharging its social responsibilities, other loss making SOEs continued to incur losses due to lack of good governance, low productive use of employees, weak financial management, lack of internal controls and structural deficiencies. It is noted that Boards of management of some key SOEs, which have often made decisions that, were neither socially nor economically viable, violating the government policies and regulations contributed significantly to the losses incurred by SOEs.

<sup>1</sup> Ceylon Electricity Board(CEB) ,Ceylon Petroleum Corporation (CPC), Sri Lanka Ports Authority(SLPA) ,Bank of Ceylon(BoC) and Peoples Bank (PB)

As such the government channeled Rs.30,661 million or 0.5 percent of the GDP in 2010 to support their operational activities. The government has also supported the SOEs to finance their operations through the issuance of guarantees, which as at the end of 2010 amounted to Rs.189,412 million accounting for almost 90 percent of the total guarantees issued by the government. The bulk of such guarantees are on account of electricity, petroleum and fertilizer.

Lack of good corporate practices and management lapses have resulted in compromising the SOEs ability to manage risks that arises from both internal and external factors, has in turn weakened the balance sheets of SOEs.

Therefore while the government policy is to encourage SOEs to improve corporate management, the absence of the required human capital to undertake and implement business models and boards of management that have yet not displayed the ability to lead SOEs as dynamic enterprises remains a major challenge in the SOE sector.

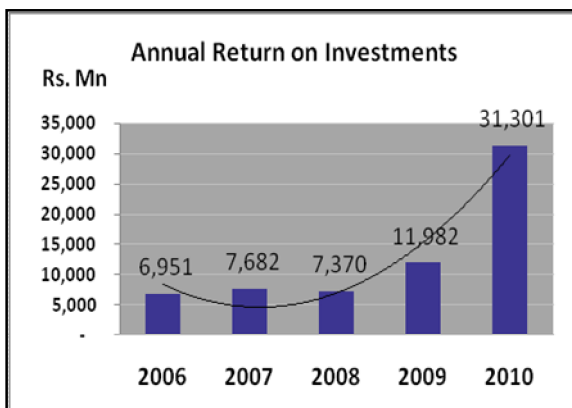
It is noted that considering the magnitude and the very nature of operations that SOEs are engaged in if action is taken immediately to overcome the aforementioned weaknesses the performance of the SOEs could boost the growth momentum of the country.

## Chapter 2 Contribution of Public Enterprises to Government Revenue

### •SOE contribution to the National Economy

Total turnover of the SOEs at Rs. 954 billion, forms a significant part of the Sri Lankan economy constituting 17.2 percent of the GDP in 2010 in comparison to 16.7 percent in 2009. This is in line with the government's target stipulated in the 'Mahinda Chintana' of achieving a total turnover to GDP ratio of 22 percent in 2016 and further increase to 26 percent in 2020.

Chart 2.1



SOEs continue to be a significant employment generating sector with total employees at SOEs at almost 160,000 in 2010, which constituted about 2 percent of the total labour force.

In 2010 the government enunciated its policy on dividends and levies. As such all SOEs are required to contribute 30 percent of their profit or 15 percent of their equity whichever is higher to the consolidated fund as dividends. Reflecting the improvement in the performance of SOEs in 2010 the Dividends and Levies received from the SOEs amounted to Rs. 31,301 million. Levy and Dividends constituted 27 percent of the non tax revenue in 2010 as against 12 percent in 2009

Table 2.1  
Total Levy's/Dividends received from SOE's (Rs.Mn)

|  | 2001 – 2005   | 2006 - 2010   |
|--|---------------|---------------|
| Commercial Corporations  | 5,580         | 36,177        |
| State Owned Banks  | 11,152        | 22,144        |
| Companies 100 % Owned By The Government                              | 223           | 403           |
| <b>Sub Totals</b>  | <b>16,955</b> | <b>58,724</b> |
| Companies less than 100 % but more than 50 % Owned By The Government | 1,265         | 1,842         |
| Companies less than 50 % Owned By The Government                     | 2,990         | 4,674         |
| The Plantation Companies less than 50 % Owned by The Government      | 39            | 45            |
| <b>Sub Totals</b>  | <b>4,294</b>  | <b>6,561</b>  |
| <b>Total</b>   | <b>21,249</b> | <b>65,285</b> |

Source: Department of Public Enterprises and Department of Treasury Operations

**Table 2.2**  
**Levy/ Dividend Income from Public Enterprises (Rs.Mn)**

|  | 2005         | 2006         | 2007         | 2008         | 2009          | 2010          |
|--|--------------|--------------|--------------|--------------|---------------|---------------|
| <b>Levy</b>  |              |              |              |              |               |               |
| Bank of Ceylon                                       | 1,150        | 1,173        | 846          | 1,046        | 1,346         | 2,923         |
| National Savings Bank                                | 1,310        | 810          | 1,060        | 1,060        | 1,750         | 2,312         |
| State Mortgage & Investments Bank                    | 135          | 116          | 25           | -            | 50            |               |
| People's Bank  | 818          | 668          | 1,416        | 816          | 1,139         | 3,253         |
| Other Regional Development Banks                     | 24           | 46           | 50           | 40           | 144           | 55            |
| State Timber Corporation                             | 50           | 75           | 150          | 75           | 50            | 10            |
| State Pharmaceuticals and Manufacturing Corporations | 79           | 25           | 30           | 40           | 30            | 85            |
| Sri Lanka Ports Authority                            | 50           | 115          | 65           | -            | -             | -             |
| National Insurance Trust Fund                        | -            | -            | -            | -            | 2,250         | 2,000         |
| SL Export Credit Insurance Board                     |              |              | 16           | 25           | 30            | -             |
| State Institutions Temporary Surplus Fund*           | -            | -            | -            | -            | -             | 6,110         |
| Other  | 1,154        | 2,179        | 2,272        | 3,164        | 3,850         | 13,862        |
| <b>Sub Total</b>                                     | <b>4,770</b> | <b>5,207</b> | <b>5,930</b> | <b>6,266</b> | <b>10,247</b> | <b>30,610</b> |
| <b>Dividends</b>                                     |              |              |              |              |               |               |
| Sri Lanka Telecom Plc                                | 447          | 670          | 893          | 893          | 893           | 223           |
| De La Rue Lanka (Pvt) Ltd                            | 152          | -            | 100          | 100          | 38            | -             |
| Lanka Mineral Sands Ltd                              | 132          | 98           | 50           | 34           | 60            | 35            |
| Lanka Phosphate Ltd                                  | -            | 5            | 4            | 4            | 5             | 10            |
| Lanka Industrial Estates Ltd                         | 20           | 20           | 62           | 31           | 31            | 31            |
| Ceylon Petroleum Storage Terminal Ltd                |              | -            | 438          | -            | -             | -             |
| Airport and Aviation Services Ltd                    | 280          | -            | 100          | -            | 200           |               |
| Lanka Electricity Company Ltd                        | 75           | 100          | 75           | -            |               | 300           |
| Lanka Leyland Ltd                                    | -            | -            | 11           | 18           | 10            | -             |
| Chilaw Plantations Ltd                               | 50           | -            | -            | -            | 30            |               |
| Sri Lankan Airlines Ltd                              | -            | 788          | -            | -            | -             | -             |
| Other  | 3            | 63           | 19           | 24           | 467           | 92            |
| <b>Sub Total</b>                                     | <b>1,159</b> | <b>1,744</b> | <b>1,752</b> | <b>1,104</b> | <b>1,734</b>  | <b>691</b>    |
| <b>Total</b>   | <b>5,929</b> | <b>6,951</b> | <b>7,682</b> | <b>7,370</b> | <b>11,981</b> | <b>31,301</b> |

Source: Department of Public Enterprises and Department of Treasury Operations

\* National Lotteries Board, State Timber Corporation, SL Rupavahini Corporation, State Pharmaceuticals Corp, SL Land Reclamation and Development Corp, Export Credit Insurance Corp, Lanka Mineral Sands Ltd, SL Tea Board, National Gem and Jewelry Authority, National Lotteries Board (Sewana Fund), Telecommunications Regulatory Commissions of Sri Lanka, Securities and Exchange Commission of SL, National Housing Development Authority, SL Bureau of Foreign Employment, Urban Development Authority, Board of Investments of SL, Geological Survey and Mines Bureau of SL, Coconut Development Authority



- **Partnership role in development**

SOEs have been at the forefront of implementing the majority of the large infrastructure projects of the government. In this regard SOEs such as Ceylon Electricity Board, Sri Lanka Ports Authority, National Water Supply and Drainage Board have become strategic in sustaining the public investment momentum.

Selective SOEs have commanded using their own strengths to attract investments. In 2010 Sri Lanka Ports Authority has entered into the country's largest Private Public Partnership so far, to develop the Colombo South port terminal. The government assisted by raising a loan of US\$300million from the Asian Development Bank to construct the breakwater at cost of US\$450 million. This public investment is expected to attract US\$500 million for the construction of the first terminal. Similarly Urban Development Authority too, successfully issued a Debenture for Rs.10,000 million which was oversubscribed by almost 6 times to finance urban infrastructure development initiatives.

Private Public Partnership (PPP) a joint venture business model has proved to be a win-win situation as apparent from the performance of Sri Lanka Telecom which has continued to be one of the best performing listed companies in the Colombo Stock Exchange in 2010.

The initiative taken by the Ceylon Electricity Board (CEB) to form a joint venture to build and service the Coal fired power plant at Sampur at a cost of US\$ 500million is another milestone in promoting investments with the least burden to the national budget.

With the country approaching upper middle income status, its investment decisions will be increasingly driven by performance. The government's expectations from SOEs is not merely to implement government policy, but to see SOEs create a brand out of their corporate identities, which will enhance the value of the government investment portfolio. It is expected that this will enhance the prospect of capital promotion in the future.

## Chapter 3 Finance Sector

### Overview

The state banking sector which comprises of 2 Licensed Commercial Banks (LCB) and 6 Licensed Specialized Banks (LSB) made a significant contribution to the overall economic development through its network of 1,690 branches and service delivery points and a workforce of 22,531 in 2010. During the year 2010, state owned banks have opened 24 banking outlets in the Northern and Eastern Provinces taking a lead in the post conflict development programmes in those areas. In 2010, State owned banks also continued providing financial facilities introducing various credit schemes, easing the requirements of collateral on development loans being some of the key development initiatives implemented.

While consolidating their position as premier financial entities in the market, state owned banks effectively continued their participation in implementation of government policies and directives in respect of development of the finance sector which have significant economic benefits. However it is noted that the investment banking arms of the State Banks should acquire the capacity needed to facilitate SOEs in accessing financing from external sources through instruments such as debentures, IPOs, share issuances etc.

During the year 2010, the Pradeshiya Sanvardhana Bank by amalgamating 6 Regional Development Banks was established. The process of amalgamation of Sri Lanka Savings Bank (SLSB) was established to provide relief to the depositors of the defunct Pramuka Savings and National Development Trust Fund (NDTF) with a view to strengthen the capital base of SLSB which was also in progress.

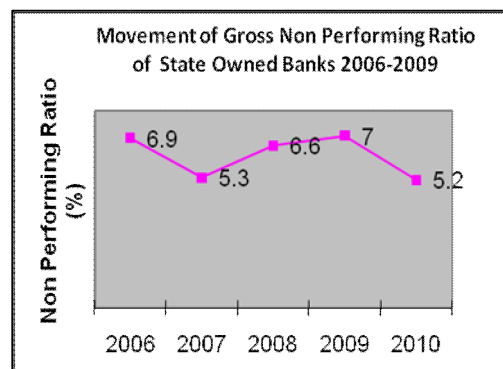
With a view to channel increased volume of long term liquidity to the economy the Government has required all banks and financial institution to maintain separate investment fund account by transferring tax savings arising from the 2011 Budget Proposals on corporate tax and VAT.

### The performance of state banking sector during the year.

Total asset base of state owned banks amounting to Rs.1,758 billion accounted for nearly 50 percent of the total asset base of the entire banking industry in 2010 registering a growth of 21.5 percent over the previous year the total asset base of this sector constituted mainly of 48 percent of loans and advances and 36 percent of investments.

Stimulated by the low interest regime, credit growth of state banks recorded a significant increase in 2010. Total loans and advances of the state banks amounted to Rs. 879 billion at the end of 2010, registering a considerable growth of 30.5 percent over the 6.9 percent growth in 2009. Two Licensed Commercial Banks i.e Bank of Ceylon (BOC) and People's Bank (PB) contributed to the 83.1 percent of loans and advances disbursed by the state banks.

Chart 3.1



The asset quality of state banks which has been improving during the last few years, continued in 2010 too. The total non performing loans of state banks amounted to Rs. 45.8 billion by the end of 2010 registering a significant decline of 9.71 percent over the previous year.

percent in 2009, and was below the 5.3percent of the industry average of non performing loans in 2010, it amount of Rs.45.8 billion indicates that the banks have to embark on a concerted effort to recover these loans which could help to support Banks' liquidity positions.

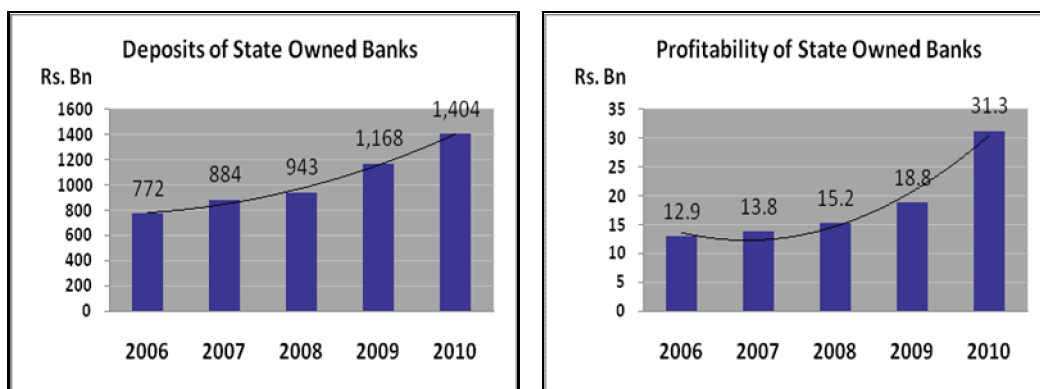
Although the , non-performing loan ratio has declined to 5.1 percent in 2010 from 7.2

**Table 3.1**  
**Non Performing Loans of State Banks**

| Name of the Bank                 | 2009<br>Rs.Mn | 2010<br>Rs.Mn | Increase/<br>(Decrease)<br>(%) |
|----------------------------------|---------------|---------------|--------------------------------|
| Bank of Ceylon                   | 15,542        | 12,638        | (18)                           |
| People's Bank                    | 20,040        | 18,738        | (6.4)                          |
| National Savings Bank            | 2,381         | 2,119         | (11)                           |
| State Mortgage & Investment Bank | 5,642         | 5,168         | (8.4)                          |
| HDFC Bank                        | 2,743         | 2,840         | 3.5                            |
| Lankaputhra Development Bank     | 1,579         | 1,587         | 0.5                            |
| Pradeshiya Sanwardhana Bank      | 1,270         | 1,152         | (9.2)                          |
| Sri Lanka Savings Bank Ltd       | 1,669         | 1,538         | (7.8)                          |
| <b>Total</b>                     | <b>50,866</b> | <b>45,780</b> |                                |

Source: Department of Public Enterprises

**Chart 3.2**



The deposit base of the state banks continued to increase with the total deposit base at Rs. 1,404 billion by the end of the year 2010 and registering a year on year growth of 20.2 percent. The growth in deposits of state banks

exceeded the industry average of 15.9 percent in 2010 reflecting the improved confidence in these institutions in comparison to private banks.

The total lendings of state banks recorded a significant growth of 30.5 percent amounting to an increase of Rs. 205 billion in 2010, in sharp contrast to the negative growth of 24.6 percent recorded in 2009. The banks lent these funds to finance the expanded economic activities in 2010.

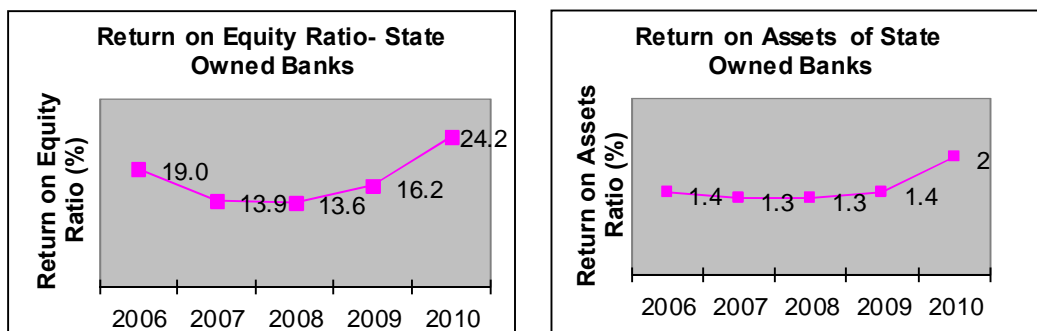
Total capital funds employed by state owned banks amounted to Rs. 83.7 billion in 2010, a 19.2 percent growth over the year 2009. This was mainly due to increased profitability which resulted in an accumulation of retained profits of the state banks in 2010. By the end of 2010, all state banks excluding HDFC Bank were within the enhanced capital requirements effective from 31.12.2011.

**Table 3.2**  
**Key Performance Indicators of State Banks**

|                                  | 2005  | 2006    | 2007    | 2008    | 2009    | 2010    |
|----------------------------------|-------|---------|---------|---------|---------|---------|
| Assets (Rs.Bn.)                  | 855.2 | 1,001.6 | 1,149.7 | 1,247.2 | 1,447.4 | 1,757.9 |
| Loans & Advances (Rs.Bn.)        | 366.2 | 503.8   | 624.0   | 630.0   | 673.4   | 878.8   |
| Non Performing Advances (Rs.Bn.) | 36.1  | 36.3    | 36.2    | 43.1    | 50.7    | 45.8    |
| Deposits (Rs.Bn.)                | 711.0 | 772.0   | 883.8   | 942.9   | 1,168.0 | 1,404.4 |
| Capital Funds (Rs.Bn.)           | 38.9  | 49.4    | 53.4    | 63.2    | 70.2    | 83.7    |
| Total Lending (Rs.Bn.)           | 98.9  | 136.5   | 151.0   | 176.0   | 132.7   | 189.2   |
| Interest Income (Rs.Bn.)         | 72.8  | 88.2    | 124.0   | 155.0   | 177.3   | 167.7   |
| Interest Expenses (Rs.Bn.)       | 39.1  | 50.6    | 82.6    | 108.0   | 119.8   | 98.8    |
| Net Interest Income (Rs.Bn.)     | 30.6  | 37.9    | 41.3    | 47.0    | 57.5    | 68.9    |
| Profit Before Tax (Rs.Bn.)       | 11.8  | 13.0    | 13.9    | 15.2    | 18.9    | 31.3    |
| Profit After Tax (Rs.Bn.)        | 7.6   | 8.4     | 7.4     | 7.9     | 10.9    | 18.6    |
| Return on Assets (%)             | 1.0   | 0.9     | 0.7     | 0.7     | 0.8     | 1.2     |
| Return on Equity (%)             | 21.7  | 19.0    | 14.4    | 13.5    | 16.3    | 24.1    |

Source: Department of Public Enterprises

**Chart 3.3**



**Table 3.3**  
**Sector wise Credit Concentration of Major State Banks**

|                               | <b>Rs.Bn</b> | <b>2010 (%)</b> |
|-------------------------------|--------------|-----------------|
| Agriculture & Fishing         | 73.5         | 9.3             |
| Manufacturing                 | 58.1         | 7.4             |
| Tourism                       | 9.4          | 1.2             |
| Transport                     | 18.4         | 2.3             |
| Housing                       | 157.8        | 20.0            |
| Trading                       | 138.8        | 17.5            |
| Financial & Business Services | 14.6         | 1.8             |
| Pawning                       | 194.5        | 24.6            |
| Others                        | 126.0        | 15.9            |
| <b>Total</b>                  | <b>791.1</b> | <b>100.0</b>    |

*Source: Department of Public Enterprises*

### **Bank of Ceylon (BOC)**

BOC the nation's largest bank, continued to consolidate its position in the market in 2010. Giving credence to being the largest bank in Sri Lanka BOC asset base increased to Rs. 715 billion, which amounted to 20.2 percent of the total asset base of the banking industry. At the same time BOC's Rs 372.7 billion worth lending portfolio is also the country's largest. BOC provides its services to the customers with a network of 309 branches and 218 Extension Offices and 352 ATMs. The Bank has 10 subsidiaries and 6 associates. In 2010, the bank converted its London Branch into a fully owned subsidiary.

The BOC's assets grew by 32.8 percent in 2010 mainly due to growth of its loan portfolio and investments in securities. The net loans and advances showed a significant growth of 40.6 percent in 2010 in comparison to the negative growth recorded in the previous year. Non-performing loan ratio of the bank has declined from 5.7 percent in 2009 to 3.3 percent by the end of the year 2010 indicating an improvement in the assets

quality of the bank in the backdrop of improved debt recoveries.

The deposit base of the BOC accounts for nearly 20.4 percent of the total deposits of the entire banking industry in the country. The year on year growth of BOC's deposit base remained unchanged at around 29 percent in 2010 in comparison with the previous year.

In 2010, the bank's profits (before tax) have significantly increased from Rs. 4.2 billion in 2009 to Rs.10 billion mainly due to an increase in net interest income and non-interest income which rose by 32.7 percent and 28 percent respectively. The non interest (non funded) income growth is explained largely by the capital gains earned from stock market transactions.

**Table 3.4**  
**Key Performance Indicators of Bank of Ceylon**

|   | 2005   | 2006   | 2007   | 2008   | 2009   | 2010   |
|---|--------|--------|--------|--------|--------|--------|
| Number of Branches (Nos)                    | 304    | 305    | 307    | 309    | 310    | 309    |
| Number of Employees (Nos)                   | 8,891  | 8,363  | 8,253  | 7,912  | 7,533  | 8204   |
| Assets (Rs. Bn)                             | 319.5  | 378.3  | 437.9  | 484.9  | 538.2  | 715    |
| Deposits (Rs. Bn)                           | 232.5  | 262.6  | 308.6  | 316.1  | 408.6  | 524.2  |
| Number of Deposits Accounts<br>(Nos. in Mn) | 5.8    | 6.2    | 7.0    | 7.4    | 7.5    | 9.3    |
| Foreign Currency Deposits (Rs. Bn)          | 91.6   | 90.3   | 106.3  | 96.6   | 126.8  | 166.4  |
| Corporate & Retail Lending (Rs. Bn)         | 165.7  | 223.2  | 282.4  | 271.1  | 265.0  | 372.7  |
| Profit Before Tax (Rs. Mn)                  | 3,120  | 4,137  | 4,518  | 5,231  | 4,208  | 10,053 |
| Profit After Tax (Rs,Mn)                    | 1,894  | 2,627  | 2,843  | 3,561  | 3,084  | 6,365  |
| Capital Adequacy Ratio - I ( % )            | 12.7   | 11.9   | 12.1   | 11.3   | 11.2   | 10.3   |
| Capital Adequacy Ratio -11 ( % )            | 13.2   | 12.3   | 13.2   | 15.7   | 14.2   | 13.7   |
| Non Performing Loans (Rs.Mn)                | 12,495 | 13,602 | 11,334 | 13,816 | 15,542 | 12,638 |
| Non Performing Loan Ratio ( % )             | 7.2    | 5.8    | 3.9    | 4.9    | 5.7    | 3.3    |
| Rating (fitch lka)                          | AA     | AA     | AA     | AA     | AA     | AA     |

*Source: Bank of Ceylon*

### Peoples Bank (PB)

The nation's second largest commercial bank continued its robust growth momentum in 2010, while being proactive in the country's development effort. At the end of 2010, PB's asset base accounted for 15.4 percent of the total asset base of the entire banking industry. The bank operates with an extensive branch network comprising of 329 branches and 350 outlets catering to a broad clientele base in the country. The bank was able to increase its profit before tax to Rs.8.7 billion in 2010 from Rs 6.1 billion in 2009, maintaining the growth momentum recorded in recent years.

The bank's total assets recorded a significant growth of 15 percent during the year 2010. PB's loan book grew by 26 percent in 2010 at Rs.357.3billion at 26 percent. This included the bank's exposure to pawning advances which accounted for 35.8 percent of total loans of the bank. Asset quality of the bank improved as witnessed by the reduction of NPL ratio up to 5 percent in 2010 from 6.7 percent in 2009.

Supported by the extensive branch network, bank's deposits recorded a growth of 16.7 percent during the year 2010. PB maintained a Capital Adequacy Ratio (CAR) of 12.8 percent by the end of 2010, which is well above the minimum CAR of 10 percent.

The bank won the 'People's Award' for the banking and financial sector in 2010 for the fifth consecutive year. The bank's rating improved significantly from 'A' to 'AA', reflecting the bank's constant improvement in performance.

**Table 3.5**  
**Key performance Indicators of People's Bank**

|  | 2005   | 2006   | 2007   | 2008   | 2009   | 2010   |
|--|--------|--------|--------|--------|--------|--------|
| Number of Branches                         | 624    | 630    | 639    | 642    | 645    | 679    |
| Number of Employees                        | 9,531  | 9,516  | 8,416  | 8,587  | 8,863  | 8,399  |
| Assets (Rs. Bn)                            | 275.3  | 338.5  | 380.6  | 397.5  | 476.2  | 547.7  |
| Deposits (Rs. Bn)                          | 255.6  | 269.9  | 300.9  | 324.5  | 396.0  | 462.1  |
| Number of Deposits Accounts<br>(Nos in Mn) | 10.0   | 10.5   | 11.0   | 11.6   | 12.3   | 12.9   |
| Corporate & Retail Lending (Rs. Bn)        | 142.5  | 207.1  | 238.3  | 248.6  | 283.7  | 357.3  |
| Profit Before Tax (Rs. Mn)                 | 4,035  | 4,079  | 5,002  | 5,664  | 6,076  | 8,771  |
| Profit After Tax (Rs.Mn)                   | 2,771  | 3157   | 2,374  | 2,705  | 3,320  | 5,206  |
| Capital Adequacy Ratio I ( %)              | 1.5    | 3.7    | 5.3    | 6.5    | 7.7    | 7.9    |
| Capital Adequacy Ratio II ( %)             | 1.9    | 5.6    | 6.9    | 10.5   | 13.4   | 12.8   |
| Non Performing Loans (Rs.Mn)               | 16,796 | 15,951 | 14,865 | 17,857 | 20,040 | 18,738 |
| Non Performing Loan Ratio ( %)             | 10.7   | 7.2    | 5.9    | 6.8    | 6.7    | 5.0    |
| Rating (fitch Ika)                         | BBB+   | BBB+   | BBB+   | A-     | A      | AA-    |

Source: Peoples Bank

#### **National Savings Bank (NSB)**

The performance of NSB in 2010 was strong, showing signs of being able to reach the government's target of Rs 1 trillion asset base by 2020. The NSB is required to invest not less than 60 percent of its deposits in government securities in terms of the National Savings Bank Act. At the end of 2010, 71.8 percent of the bank's assets have been invested in various securities while only 20.3 percent of total assets were held in the form of advances. The bank's non performing ratio decreased from 3.5 percent in 2009 to 2.6 percent by the end of 2010.

NSB's performance is commendable with the bank holding 13.7 percent of market share of the entire banking industry. However, the

bank held 82.1 percent of total deposit base of LSB. The bank's profit before tax has increased up to Rs. 9.8 billion in 2010 from Rs. 6.9 billion in 2009. Significant increase in gains from investment in securities is the main reason for the boost of the bank's profitability in 2010. The bank also ventured in to mobilizing overseas remittances as a part of its promotion of savings. The foreign currency deposits of the bank amounted to Rs. 4.3 billion by the end of 2010 which is a considerable increase of 20.2 percent over the previous year. The Bank sustained its 'AAA' rating underscoring its excellent performance in 2010.

**Table 3.6**  
**Key Performance Indicators of National Savings Bank**

|                                     | 2005  | 2006  | 2007    | 2008  | 2009  | 2010  |
|-------------------------------------|-------|-------|---------|-------|-------|-------|
| Number of Branches                  | 128   | 114   | 117     | 123   | 123   | 186   |
| Number of Employees                 | 2,890 | 2,900 | 2,867   | 2,883 | 2,915 | 3,050 |
| Assets (Rs. Bn)                     | 222.1 | 235.5 | 270.2   | 294.3 | 354.4 | 403.2 |
| Deposits (Rs. Bn)                   | 202.4 | 212.2 | 235.3   | 259.6 | 313.0 | 355.3 |
| Number of Deposits Accounts (Mn)    | 14.6  | 15.1  | 15.4    | 15.6  | 16.3  | 16.7  |
| Foreign Currency Deposits (Rs. Mn)  | 30.2  | 460.7 | 1,342.8 | 2,140 | 3,580 | 4,305 |
| Corporate & Retail Lending (Rs. Bn) | 25.4  | 33.8  | 54.0    | 56.3  | 68.3  | 81.7  |
| Profit Before Tax (Rs. Mn)          | 3,457 | 3,501 | 3,301   | 3,100 | 6,944 | 9,788 |
| Profit After Tax (Rs.Mn)            | 2,106 | 1,885 | 1,573   | 1,059 | 3,736 | 5401  |
| Capital Adequacy Ratio - I ( %)     | 44.9  | 40.7  | 33.3    | 34.8  | 25.6  | 19.6  |
| Capital Adequacy Ratio-II (%)       | 21.8  | 11.7  | 12.2    | 19.4  | 22.0  | 16.4  |
| Non Performing Loans (Rs.Mn)        | 700   | 521   | 740     | 1,080 | 2,381 | 2,119 |
| Non Performing Loan Ratio ( %)      | 2.7   | 1.5   | 1.4     | 1.9   | 3.5   | 2.6   |
| Rating (Fitch Ika)                  | AAA   | AAA   | AAA     | AAA   | AAA   | AAA   |

Source: National Savings Bank

### State Mortgage & Investment Bank (SMIB)

The performance of the government's main housing finance bank, SMIB was mixed. The SMIB accounts for around 3 percent of the assets of all LSBs and predominantly concentrates on the business of housing

finance (96.7 percent). Even though the SMIB Act has provisions to provide financial assistance for agriculture and other development activities, the bank has not paid much attention on lending to these operations so far.

**Table 3.7**  
**Key Performance Indicators of State Mortgage & Investment Bank**

|                                     | 2005         | 2006         | 2007         | 2008          | 2009       | 2010       |
|-------------------------------------|--------------|--------------|--------------|---------------|------------|------------|
| Number of Branches                  | 5            | 7            | 12           | 12            | 12         | 14         |
| Number of Employees                 | 304          | 349          | 339          | 328           | 320        | 308        |
| Assets (Rs. Bn)                     | 9.1          | 10.2         | 12.1         | 14.5          | 16.8       | 17.2       |
| Deposits (Rs. Bn)                   | 4.7          | 5.7          | 7.5          | 10.1          | 12.3       | 12.5       |
| Corporate & Retail Lending (Rs. Bn) | 8.4          | 9.5          | 11.0         | 13.3          | 13.4       | 13.6       |
| Profit Before Tax (Rs. Mn)          | 415          | 318          | 124          | 41            | 119        | 642        |
| Profit After Tax (Rs,Mn)            | 312          | 213          | 83           | 32            | 73         | 464        |
| Capital Adequacy Ratio - I (%)      | 87.3         | 81.2         | 56.9         | 29.1          | 25.3       | 27.0       |
| Capital Adequacy Ratio- II (%)      | 88.6         | 82.5         | 57.9         | 29.6          | 26.0       | 27.7       |
| Non Performing Loans (Rs.Mn)        | 3,492        | 3,431        | 4,203        | 4,706         | 5,642      | 5,088      |
| Non Performing Loan Ratio (%)       | 40.6         | 35.8         | 37.7         | 35.2          | 41.8       | 37.2       |
| Rating                              | A<br>(fitch) | A<br>(fitch) | A<br>(fitch) | A-<br>(fitch) | A<br>(RAM) | A<br>(RAM) |

Source: State Mortgage & Investment Bank



The bank recorded only a marginal increase in advances in 2010. 48.4 percent of total loans and advances were granted in the form of housing loans against EPF balances. The bank's deposit base recorded only a marginal increase of 1.2 percent in 2010. However, continuation of poor quality advances has resulted in non performing loan ratio to remain at 37.6 percent in 2010. This is a matter of serious concern to the bank as it has eroded the profitability of the bank as well as the capacity to expand the lending portfolio.

The bank's after tax profits has significantly increased up to Rs. 464 million in 2010 from Rs. 73 million in 2009 mainly due to increase in interest income on loans and advances and significant decline in interest expenses on long term borrowings.

It is fair to note that SMIB performance is yet below par, despite significant improvements achieved in 2010. However, it is encouraging to note that the bank has undertaken a serious revamping exercise that is expected to yield positive results in the future.

#### **HDFC Bank (HDFC)**

The bank's assets base recorded a marginal increase of 7 percent in 2010. 90 percent of bank's loans are for small and medium housing units. The deposit base of the bank has increased up to Rs. 7.7 billion in 2010 from Rs 6.1 billion in 2009. A before tax profit of Rs. 189 million in 2010 reflected a significant increase over previous year. The bank's non-performing loans ratio recorded a slight decline in 2010 to 21.6 percent, but remained well above the industry average.

**Table 3.8**  
**Key Performance Indicators of HDFC Bank**

|                                     | 2005   | 2006   | 2007   | 2008    | 2009    | 2010    |
|-------------------------------------|--------|--------|--------|---------|---------|---------|
| Number of Branches                  | 20     | 20     | 21     | 21      | 26      | 28      |
| Number of Employees                 | 290    | 205    | 286    | 289     | 355     | 425     |
| Assets (Rs. Bn)                     | 8.8    | 10.7   | 13.4   | 14.1    | 14.3    | 15.3    |
| Deposits (Rs. Bn)                   | 1.5    | 2.5    | 4.9    | 4.9     | 6.1     | 7.7     |
| Number of Deposits Accounts         | 62,407 | 71,538 | 74,637 | 142,407 | 177,354 | 212,914 |
| Corporate & Retail Lending (Rs. Bn) | 8.1    | 10.1   | 11.9   | 11.9    | 11.9    | 12.8    |
| Profit Before Tax (Rs. Mn)          | 162    | 239    | 47     | (94)    | 92      | 189     |
| Profit After Tax (Rs.Mn)            | 117    | 172    | 21     | (92)    | 57      | 135     |
| Capital Adequacy Ratio-I (%)        | 42.1   | 37.6   | 31.0   | 25.4    | 17.6    | 22.1    |
| Capital Adequacy Ratio-II (%)       | 42.4   | 37.8   | 31.8   | 26.5    | 18.7    | 21.2    |
| Non Performing Loans (Rs.Mn)        | 1,465  | 1,892  | 2,099  | 2,500   | 2,743   | 2,840   |
| Non Performing Loan Ratio (%)       | 18.0   | 18.6   | 17.6   | 20.7    | 22.6    | 21.6    |
| Rating                              | A      | A      | A      | BBB+    | BBB+    | BBB+    |

Source: HDFC Bank

### Lankaputhra Development Bank (LDB)

LDB was set up in February 2006, to take the forefront in implementing government's policy to facilitate financing of small and medium enterprises. While focusing on development oriented lending, the bank has adopted a selective approach in expanding its loan portfolio. Being a newly established bank, its presence is still limited to several districts.

The bank recorded a profit before tax of Rs. 163 million in 2010, which is lower than the

profit of Rs. 250 million recorded in 2009. The total deposit mobilized by LDB amounted to Rs. 295 million in 2010 reflecting only a 5 percent increase over the previous year. The total assets base of the bank stagnated in 2010 mainly due to the reduction in its loan book by 17.0 percent in comparison to the previous year. The bank's high non performing ratio is matter of serious concern that requires urgent action to improve by concentrating on debt recovery programmes.

**Table 3.9**  
**Key Performance Indicators of Lankaputhra Development Bank**

|                                     |                            | 2005 | 2006  | 2007  | 2008  | 2009  | 2010  |
|-------------------------------------|----------------------------|------|-------|-------|-------|-------|-------|
| Number of Branches                  |                            |      | 3     | 5     | 4     | 7     | 7     |
| Number of Employees                 |                            |      | 62    | 114   | 166   | 165   | 162   |
| Assets (Rs. Mn)                     |                            |      | 2,132 | 4,175 | 6,568 | 6,855 | 6,618 |
| Deposits (Rs. Mn)                   |                            |      | 259   | 1,994 | 133   | 281   | 295   |
| Corporate & Retail Lending (Rs. Bn) |                            |      | 427   | 1,656 | 2,430 | 2,302 | 1,911 |
| Profit Before Tax (Rs. Mn)          | Was not<br>in<br>operation |      | 52    | 58    | 227   | 250   | 163   |
| Profit After Tax (Rs.Mn)            |                            |      | 23    | 23    | 76    | 83    | 21    |
| Capital Adequacy Ratio-I (%)        |                            |      | 229   | 62.8  | 91    | 71.9  | 81.8  |
| Capital Adequacy Ratio-II (%)       |                            |      | 229   | 63.1  | 91.5  | 72.2  | 82.1  |
| Non Performing Loans (Rs.Mn)        |                            |      | -     | 85    | 618   | 1,579 | 1,587 |
| Non Performing Loan Ratio (%)       |                            |      | -     | 5     | 19.2  | 55.9  | 66.4  |
| Rating                              |                            |      | -     | -     | -     | A     | A     |

Source: Lankaputhra Development Bank

### Pradeshia Sanvardhana Bank (PSB)

Development of the rural economy is a key objective of the government economic policy framework. In this regard having recognized the need to improve accessibility of rural communities to financing sources, the Bank was established in May 2010 with the amalgamation of Wayamba Development Bank, Ruhuna Development Bank, Kanduarata Development Bank, Uva Development Bank, Sabaragamuwa Development Bank and Rajarata Development Bank. Pradeshia Sanvardhana Bank's total assets account for only 1 percent of that of the

banking industry and 6.4 percent of the total assets of the LSB's in Sri Lanka.

Total assets of Bank at the end of the year 2010 were Rs. 46,610 million, recording an increase of 19.4 percent over the previous year. The majority of assets of Pradeshia Sanvardhana Bank's constituted of loans and advances (79.6 percent) and investments in government securities (14.3 percent).

Although Bank's loan book indicated a growth of 32.2 percent in 2010 against the 6.9 percent growth recorded in the previous year, it is necessary to assess the role played by the bank with its objectives of incorporation.

**Table 3.10**  
**Key Performance Indicators of Pradeshiya Sanvardhana Bank**

|                                     | 2005     | 2006       | 2007     | 2008      | 2009     | 2010* |
|-------------------------------------|----------|------------|----------|-----------|----------|-------|
| Number of Branches                  | 203      | 209        | 211      | 215       | 223      | 248   |
| Number of Employees                 | 1,717    | 1,908      | 1,986    | 1,934     | 1,933    | 1,912 |
| Assets (Rs. Bn)                     | 20.6     | 26.1       | 31.0     | 34.4      | 39.0     | 46.6  |
| Deposits (Rs. Bn)                   | 14.2     | 18.7       | 21.9     | 25.9      | 30.9     | 37.9  |
| Corporate & Retail Lending (Rs. Bn) | 15.7     | 19.3       | 23.0     | 26.3      | 28.1     | 37.1  |
| Profit Before Tax (Rs. Mn)          | 658      | 633        | 814      | 1,037     | 942      | 992.7 |
| Profit After Tax (Rs. Mn)           | 381      | 299        | 416      | 424       | 407      | 336.8 |
| Capital Adequacy Ratio -1 (%)       | 8.7-15.4 | 9- 14.4    | 8.2-15.1 | 8.4 -15.8 | 9.5613.0 | 11.0  |
| Capital Adequacy Ratio ó 11 (%)     | 11.5-17  | 11.4- 18.1 | 9.8-15.7 | 8.9-16.73 | 8.9-14.2 | 11.7  |
| Non Performing Loans (Rs.Mn)        | 1,140    | 1,161      | 1,252    | 1,214     | 1,270    | 1,152 |
| Non Performing Loan Ratio (%)       | 6.8      | 5.6        | 5.3      | 4.5       | 4.4      | 3.0   |
| Rating                              | BBB+     | BBB+       | BBB+     | BBB+      | BBB+     | BBB+  |

Source: Pradeshiya Sanvardhana Bank \*Unaudited

PSBs exposure on pawning advances remained at 36.6 percent of total loans of the bank. A significant portion of loans and advances of PSB amounting to 31 percent was granted as

agricultural loans, 24 percent was for housing purposes. Small industrial sector has received only 10 percent in 2010.

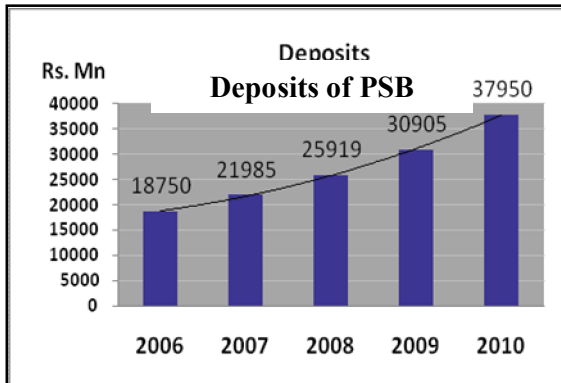
**Table 3.11**  
**Decomposition of the loan portfolio of Pradeshiya Sanwardhana Bank**

|                     | 2009   |      | 2010   |      |
|---------------------|--------|------|--------|------|
|                     | Rs.Mn  | ( %) | Rs.Mn  | ( %) |
| Agriculture         | 6,817  | 23   | 11,375 | 31   |
| Animal Husbandry    | 506    | 2    | 864    | 2    |
| Fisheries           | 190    | 1    | 703    | 2    |
| Industries          | 3,141  | 11   | 3,608  | 10   |
| Business & Commerce | 5,216  | 18   | 5,592  | 15   |
| Housing             | 7,354  | 25   | 8,992  | 24   |
| Consumption         | 1,885  | 6    | 4,157  | 11   |
| Others              | 3,981  | 14   | 1,676  | 5    |
| Total               | 29,090 | 100  | 36,967 | 100  |

Source: Department of Public Enterprises

The improvement in assets quality of PSB contributed towards the marginal reduction of non-performing loans from Rs.1.3 billion in

2009 to Rs. 1.2 billion in 2010. The non-performing loan ratio declined to 3 percent in 2010 from 6 percent in 2009.

**Chart 3.4**


Total capital funds employed by PSB amounted to Rs. 3,755 million at the end of 2010 which is an increase of 20 percent over the year 2009. Bank's borrowings recorded a year on year growth of 2.6 percent. The deposits collected by PSB recorded a growth of 22.8 percent, amounting to Rs 37.95 billion over 2009. PSB reported a profit before tax of Rs. 1.5 billion at the end of 2010 significant increase over the previous year.

### Sri Lanka Savings Bank Ltd (SLSB)

Sri Lanka Savings Bank Ltd was established to operate as a LSB while providing relief to the depositors of defaulted Pramuka Savings and Development Bank (PSDB). Accordingly assets and liabilities of PSDB were vested with SLSB. Further, action were taken to amalgamate National Development Trust Fund with the SLSB. Accordingly, the bank's asset base was reported at Rs. 6.1 billion by the end of 2010. 74.5 percent of assets of the bank were in the form of investments. The bank has granted Rs. 9.5 million by the end of 2010 as credit against deposits and collected Rs. 199.9 million in various forms of deposits. In terms of the settlement scheme for PSDB customers published by the Central Bank of Sri Lanka, loans granted by PSDB amounting to Rs. 107 million were recovered during the year 2010. Further, during the year the bank has settled Rs. 320 million to PSDB depositors. SLSB made a profit before tax amounting to Rs. 275 million in 2010 which is a marginal increase over the previous year.

**Table 3.12**  
**Key Performance Indicators of Sri Lanka Savings Bank Ltd**

|                                     | 2005 | 2006 | 2007                 | 2008   | 2009   | 2010  |
|-------------------------------------|------|------|----------------------|--------|--------|-------|
| Number of Branches                  |      |      |                      | 1      | 1      | 1     |
| Number of Employees                 |      |      |                      | 41     | 45     | 56    |
| Assets (Rs. Mn)                     |      |      |                      | 1,293  | 1,468  | 6,155 |
| Deposits (Rs. Mn)                   |      |      |                      | 1,605  | 599    | 572   |
| Corporate & Retail Lending (Rs. Mn) |      |      |                      | 1,828  | 2,110  | 2,669 |
| Profit Before Tax (Rs. Mn)          |      |      |                      | 150    | 239    | 295   |
| Profit After Tax (Rs. Mn)           |      |      | Was not in operation | 131    | 187    | 278   |
| Capital Adequacy Ratio -1 (%)       |      |      |                      | -6,410 | -4,684 | 41.9  |
| Capital Adequacy Ratio 6 11 (%)     |      |      |                      | -5,559 | -3,374 | 76.1  |
| Non Performing Loans (Rs.Mn)        |      |      |                      | 1,828  | 1,669  | 1,431 |
| Non Performing Loan Ratio (%)       |      |      |                      | 100    | 79.1   | 54.8  |
| Rating                              |      |      |                      | N/A    | N/A    | N/A   |

Source: Sri Lanka Savings Bank Ltd

## Chapter 4 Infrastructure Development Sector

### Infrastructure Development Enterprises

Well developed infrastructure facilities are a prerequisite for Sri Lanka to attract investment necessary for development. Recognizing that SOEs are the core of infrastructure development in Sri Lanka the government during the period 2006-2010 invested in key infrastructure providing SOEs Rs.510,884 million which is an increase of 226 percent from the investments made during the period 2001-2005 amounting to Rs.156,432 million<sup>2,3</sup>.

**Table 4.1**  
**Investments<sup>4</sup> in key infrastructure**  
**providing SOEs (Rs.Mn)**

|  | 2001-<br>2005  | 2006-<br>2010  |
|--|----------------|----------------|
| Ceylon Electricity Board                 | 47,566         | 86,813         |
| National Water Supply and Drainage Board | 42,713         | 90,422         |
| Road Development Authority               | 59,976         | 272,587        |
| Sri Lanka Ports Authority                | 6,177          | 61,062         |
|  | <b>156,432</b> | <b>510,884</b> |

Source : Department of National Budget

The policy of aggressively investing in SOEs while improving the infrastructure facilities of the country had the twin impact of improving the quality of life of the people through greater accessibility to electricity (increase in coverage to 90 percent), water (increase in coverage to 27 percent) etc., as well as in

<sup>2</sup> Includes recurrent, capital transfers made. With regard to CEB and SLPA the on lending of funds through the budget is also included.

<sup>3</sup> Ceylon Electricity Board, Sri Lanka Ports Authority, Road Development Authority, Sri Lanka Transport Board, National Water Supply and Drainage Board

<sup>4</sup> Includes Recurrent, Capital and on lending facilities granted

facilitating an increase in the productivity of SOEs. This was evident with a turnaround of CEB into a profitable one in 2010 while SLPA was able to record the fastest growth among many peer ports in the region

### Ceylon Electricity Board (CEB)

CEB earned a profit of Rs.5,062 million in 2010 recording a remarkable turnaround from the loss incurred in 2009 of Rs.11,208 million, an improvement of 145 percent. This performance is noteworthy as CEB has been incurring continuous losses since the year 2000.

During the year CEB's asset base increased to Rs. 287 billion recording a growth of 4.3 percent and is in line to achieving the government's target of Rs. 1,000 billion by 2020. The year on year demand for electricity increased by 9.8 percent to 9,263 GWh in 2010, propelled by significant demands posted in almost all sectors of the economy whilst generation capacity of CEB recorded an increase of 8.1 percent to 10,689 GWh at the end of 2010. CEB earned on average Rs.13.16 per unit sold whilst its cost of production in 2010 declined to Rs. 13.01/unit from Rs.14.94/unit in 2009, an improvement of 12.9 Percent. This can be attributed to mainly the heavy rainfall experienced in 2010 and the provision of subsidized fuel<sup>5</sup>. While the former resulted in 5,451 GWh or 51 percent of total electricity to be generated through the relatively cheaper<sup>6</sup> hydro power plants and only the balance 49 percent or 5,238GWh from the more expensive<sup>7</sup> thermal power plants, the latter made thermal power less

<sup>5</sup> Heavy fuel was sold to CEB from January 2010-August 2010 at Rs.25/l and from September 2010 ó December 2010 at Rs.40/l, whilst the average cost to CPC was between Rs.50-65/l.

<sup>6</sup> Average cost of Hydro (CEB) ó Rs 1.35/KWh and privately owned Mini hydro Rs 13.13/KWh.

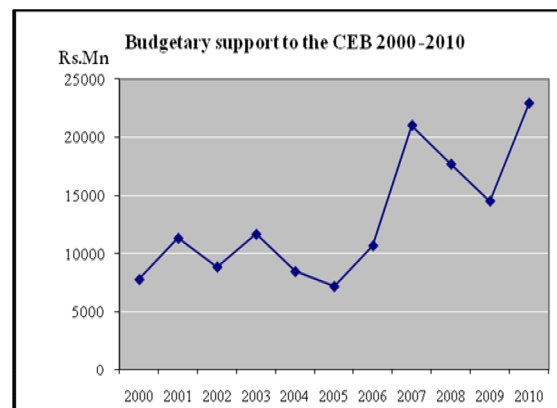
<sup>7</sup> Average cost of Thermal (CEB) ó Rs.18.11/KWh and Thermal(IPP) Rs.18.48/KWh

expensive<sup>8</sup>, specially the thermal power plants owned by the Independent Power Producers (IPP) despite utilizing them at full capacity<sup>9</sup> to meet the boost in demand for electricity. At the same time the operation and management reengineering process implemented through the 10 year plan also allowed CEB to increase its productivity significantly.

The policy of the government to invest in excess of Rs 35,000 million during the last 5 years for upgrading and maintenance of power plants such as New Laxapana, Moragolla, Upper Kothmale, Ukuwela etc. increased the capacity of the water tanks allowing CEB to reap the benefits of heavy rainfall. At the same time the investments in Distribution and Transmission of about Rs. 30,000 million during the last 5 years in the upgrading of the power grids in Kerawalapitiya, Galle, Kilinochchi and North and East resulted in the CEB being able to cut down its system losses from 13.39 percent in 2010 from 14.58 percent in 2009, thus making CEB one of the most efficient power operators in the region. As such although the government increased the price of Heavy Fuel to Rs.40/l in September 2010 from Rs.25 /l in January 2010, due to the systems being improved, CEB was able to absorb the increase in cost of production and yet earn profit.

While CEBs balance sheet improved in 2010, CEBs dues to CPC amounting to Rs. 46 billion as at the end of 2009 remain unpaid. In line with a government directive all purchases of fuel made by CEB from CPC in 2010 was settled in full. The government continued to support CEB in 2010 too with the continuation of the debt moratorium extended to CEB since 2007, costing the government almost Rs.11 billion per annum, this is in addition to the on lending facilities extended to CEB of Rs.30 billion in 2010 for various developmental projects. In addition the government has issued guarantees amounting to Rs.14,741 million enabling CEB to secure financing from external sources for both operational and capital expansionary purposes.

**Chart 4.1**



<sup>8</sup> CEB incurred Rs. 79,421 million on the purchase of fuel in 2010. However, if there was no subsidy the cost of fuel for thermal power would be almost Rs. 100,000 million.

<sup>9</sup> Full capacity of the IPPs - 1,059 MW.

**Table 4.2**  
**Key Performance Indicators of Ceylon Electricity Board**

| Category                   | Unit     | 2005    | 2006     | 2007     | 2008     | 2009    | 2010    |
|----------------------------|----------|---------|----------|----------|----------|---------|---------|
| Installed Capacity         | MW       | 2,411   | 2,443    | 2,443    | 2,645    | 2,695   | 2,817   |
| CEB Hydro                  | MW       | 1,207   | 1,207    | 1,207    | 1,207    | 1,207   | 1,207   |
| Thermal                    | MW       | 548     | 548      | 548      | 548      | 548     | 548     |
| Wind                       | MW       | 3       | 3        | 3        | 3        | 3       | 3       |
| Private Hydro              | MW       | 84      | 107      | 116      | 138      | 158     | 175     |
| Thermal                    | MW       | 567     | 567      | 567      | 749      | 779     | 842     |
| Renewable Energy           | MW       | -       | -        | -        | -        | -       | 42      |
| Electricity Generation     | GWh      | 9,389   | 9,814    | 91,814   | 9,912    | 9,883   | 10,689  |
| CEB Hydro                  | GWh      | 3,173   | 4,290    | 3,603    | 3,700    | 3,356   | 4,986   |
| Thermal                    | GWh      | 2,162   | 1,669    | ,336     | 2,336    | 2,091   | 1,394   |
| Coal                       | GWh      | -       | -        | -        | -        | -       | -       |
| Wind                       | GWh      | 2       | 2        | 2        | 2        | 3       | 3       |
| Private Hydro              | GWh      | 277     | 345      | 345      | 345      | 549     | 705     |
| Thermal                    | GWh      | 3,152   | 3,082    | 3,528    | 3,529    | 3,884   | 3,601   |
| Total Sales by CEB         | GWh      | 7,255   | 7,832    | 8,398    | 8,336    | 8,432   | 9,263   |
| Domestic and Religious     | GWh      | 2,444   | 2,622    | 2,771    | 2,831    | 2,925   | 3,191   |
| Industrial                 | GWh      | 2,446   | 2,605    | 2,627    | 2,518    | 2,518   | 2,882   |
| General Purposes           | GWh      | 1,254   | 1,395    | 1,626    | 1,636    | 1,636   | 1,755   |
| Local Authorities/LECO     | GWh      | 1,027   | 1,111    | 1,144    | 1,120    | 1,120   | 1,189   |
| Street Lightning           | GWh      | 83      | 98       | 108      | 108      | 108     | 108     |
| Hotel                      | GWh      |         |          | 122      | 123      | 125     | 138     |
| Total Revenue              | Rs.Mn    | 55,977  | 69,941   | 87,575   | 111,287  | 110,158 | 121,310 |
| Consumers                  | No. Mn   | 3.39    | 3.63     | 3.86     | 3.96     | 4.75    | 4.96    |
| Average Unit Cost          | Rs./Unit | 10.14   | 10.88    | 13.48    | 18.21    | 14.94   | 13.16   |
| Average Unit Selling Price | Rs./Unit | 7.71    | 8.99     | 10.58    | 13.22    | 13.11   | 13.16   |
| Operating Profit/(Losses)  | Rs.Mn    | (1,218) | (14,176) | (22,314) | (33,870) | (7,440) | 4,962   |
| Investments                | Rs.Mn    | 2,897   | 3,152    | 3,882    | 4,539    | 4,678   | 4,447   |
| Bank Borrowings            | Rs.Mn    | 5,903   | 7,669    | 7,075    | 3,778    | 12,507  | 12,795  |

Source : Ceylon Electricity Board

During the year CEB provided connections to almost 90 percent of the households continuing its efforts to achieve 100 percent electrification of the all households in the country and was a proactive partner of the government's efforts of rapidly providing

infrastructure facilities to the Northern and eastern provinces of the country.

It is expected that with the commissioning of the Coal fired power plant in Norochcholoi (2\*300MW) in 2011, the Upper Kotmale hydro power plant (150MW) in 2012 the

generation capacity of the CEB will improve significantly facilitating the fulfillment of the rapidly increasing demands of a growing economy. At the same time in line with the twin objectives of providing affordable yet environmentally clean power the government has initiated a process to explore the viability of using LNG and other clean renewable energy sources in the Sri Lankan generation mix. It is expected that with the increased capacity and cleaner better processes the efficiency and productivity of CEB will increase, the benefits of which could be passed on to the consumer through more competitive tariffs.

**National Water Supply & Drainage Board (NWS&DB)**

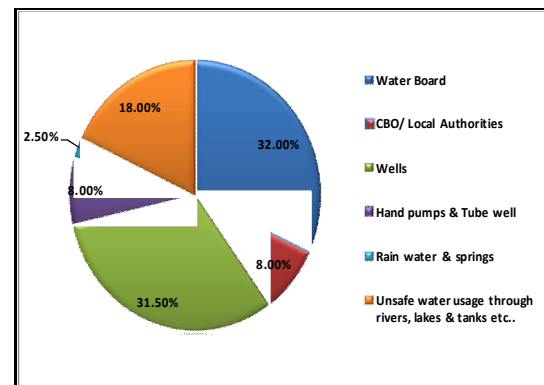
Providing access to water supply and sanitation is a key development objective of the government. In this regard the NWS&DB is the sole government organization entrusted with the task of providing safe water to the population.

At the end of 2010 the board operated 315 water supply schemes for the provision of drinking water. While access to safe drinking water coverage is around 82 percent in 2010, the water board accounts for 40 percent of the safe drinking coverage of the country, from which 32 percent is through pipe borne water and 8 percent from CBO and local authorities. As such while 42 percent of the population uses safe drinking water through other sources. During the year under review, the 7 percent increase in new water connections contributed to the increase in revenue from drinking water by 11 percent to Rs.10,744 million.

NWS&DB produced 470 million cubic meters (cbm) of water recording a year on year increase of 4.6 percent at a cost of Rs.6,772 million. While the Board managed to enhance

efficiency in the usage of its main inputs of chemicals and electricity, its inability to arrest significant wastage resulting in the non revenue generating water (almost 33 percent of the total production) contributed to the cost of production to increase by 7.69 percent to Rs.21/cbm in 2010 from Rs.19.50 /cbm in 2009. It is estimated that if the Board is able to control non revenue water, the cost of production of water could be maintained at around Rs.14.31/cbm which is less than the average price of water at Rs. 33.40/cbm.

**Chart 4.2**



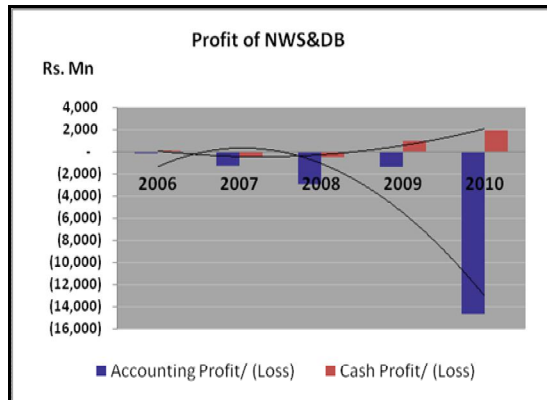
During 2010, despite the continued existence of excessive leakages NWS&DB earned a consolidated gross profit of Rs.5,261 from its operations which is a 10.87 percent increase over 2010. However the board incurred a consolidated net loss of Rs.14,662 million in 2010, mainly due to a 27 percent increase in administration and other overhead expenses and a deficit provision on an asset revaluation (devaluation of assets) amounting to Rs.12,697million. It is noted that the implication of the devaluation of assets is significant as it indicates that the method adopted so far in capitalization of costs of completed projects has not been accurate. This has a negative impact on the balance sheet of the board.



Although NWS&DB's liquidity position has improved significantly during the year under review with a net cash profit of Rs.1,938 million in 2010 reflecting a 112 percent growth, the Board has failed to service its dues to the Treasury of Rs2,702 million in 2010. The total dues to the Treasury on the on lent funds stands at Rs. 24,325 million at end of the year 2010.

Despite a less than 1 percent decrease in the total work force to 9,018 employees, the total cost of employment in 2010 at Rs. 5,229 million is an increase of 21 percent as against 2009. The water board is faced with the challenge of ensuring a continuous supply of safe drinking water while enhancing its coverage of providing water to 94 percent of the country 2016. As such the Board will have to devise strategies to sustain a capital investment programme with minimum dependence on the government while overcoming the high system losses which will increase productivity.

**Chart 4.3**



**Table 4.3**  
**Key Performance Indicators of National Water Supply & Drainage Board**

|                                   | Description                                     | Unit                      | 2005    | 2006    | 2007      | 2008      | 2009      | 2010      |
|-----------------------------------|---|---------------------------|---------|---------|-----------|-----------|-----------|-----------|
| <b>OPERATIONS</b>                 | Water Turnover                                  | Rs. Mn                    | 5,446   | 5,869   | 6,482     | 8,134     | 9,670     | 10,744    |
|                                   | Cost of water production                        | Rs. Mn                    | 3,478   | 3,896   | 4,711     | 5,824     | 6,021     | 6,722     |
|                                   | Gross Profit/ (Loss)-Water segment              | Rs. Mn                    | 2,720   | 2,984   | 2,811     | 2,193     | 4,923     | 5,458     |
|                                   | - Sewerage segment                              | Rs. Mn                    | (35)    | (76)    | (75)      | (81)      | (80)      | (81)      |
|                                   | -Ground Water segment                           | Rs. Mn                    | (28)    | (44)    | (27)      | (67)      | (98)      | (116)     |
|                                   | Total Gross Profit/ (Loss)                      | Rs.Mn                     | 2,657   | 2,864   | 2,709     | 2,045     | 4,745     | 5,261     |
|                                   | Non óOperating income                           | Rs.Mn.                    | 33      | 114     | 203       | 60        | 49        | 98        |
|                                   | Administration & other overheads                | Rs.Mn.                    | 2,220   | 2,616   | 3,284     | 3,761     | 4,553     | 5,800     |
|                                   | Asset revaluation deficit                       | Rs.Mn.                    | -       | -       | -         | -         | -         | 12,697    |
|                                   | Finance cost                                    | Rs.Mn.                    | 492     | 512     | 852       | 1,193     | 1,569     | 1,419     |
|                                   | Net accounting profit/ (Loss) [with provisions] | Rs.Mn.                    | (92)    | (214)   | (1278)    | (2,915)   | (1,417)   | (14,662)  |
|                                   | Net cash profit/ (loss) [without provisions]    | Rs.Mn.                    | 521     | 129     | (491)     | (509)     | 914       | 1,938     |
| <b>FINANCIAL</b>                  | Asset value                                     | Rs. mn.                   | 77,291  | 89,863  | 100,697   | 115,541   | 135,901   | 140,652   |
|                                   | Investments                                     | Rs.Mn.                    | 816     | 1,779   | 966       | 514       | 381       | 678       |
|                                   | Current assets                                  | Rs.Mn.                    | 11,659  | 13,620  | 13094     | 15,190    | 13,460    | 15,030    |
|                                   | Current liabilities                             | Rs.Mn.                    | 2,183   | 2,136   | 2852      | 5,315     | 7,379     | 9,345     |
|                                   | Non-current liabilities                         | Rs.Mn.                    | 14,948  | 17,301  | 18257     | 20,281    | 23,324    | 26,475    |
|                                   | Equity  | Rs.Mn.                    | 71,964  | 84,174  | 92797     | 105,226   | 118,734   | 119,927   |
| <b>KEY PERFORMANCE INDICATORS</b> | Water connections                               | Nos.                      | 907,622 | 989,395 | 1,078,892 | 1,186,931 | 1,266,328 | 1,353,573 |
|                                   | Water production                                | Mn./cbm                   | 383     | 398     | 424       | 440       | 449       | 470       |
|                                   | Water Sales                                     | Mn./cbm                   | 253     | 261     | 284       | 299       | 309       | 322       |
|                                   | NRW % of water production                       | %                         | 33.38   | 34.44   | 33        | 32.09     | 31.13     | 31.55     |
|                                   | Water supply schemes (Revenue units)            | Nos.                      | 291     | 295     | 308       | 309       | 312       | 315       |
|                                   | Revenue per employee/ month                     | Rs.                       | 57,348  | 58,683  | 61,049    | 62,396    | 88,914    | 99,283    |
|                                   | Cost of employment / employee/ month            | Rs.                       | 24,126  | 28,116  | 32,688    | 36,647    | 39,820    | 48,319    |
|                                   | Cost of production/ employee /month             | Rs.                       | 36,623  | 38,950  | 44,370    | 53,895    | 55,361    | 65,120    |
|                                   | Production cost per unit without NRW            | Rs./cbm                   | 9.08    | 9.80    | 11.10     | 13.24     | 13.41     | 14.31     |
|                                   | Production cost per unit with NRW               | Rs./cbm                   | 13.72   | 14.98   | 16.58     | 19.49     | 19.47     | 20.91     |
|                                   | Total cost per unit produced                    | Rs./cbm                   | 21.46   | 22.62   | 26.72     | 31.55     | 36.54     | 78.04     |
|                                   | No. of employees per 1000 connections           | Nos.                      | 9       | 9       | 8         | 8         | 7         | 7         |
|                                   | <b>EMPLOYEES</b>                                | Water segment -Production | Nos.    | 3,000   | 3,600     | 3,675     | 3,690     | 3,700     |
| -Distribution                     |   | Nos.                      | 2,000   | 1,950   | 2,016     | 2,063     | 2,087     | 2,024     |
| - Projects                        |   | Nos.                      | 140     | 145     | 140       | 140       | 136       | 150       |
| - Supportive staff                |   | Nos.                      | 1,500   | 1,550   | 1,553     | 1,577     | 1,640     | 1,560     |
| Sewerage segment                  |   | Nos.                      | 225     | 220     | 215       | 208       | 224       | 216       |
| Ground water supply segment       |   | Nos.                      | 275     | 270     | 268       | 262       | 238       | 232       |
| Head office staff segment         |   | Nos.                      | 774     | 600     | 981       | 1,066     | 1,038     | 1,034     |
| Total Employees                   |   | Nos.                      | 7,914   | 8,335   | 8,848     | 9,006     | 9,063     | 9,018     |

Source : National Water Supply and Drainage Board

### Sri Lanka Ports Authority (SLPA)

Considering the strategic geographical location of Sri Lanka for trade and port related activities the government has embarked on an aggressive infrastructure development programme. During the year 2010 SLPA commissioned the 1<sup>st</sup> phase of the Hambantota port and has already initiated work on the 2<sup>nd</sup> phase, whilst the Colombo South port expansion project is on track to be completed by 2013.

From a wider perspective the SLPA's expansion programme has resulted in the introduction and growth of ancillary industries such as bunkering, provision of warehouse and storage facilities, ship building and repairing, insurance, banking and other services. This in turn will yield high dividends both financially and socially within the medium term through the growth of direct and indirect employment, transfer of technology which will add value to the economy and increase productivity.

In 2010 with the enhancement of the economic activities, the SLPA handled 2.1

million TEU's achieving a year on year growth of 23 percent, despite a decline in the arrival of ships by 9.7 percent. The growth experienced by the Colombo port at 19.4 percent was better than the growth recorded of regional peer ports, Shanghai at 16.2 percent, Singapore at 9.9 percent and Hong Kong at 12 percent.

During 2010, SLPA's consolidated revenue increased by 19 percent to Rs.28,279 million. Foreign exchange revenue also experienced a sharp increase of 23 percent by Rs.3,968million in 2010. Although SLPA recorded a year on year growth in operating profit of 125 percent to Rs.4,387 million, due to the negative impact of exchange rate losses related to the repayment of the JBIC loan, SLPA incurred a net loss of Rs. 1,190 million at the end of the year 2010. It is encouraging to note that SLPA has showed signs of improving its productivity with TEU's handled per employee increasing to 169 in 2010 from 128 in 2009 despite a decrease in the total employees by 4 percent.

**Table 4.4**  
**Key Performance Indicators of SLPA**

|                                | Units    | 2005   | 2006    | 2007    | 2008     | 2009   | 2010    |
|--------------------------------|----------|--------|---------|---------|----------|--------|---------|
| Vessels Arrived                | Nos      | 5,092  | 5,117   | 5,366   | 5,430    | 5,162  | 4,657   |
| Colombo                        | ø        | 4,425  | 4,583   | 4,760   | 4,771    | 4,560  | 4,343   |
| Galle                          | ø        | 258    | 267     | 304     | 333      | 222    | 169     |
| Trincomalee                    | ø        | 409    | 267     | 302     | 326      | 380    | 145     |
| Total TEU's handled            | Mts (Mn) | 1.5    | 1.7     | 1.8     | 1.9      | 1.7    | 2.1     |
| Revenue                        | Rs. Mn   | 20,550 | 23,004  | 25,913  | 25,142   | 23,331 | 28,279  |
| Colombo                        | ø        | 19,789 | 22,318  | 25,296  | 24,561   | 23,257 | 27,724  |
| Galle                          | ø        | 449    | 465     | 361     | 268      | 169    | 279     |
| Trincomalee                    | ø        | 312    | 221     | 256     | 314      | 361    | 277     |
| Total Expenditure              | ø        | 14,370 | 18,217  | 23,562  | 23,322   | 21,774 | 25,118  |
| Colombo                        | ø        | 13,589 | 17,196  | 22,265  | 22,159   | 20,533 | 23,834  |
| Galle                          | ø        | 370    | 515     | 636     | 613      | 544    | 662     |
| Trincomalee                    | ø        | 411    | 506     | 661     | 550      | 597    | 622     |
| Operating Profit               | ø        | 7,367  | 5,903   | 3,498   | 2,941    | 1,942  | 4,387   |
| Foreign Loan                   | ø        | 40,248 | 38,521  | 39,334  | 51,202   | 53,842 | 42,143  |
| Interest on Foreign Loan       | ø        | 1,186  | 1,115   | 1,147   | 1,211    | 1,159  | 1,225   |
| Foreign Exchange Gain / (Loss) | ø        | 7,058  | (1,168) | (3,944) | (11,790) | 591    | (4,409) |
| TEU's per Employee             | No       | 113    | 128     | 113     | 144      | 128    | 169     |
| Revenue per Employee           | Rs. Mn   | 1.5    | 1.7     | 1.9     | 1.8      | 1.7    | 2.2     |
| Cost per Employee              | ..       | 1.1    | 1.3     | 1.7     | 1.7      | 1.6    | 1.9     |
| Total Cost of Employment       | ..       | 6,503  | 8,936   | 14,013  | 13,388   | 12,592 | 14,088  |

Source: Sri Lanka Ports Authority

### Airport and Aviation Services (Sri Lanka) Limited (AASL)

In 2010 international flight movements increased to 34,092 from 28,624 in 2009, a growth of 19 percent. As such after 27 years of operations Bandaranaike International Airport (BIA) is becoming in 2010 one of the fastest growing airports in the region boosted by a 46 percent expansion in the Sri Lankan tourism industry.

During the year under review the financial performance of the company was commendable, recording a total revenue of Rs.6,091 million. This is an increase of 10

percent compared to Rs 5,491 million in 2009. Profit before tax also recorded a year on year growth of 36 percent at Rs 1,962 million.

AASL which manages BIA and all the other airports in Sri Lanka is the national arm responsible for providing infrastructure facilities in the aviation field. In 2010, AASL received the ISO 9001: certification, recognizing that AASL possess worldwide quality assurance systems in relation to airport operations and the provision of effective air navigation services.

**Table 4.5**  
**Key Performance Indicators of Airport and Aviation Services (Sri Lanka) Limited**

|                             | Unit      | 2005  | 2006  | 2007  | 2008  | 2009  | 2010<br>(Draft) |
|-----------------------------|-----------|-------|-------|-------|-------|-------|-----------------|
| Revenue                     | Rs.<br>Mn | 2,619 | 4,454 | 5,340 | 5,832 | 5,491 | 6,091           |
| Expenditure                 | „         | 1,949 | 2,334 | 2,871 | 4,090 | 4,050 | 4,129           |
| Staff Cost                  | „         | 1,325 | 1,576 | 1,985 | 2,935 | 2,663 | 2,814           |
| Other Cost                  | „         | 624   | 758   | 886   | 1,155 | 1,387 | 1,315           |
| Operating Profit Before Tax | „         | 669   | 2,120 | 2,469 | 1,742 | 1,441 | 1,962           |
| Profit/(Loss) after Tax     | „         | 423   | 1,373 | 1,508 | 1,169 | 934   | 1,309           |
| Total Assets                | „         | 2,609 | 4,759 | 6,415 | 7,993 | 8,778 | 9,895           |
| Total Non Current Assets    | „         | 128   | 477   | 576   | 1,054 | 1,639 | 2,044           |
| Property Plant & equipment  | „         | 128   | 109   | 160   | 377   | 939   | 1,044           |
| Differed Income Tax Assets  | „         | -     | 328   | 416   | 677   | 700   | 700             |
| Long term Investments       | „         | -     | -     | -     | -     | -     | 300             |
| Total Current Assets        | „         | 2,480 | 4,282 | 5,838 | 6,934 | 7,139 | 7,852           |
| Inventories                 | „         | 153   | 148   | 148   | 183   | 233   | 432             |
| Short Term Investments      | „         | 1,563 | 2,764 | 4,069 | 4,583 | 4,564 | 5,543           |
| Cash & Bank Balances        | „         | 121   | 530   | 548   | 416   | 400   | 260             |
| Trade & Other Receivables   | „         | 643   | 840   | 1072  | 1765  | 1,942 | 1,617           |
| Share Holders Equity        | „         | 1,097 | 2,772 | 4,190 | 5,167 | 5,901 | 6,611           |
| Earnings Per Share          | Rs.       | 2,115 | 6,865 | 7,542 | 5,843 | 4,672 | 6,547           |
| Return on Assets            | Times     |       | 50    | 36    | 23    | 16    | 20              |
| Net Profit Ratio            | %         | 16    | 31    | 28    | 20    | 17    | 21              |

Source: Airport and Aviation Services (Sri Lanka) Ltd

**Table 4.6**  
**Operational Highlights**

| Year   | 2005    | 2006    | 2007    | 2008    | 2009    | 2010    |
|--|---------|---------|---------|---------|---------|---------|
| International flights movements (No <del>s</del> ) | 33,080  | 33,189  | 33,395  | 31,764  | 28,624  | 34,092  |
| Passenger Movements (Mn)                           | 4.3     | 4.7     | 4.9     | 4.6     | 4.2     | 5.2     |
| Cargo Movements (MT)                               | 160,122 | 170,907 | 163,570 | 151,952 | 138,067 | 167,130 |

*Source: Airport and Aviation Services (Sri Lanka) Ltd*

AASL initiated steps to construct the 2nd international airport at Mattala, in the Hambanthota district and undertook the expansion and development of BIA. The cost of the 2<sup>nd</sup> international airport at Mattala which is estimated at USD 209 million is under construction with financial arrangements being made with China Exim Bank.

With the commissioning of the airport in 2012, it is expected that it will have the capacity to facilitate 1 million passenger movements, 45,000 metric tons of cargo and 30,000 aircraft movements per annum. Hence, AASL expects to increase its passenger handling capacity to 12 million by 2016 with the completion of 2<sup>nd</sup> phase of this airport. However, AASL should have a clear strategy on the different functions that should be undertaken by the existing and the proposed airports in the country so as to optimize the outcome. In this regard they should have a coordinated approach in the expansion programme undertaken.

### **Service sector**

SOEs are engaged in providing key services of the economy such as ground and air transport (SLTB and SLA) energy (CPC), Urban Development (UDA) etc. Many of these SOEs incurred heavy losses due to non reflection of total costs in its pricing.

### **Ceylon Petroleum Corporation (CPC)**

Despite global oil prices increasing on average by almost 28 per cent since December 2009, domestic retail prices of petroleum products remained unchanged throughout 2010. In the backdrop of high international prices government removed certain taxes applicable on petroleum products with a view to reducing cost of production. Import duty on Petrol and Diesel was completely removed on 19<sup>th</sup> of January 2010 from Rs.35/l and Rs.15/l respectively, which resulted in a revenue loss in 2010 of almost Rs.20,000 million to the government. Despite this indirect subsidy by the government, CPC incurred a loss of Rs.26,922 million in 2010 against the loss of Rs. 12,324 million of 2009 a decline in the financial performance by 49 percent. CPC incurred a loss of Rs. 20,074 million through the sale of heavy fuel to the CEB and IPPs<sup>10</sup> at subsidized prices. Implementing government policy to meet the energy needs of the low income segment, Kerosene was sold at the subsidized price of Rs.53/l incurring a loss of about Rs.10,236 million.

However the lack of a clear strategy to operate in the market, low productive use of employees, weak financial and operational management and non optimal utilization of resources has contributed significantly to the deterioration of the performance of CPC

<sup>10</sup> Sale price of Heavy fuel to CEB and IPP -January & August 2010 at Rs.25/l and September to December 2010 at Rs.40/l, while the average cost was between Rs.50-65/l

negating the effect of government assistance. This is evident as there is only a marginal difference between the cost of fuel produced at the CPC refinery and the cost of refined products imported. CPC faced liquidity constraints due to the non payment of dues

mainly from CEB amounting to Rs.46 billion at the end of 2009. The government has issued guarantees amounting to Rs. 80,500 million facilitating CPC's ability to access funding from external sources.

**Table 4.7**  
**Pricing Structure of Petroleum Products**

| Product name            | Total (average) sales per month (Mn) | maximum calculated retail price Rs./l | Actual prevailed retail selling price Rs./l | monthly estimated loss before the revision of retail prices Rs./l | Monthly estimated loss before the revision Rs. Mn | Revision of prices Rs Per liter | Monthly estimated recovery of losses (Savings) (Rs. Mn) | Loss per month after revision of prices (Rs. Mn) | Loss per product after price revision Rs./liter |
|-------------------------|--------------------------------------|---------------------------------------|---|---|---|---------------------------------|---|--|---|
| Octane 90               | 51.2                                 | 123.15                                | 115   | (8.15)  | (417.4)   | 10                              | 512.1   | 94.7   | 1.85  |
| Kerosene                | 17.4                                 | 99.94                                 | 51  | (48.94)   | (853.5)   | 10                              | 174.4   | (679.1)  | (38.94)   |
| Auto Diesel             | 139.9                                | 101.38                                | 73  | (28.38)   | 3,971.8   | 3                               | 419.8   | (3,552)  | (25.38)   |
| Octane 95               | 1.8                                  | 124.84                                | 133   | 8.16  | 14.7  | 10                              | 18  | 32.7   | 18.16   |
| Super Diesel            | 1.1                                  | 101.76                                | 88.3  | (13.46)   | (14.9)  | 10                              | 11.1  | (3.8)  | (3.46)  |
| HFO(Industries)         | 9.9                                  | 78.73                                 | 40  | (38.73)   | (386.8)   | 10                              | 99.9  | (286.9)  | (28.73)   |
| HFO.380cc<br>CEB & ASIA | 19.2                                 | 75.63                                 | 40  | (35.63)   | (686.2)   | 10                              | 192.6   | (493.6)  | (25.63)   |
| HFO(HS)IPPS             | 41.2                                 | 78.73                                 | 40  | (38.73)   | (1,599.3)   | 10                              | 412.9   | (1,186.3)  | (28.73)   |
| HFO.(LS)                | 9.4                                  | 82.73                                 | 52  | (30.73)   | (290.7)   | 0                               | -   | (290.7)  | (30.73)   |
| Monthly sales           | <b>291.5</b>                         | <b>119.9</b>                          | <b>Total profit/(loss)month</b>             |   | <b>(8,206.2)</b>                                  |                                 | <b>1,841</b>  | <b>(6,365.2)</b>                                 |   |
| Yearly sales            | <b>3,498.4</b>                       |                                       |   |   |   |                                 |   |  |   |

Source : Ceylon Petroleum Corporation

In 2010 CPC experienced a change in the structural composition of imports. On average of the total imports of crude oil consisted 55 percent and refined products 45 percent. However in 2010 there was a reversal of this composition with refined products consisting 55 percent and crude oil consisting 45 percent of total imports. This is mainly due to the increase in demand for fuel oil from the power sector and the shutdown of the refinery for a period of 2 months for regular repairs and maintenance. CPC has diversified its business by initiating exports of Naphtha and Aviation fuel during 2010.

CPC one of the largest SOEs in the country, is also the single largest importer at US\$ 3019 million constituting almost 6 percent of the GDP and 22 percent of the total imports in 2010. With the economy growing rapidly, it is expected that there will be simultaneous growth in the demand for energy in the country. However if CPC is to meet this challenge successfully it needs to undertake a due diligence exercise on its operations and implement a strategy to facilitate an extensive capital investment plan within the next 5 years that will increase its capacity and operational efficiencies.

**Table 4.8**  
**Key Performance Indicators of Ceylon Petroleum Corporation**

| Category                          | Unit       | 2006         | 2007     | 2008    | 2009     | 2007     |
|-----------------------------------|------------|--------------|----------|---------|----------|----------|
| <b>Quantity Imported</b>          |            |              |          |         |          |          |
| Crude Oil                         | Mt'000     | 2,146        | 1,939    | 1,854   | 1,931    | 1,939    |
| Refined Products                  | Mt'000     | 1,926        | 1,603    | 1,588   | 1,525    | 1,603    |
| <b>Value of Imports (C&amp;F)</b> |            |              |          |         |          |          |
| Crude Oil                         | Rs. Mn     | 107,160      | 114,320  | 144,505 | 102,646  | 114,320  |
|                                   | US\$ Mn    | 1,028        | 1,024    | 1,331   | 889      | 1,024    |
| Refined Products                  | Rs. Mn     | 114,822      | 110,873  | 157,338 | 90,949   | 110,873  |
|                                   | US\$ Mn    | 1,078        | 996      | 1,450   | 787      | 996      |
| Average Price of Crude Oil (C&F)  | Rs./Bbl.   | 6,748        | 8,037    | 6,748   | 8,037    | 10,602   |
|                                   | US\$ /Bbl. | 65           | 72       | 98      | 63       | 72       |
| Quantity of Exports               | Mt'000     | 162          | 148      | 95      | 148      | 120      |
| Value of Exports                  | US\$ Mn    | 85           | 104      | 75      | 104      | 56       |
| <b>Total Revenue</b>              |            |              |          |         |          |          |
| Domestic sales                    | Rs. Mn     | 199,869      | 45,080   | 345,096 | 51,095   | 45,080   |
| Exports                           | Rs. Mn     | 8,714        | 8,265    | 12,906  | 6,413    | 8,265    |
| Direct production Cost            | Rs. Mn     | 187,231      | 154,036  | 108,237 | 154,036  | 103,266  |
| Overheads                         | Rs. Mn     | 10,360       | 5,558    | 3,641   | 5,558    | 4,520    |
| Operational Profit/(Loss)         | Rs. Mn     | (466)        | (14,735) | 3,984   | (14,735) | (12,343) |
| <b>Local Sales</b>                |            |              |          |         |          |          |
| Petrol (90 Octane)                | Mt '000    | 454          | 361      | 363     | 399      | 361      |
| Petrol (95 Octane)                | Mt '000    | 24           | 21       | 20      | 16       | 21       |
| Auto Diesel                       | Mt '000    | 1,633        | 1,450    | 1,371   | 1,428    | 1,450    |
| Super Diesel                      | Mt '000    | 9            | 5        | 7       | 8        | 5        |
| Kerosene                          | Mt '000    | 206          | 168      | 151     | 151      | 168      |
| Furnace Oil                       | Mt '000    | 912          | 985      | 994     | 973      | 985      |
| Aviation Fuel                     | Mt '000    | 255          | 302      | 286     | 229      | 302      |
| Naptha                            | Mt '000    | 60           | 97       | 142     | 110      | 97       |
| Bitumen                           | Mt '000    |              | 67       | 81      | 88       | 67       |
| Sbp                               | Mt '000    |              | 4        | 2       | 1        | 4        |
| L.P.. Gas                         | Mt '000    | 17           | 17       | 15      | 23       | 17       |
| <b>Local price (End Period)</b>   |            |              |          |         |          |          |
| Petrol (90 Octane)                | Rs/L       | 92-95        | 117      | 120     | 15       | 117      |
| Petrol (95 Octane)                | Rs/L       | 95           | 120      | 133     | 33       | 120      |
| Auto Diesel                       | Rs/L       | 60           | 75       | 70      | 3        | 75       |
| Super Diesel                      | Rs/L       | 65.30        | 80       | 85      | 8        | 80       |
| Kerosene                          | Rs/L       | 48           | 68       | 50      | 1        | 68       |
| Furnace Oil - 1500 Sec            | Rs/L       | 41-<br>46.30 | 52       | 32      | 32       | 52       |
| Refinery Capacity                 | Mt'000     | 2,300        | 5,847    | 5,419   | 5,847    | 5,574    |
| Storage Capacity                  | Mt'000     | 439          | 447      | 447     | 447      | 448      |
| Refinery Output                   | Mt'000     | 2,048        | 1,774    | 1,799   | 1,774    | 1,892    |
| Value of Production               | Rs.Mn      | 110,639      | 159,545  | 111,807 | 159,545  | 107,740  |

Source: Ceylon Petroleum Corporation

### Sri Lankan Airlines Ltd (SLA)

In 2010 SLA showed signs of recovery from financial downturn despite the Airline carrying only 2.6 million passengers in 2009/10, a reduction of 6 percent in comparison to the previous year. Passenger revenue of the SLA also decreased by 15 percent during the year, due to the reduction in capacity. However SLA was able to earn a gross profit of Rs.320 million in 2010 as against the gross loss of Rs.3,308 million incurred in 2009 due to the rationalization of operating expenditure.

SLA presently flies to 30 destinations in 20 countries across Asia, the Middle East and Europe. SLA continued to modernize and expand its fleet of aircrafts with the introduction of one Airbus A320-200 narrow-body aircraft in July 2009 and one wide-body A320-200 Air craft in the second quarter of 2010. SLA completed the modernization of its narrow-body fleet with the delivery of the narrow-body aircraft during the year. At the

end of the year Sri Lankan had a fleet of 12 Aircrafts. The corporate strategy of the airline is to expand the operational fleet with 30 modern aircrafts by 2020 to expand its network to 50 destinations globally.

As per the 5 year business Plan of SLA(2010/11 ó 2014/15) strategic business units, Sri Lankan Engineering & Maintenance and Sri Lankan Airport Services will be converted to fully owned subsidiaries of the SLA enabling the two businesses to raise capital and to realize their full potential, while being service partners to the airline. A MOU also will be signed between AASL and SLA in the first quarter of 2011 granting sole and exclusive rights for Ground Handling and Catering at the Bandaranayake International Airport for period of 5 years to SLA.

During the second quarter of the year Government acquired 43.63 percent of Sri Lankan shares from Emirates increasing the government stake at SLA up to 94.6 percent.

**Table 4.9**  
**Key Performance Indicators of Sri Lankan Airlines Ltd**

|                                  | Units | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 |
|----------------------------------|-------|---------|---------|---------|---------|---------|
| Revenue                          | Rs.Mn | 61,160  | 67,964  | 79,128  | 73,298  | 62,364  |
| Total Expenditure                | „     | 61,955  | 67,280  | 74,631  | 76,606  | 62,044  |
| Gross profit                     | „     | 1,173   | 7,652   | 7,009   | (3,308) | 320     |
| Net profit before Tax            | „     | 795     | 684     | 4,497   | (9,269) | (2,674) |
| Cost of Employment               | „     | 9,370   | 7,867   | 11,425  | 10,135  | 9,168   |
| Capital Expenditure              | „     | 5,893   | 6,305   | 11,025  | 7,913   | 3,977   |
| Non Current Assets               | „     | 16,137  | 16,509  | 15,730  | 19,333  | 28,532  |
| Current Assets                   | „     | 21,867  | 21,347  | 32,210  | 15,008  | 15,911  |
| Non Current Liabilities          | „     | 1,407   | 1,801   | 3,269   | 3,099   | 12,444  |
| Current Liabilities              | „     | 25,485  | 25,006  | 29,135  | 25,012  | 28,400  |
| Equity as at the end of the year | „     | 11,111  | 11,108  | 15,536  | 6,230   | 3,598   |
| No of Employees                  | No    | 5,395   | 5,272   | 5,113   | 4,837   | 4,614   |
| Employment Cost per employee     | Rs.Mn | 1.74    | 1.49    | 2.23    | 2.10    | 1.97    |

Source: Sri Lankan Airlines Ltd



### Mihin Lanka (Pvt) Ltd (MLL)

MLL filled the vacuum in the Sri Lankan air travel industry by introducing a low cost carrier that offers alternate, safe and affordable commercial air transportation to mass travellers of the region.

MLL expanded its operations to Kuwait, Bodhgaya and Varanasi from an initial route network of Dubai and Trichy, and new destinations of Dhaka, Male and Jakarta have been added.

The government has encouraged MLL to restructure its balance sheet facilitating future

expansion and coordinate with SLA to improve profitability of both airlines though SLA concentrating more on global networks and Mihin working on the regional routes supplementing low cost travellers.

By 2010 MLL reduced its number of employees from 236 in 2008 to 153 by 2010, reducing its operational costs and improving productivity. The conversion from wet lease to dry lease also enabled MLL to further cut down its operational costs.

**Table 4.10**  
**Key Performance Indicators of Mihin Lanka (Pvt) Ltd**

|                                  | Units | 2005                 | 2006 | 2007  | 2008    | 2009    | 2010    |
|----------------------------------|-------|----------------------|------|-------|---------|---------|---------|
| Revenue                          | Rs.Mn | Was not in operation |      | -     | 2,570   | 373     | 1,700   |
| Total Expenditure                | „     |                      |      | 195   | 4,970   | 1,080   | 2,488   |
| Gross profit/Loss                | „     |                      |      | (195) | (2,400) | (707)   | (728)   |
| Net profit/Loss before Tax       | „     |                      |      | (195) | (3,161) | (1,300) | (1,221) |
| Cost of Employment               | „     |                      |      | 15    | 135     | 118     | 107     |
| Capital Expenditure              | „     |                      |      | 24    | 29      | 2       | 5       |
| Non Current Assets               | „     |                      |      | 23    | 39      | 55      | 38      |
| Current Assets                   | „     |                      |      | 381   | 264     | 386     | 482     |
| Non Current Liabilities          | „     |                      |      | 550   | 304     | 2,759   | 3,541   |
| Current Liabilities              | „     |                      |      | 599   | 2,805   | 2,089   | (2,606) |
| Equity as at the end of the year | „     |                      |      | (195) | (2,608) | (4,406) | (5,628) |
| No of Employees                  | No    |                      |      | 72    | 238     | 154     | 151     |
| Employment Cost per employee     | Rs.Mn |                      |      | 0.21  | 0.54    | 0.79    | 0.71    |

Source: Mihin Lanka (Pvt) Ltd

### Sri Lanka Transport Board (SLTB)

SLTB provides public transport covering the road network throughout the Island. Its current market share is around 20 percent.

Following the strategy of increasing short distance shuttle services between bus and railway stations, SLTB experienced a growth of 1.8 percent in its total operated kilometers in 2010 compared to the previous year, while

its way bill increased in the absence of a tariff revision by 9 percent. However number of the buses operated by SLTB in 2010 decreased from 4,482 to 4,441 leading to a reduction in the operated passenger per km per day by 15,537 during the year. With total expenditure at Rs.22,390 million, recording a 7 percent increase and total revenue at Rs.21,560 million recording a 4.6 percent increase, SLTB operations resulted in a loss of Rs.830

million in 2010 as against the loss of Rs.297 million incurred in 2009. It is noted that SLTB incurred losses despite the government continuing to support the SLTB through the national budget by providing Rs.3,620 million for operating in uneconomical routes and provision of Season tickets and Rs.849 million for the purchase of capital goods

It is however noted that while SLTB's financial performance is a matter for concern, SLTB has been a key partner of the government's reconstruction and

rehabilitation efforts of the Northern and Eastern areas of the country.

Despite being key to the country's transportation needs SLTB's strategies does not address government's expectations adequately. It is noted that SLTB does not have a clear strategy to arrest the management weaknesses that has resulted in low productive use of employees and idling assets.

**Table 4.11**  
**Key Performance Indicators of Sri Lanka Transport Board (SLTB)**

|  | Unit   | 2005    | 2006    | 2007    | 2008    | 2009    | 2010*   |
|--|--------|---------|---------|---------|---------|---------|---------|
| Operated Passenger                         | Km/Day | 663,340 | 713,753 | 835,313 | 857,033 | 951,476 | 935,939 |
| Revenue Per Km                             | Rs/Km  | 40.37   | 46.56   | 45.08   | 41.47   | 41.36   | 42.91   |
| Total Revenue                              | Rs/Mn  | 10,007, | 12,665  | 15,963  | 19,651  | 20,608  | 21,560  |
| Waybill                                    | ö      | 6,417   | 7,917   | 10,695  | 12,973  | 13,442  | 14,658  |
| Season tickets                             | ö      | 285     | 199     | 359     | 528     | 536     | 542     |
| Special hires                              | ö      | 13      | 150     | 233     | 326     | 559     | 403     |
| School Season tickets subsidy              | ö      | 226     | 227     | 500     | 600     | 1,383   | 1,370   |
| Socially obligatory bus service subsidy    | ö      | 175     | 197     | 281     | 358     | 255     | 217     |
| Other Income                               | ö      | 251     | 422     | 345     | 503     | 904     | 2,120   |
| Salary Subsidy/ Uneconomical Route Subsidy | ö      | 2,512   | 3,547   | 3,545   | 4,362   | 3,527   | 2,250   |
| Total Expenditure                          | Rs.Mn  | 11,147  | 13,653  | 16,287  | 20,132  | 20,906  | 22,390  |
| Fuel cost                                  | ö      | 3,632   | 4,696   | 6,228   | 8,505   | 7,134   | 7,177   |
| Cost of Tyres & Tubes                      | ö      | 1,362   | 1,576   | 1,886   | 1,126   | 1,333   | 1,336   |
| Salaries & wages                           | ö      | -       | -       | 5,954   | 6,803   | 8,807   | 8,434   |
| Total Government Contribution              | Rs.Mn  | 5,328   | 8,960   | 6,157   | 6,726   | 4,188   | 3099    |
| Recurrent                                  | ö      | 3,891   | 4,976   | 3,545   | 4,842   | 3,527   | 2,250   |
| Capital                                    | ö      | 1,437   | 3,984   | 2,612   | 1,884   | 661     | 849     |
| Net Loss                                   | ö      | (1,140) | (984)   | (325)   | (481)   | (297)   | (830)   |
| Total number of employees                  | No     | 41,944  | 38,952  | 37,149  | 36,773  | 35,365  | 34,524  |
| Employment cost per employee               | Rs.    | 92,312  | 121,820 | 160,273 | 185,000 | 249,031 | 244,293 |
| Revenue per employee                       | Rs.    | 238,580 | 325,144 | 429,702 | 534,387 | 582,723 | 624,493 |

Source: Sri Lanka Transport Board

\*Un-audited

**Sri Lanka Telecom (SLT)**

SLT a listed company of which the government owned 49 percent and other agencies owning 51 percent the year 2010 proved to be a landmark year, as it became the 1<sup>st</sup> company in the CSE to surpass the Rs.50 billion annual turnover, recording a year on year growth in revenue of 4.5 percent.

SLT group reported a growth of 327 percent of its profit before tax at Rs. 5.9 billion while its profit after tax grew by 407 percent to Rs.

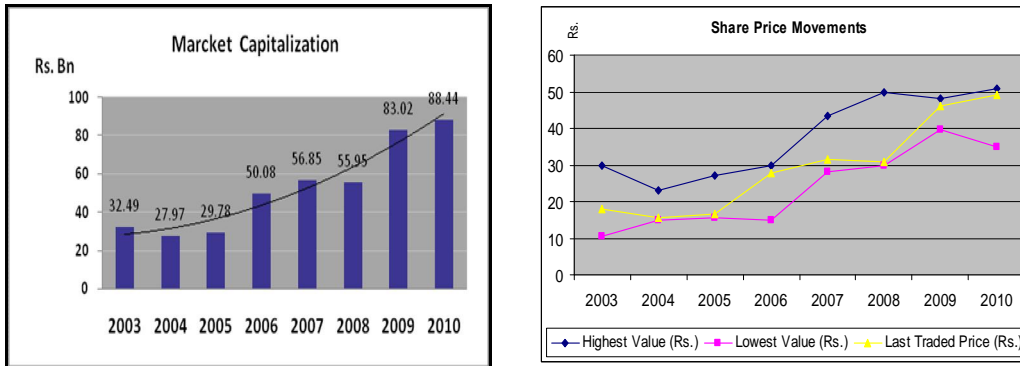
3.94 bn. Mobitel (Pvt) Ltd, a fully owned subsidiary of SLT performed well, with its revenue recording a year on year growth of 985 percent. Other subsidiaries of the group including Sri Lanka Telecom (Services) Limited and SLT Publications (Pvt) Limited too has contributed to the noteworthy performance of SLT group.

**Table 4.12**  
**Key Performance indicators of Sri Lanka Telecom Plc (SLT)**

| 2010                      | Rs.Mn      | Ratios                  |        |
|---------------------------|------------|-------------------------|--------|
| Total Income              | 50,250     | ROE %                   | 8.20   |
| Operating Cost            | 33,527     | ROA %                   | 5.91   |
| Net Profit before Tax     | 5,961      | Operating Margin %      | 9.86   |
| Net Profit after Tax      | 3,943      | Dividends cover (Times) | 3.64   |
| Shareholders funds        | 49,849     | Interest cover (Times)  | 6.89   |
| Total Assets              | 87,030     | Asst turnover (Times)   | 0.58   |
| <b>Per Share</b>          | <b>Rs.</b> | Gearing                 | 1:0.14 |
| Earnings per Share (EPS)  | 2.18       | Current                 | 1:0.88 |
| Dividends per Share (DPS) | 0.60       | Quick                   | 1:0.83 |
| Market Value              | 49.00      |                         |        |

Source: Sri Lanka Telecom Plc

**Chart 4.4**



SLT's above average performance is reflected in the growth of its market capitalization, making SLT a much sought after investment. SLT declared dividends of Rs. 0.60 per share which is year on year growth of 140 percent.

SLT, standing by the governments vision to make every citizen ICT empowered has begun

to invest in spreading IT into remote villages and while introducing high quality networking solutions. It is envisaged that these investments will enable SLT to not only consolidate its position as the premier telecom services provider to the nation but also facilitate Sri Lanka's bid to be a regional ICT hub.

## Chapter 5 Trading Sector

### State Timber Corporation (STC)

The State Timber Corporation (STC) is a well equipped state organization which operates saw mills, impregnation plants, seasoning plants, furniture factories and timber sales depots through out the country. All the timber from forest plantations owned by the Forest Department are harvested and marketed by the STC.

The main operations of the corporation are extracting and purchasing of timber and converting them in to various products such as Logs, Sawn Timbers, Railway Sleepers, Electrical Transmission Poles, Round Poles, Fence Posts, Furniture and Scrap Sales as firewood. STC is the single supplier of railway sleepers for Railway Department and transmission poles for and the Ceylon Electricity Board, respectively. STC provides furniture requirements for the most of Government Department, schools etc.

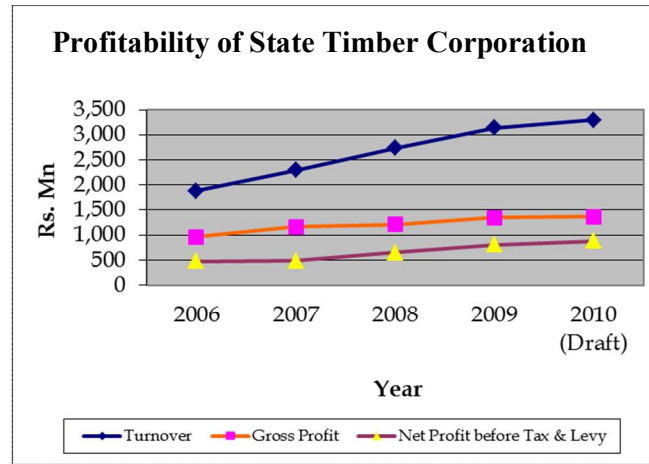
**Table 5.1**  
**Financial Performance of State Timber Corporation**

| Description                  | Units | 2006  | 2007  | 2008  | 2009  | 2010<br>(Draft) |
|------------------------------|-------|-------|-------|-------|-------|-----------------|
| Turnover                     | Rs.Mn | 1,878 | 2,298 | 2,737 | 3,134 | 3,298           |
| Other Income                 | „     | 227   | 233   | 250   | 311   | 317             |
| Cost of Sales                | „     | 912   | 1,247 | 1,526 | 1,782 | 1,933           |
| Gross Profit                 | „     | 966   | 1,050 | 1,211 | 1,352 | 1,365           |
| Expenditure                  | „     | 713   | 795   | 814   | 852   | 804             |
| Net Profit before Tax & Levy | „     | 480   | 489   | 647   | 811   | 877             |
| Taxes and Levy               | „     | 342   | 339   | 365   | 452   | 656             |
| Net Profit after Tax & levy  | „     | 138   | 150   | 282   | 359   | 220             |
| <b>Non-Current assets</b>    | „     | 1,580 | 1,339 | 1,524 | 1,793 | 1,767           |
| Current Assets               | „     | 963   | 1,545 | 1,407 | 2,080 | 2,375           |
| Non-Current Liabilities      | „     | 342   | 371   | 362   | 365   | 364             |
| Current Liabilities          | „     | 528   | 691   | 455   | 1,029 | 1,068           |
| <b>Capital and Reserves</b>  | „     | 1,673 | 1,823 | 2,113 | 2,479 | 2,709           |

Source: State Timber Corporation Annual Accounts

Though the turnover has increased slightly by 5 percent in 2010 when compared to the 2009, gross profit margin has marginally decreased from 43.14 percent to 41.39 percent in 2009 to 2010. The utilization of assets compared to the turnover increased from 80.92 percent in 2009 to 79.60 percent in 2010. This indicates that

the utilization of assets in operational activities has been marginally improved. Liquidity ratios reported an increase in 2010 compared to the previous year and STC could maintain the liquidity ratios within the accepted norms.

**Chart 5.1**


**Table 5.2**  
**Ratio Analysis of State Timber Corporation**

|                             | 2007  | 2008  | 2009  | 2010 (Draft) |
|-----------------------------|-------|-------|-------|--------------|
| <b>Profitability</b>        |       |       |       |              |
| Gross Profit Ratio ( % )    | 45.74 | 44.25 | 43.14 | 41.39        |
| Net Profit Ratio ( % )      | 19.32 | 21.66 | 23.54 | 24.27        |
| Return on Equity ( % )      | 26.82 | 30.62 | 32.71 | 32.40        |
| Sales on Assets Ratio ( % ) | 79.68 | 93.38 | 80.92 | 79.60        |
| <b>Liquidity</b>            |       |       |       |              |
| Current Ratio ( % )         | 2.24  | 3.09  | 2.02  | 2.22         |
| Acid Test Ratio ( % )       | 1.47  | 1.85  | 1.35  | 1.74         |
| Cash Cycle (days)           | 85    | 129   | 130   | 73           |
| <b>Gearing</b>              |       |       |       |              |
| Debt Equity Ratio ( % )     | 58.26 | 38.67 | 56.23 | 52.88        |

Source: State Timber Corporation Annual Accounts

**Table 5.3**  
**Contribution to the Consolidated Fund by State Timber Corporation**

|                            | Units | 2006       | 2007         | 2008         | 2009         | 2010 (Draft) |
|----------------------------|-------|------------|--------------|--------------|--------------|--------------|
| Stumpage                   | Rs.Mn | 371        | 544          | 607          | 750          | 719          |
| BTT/DL/VAT                 | „     | 277        | 339          | 405          | 448          | 520          |
| Income Tax                 | „     | 267        | 189          | 290          | 402          | 243          |
| Special Levy               | „     | 75         | 150          | 75           | 50           | 414          |
| <b>Total</b>               | „     | <b>990</b> | <b>1,222</b> | <b>1,377</b> | <b>1,650</b> | <b>1,896</b> |
| Percentage to the Turnover |       | 53         | 53           | 50           | 53           | 57           |

Source: State Timber Corporation Annual Accounts

In the year 2010, the corporation contributed Rs.1, 896 Mn to the Government Revenue

indicating an increase of 14 percent over the previous year.

## LANKA SATHOSA LIMITED (LSL)

Lanka Sathosa Limited, a government owned supermarket network is engaged in provision of essential food items to the customers at an affordable price. The government uses LSL as a medium of distributing essential food items around the country to benefit both the consumers and producers.

LSL opened the first retail outlet at Negombo in 2005 and the company has expanded its operations by establishing 150 sales outlets island wide by the year 2009 and further 60 outlets were added to the outlet network in 2010 increasing the total outlets up to 210, covering the some parts of the northern and the eastern provinces as well.

**Table 5.4**  
**Key Performance Indicators of Lanka Sathosa Limited**

| Description                   | Units  | 2005          | 2006   | 2007  | 2008  | 2009  | 2010   |
|-------------------------------|--------|---------------|--------|-------|-------|-------|--------|
| Turnover                      | Rs. Mn | Not in        | 586    | 2,213 | 3,649 | 5,808 | 13,014 |
| Cost of Sales                 | Rs. Mn | operati<br>on | 484    | 1,949 | 3,251 | 5,276 | 11,932 |
| Gross Profit                  | Rs. Mn |               | 102    | 264   | 398   | 532   | 1,082  |
| Other Income                  | Rs. Mn |               | 1      | 5     | 16    | 82    | 46     |
| Administration Expenses       | Rs. Mn |               | 117    | 85    | 140   | 71    | 116    |
| Distribution Cost             | Rs. Mn |               | 2      | 174   | 249   | 510   | 943    |
| Finance Cost                  | Rs. Mn |               | 1      | 4     | 7     | 11    | 17     |
| Profit/(Loss) Before Tax      | Rs. Mn |               | (17)   | 6     | 18    | 22    | 52     |
| Non-Current Assets            | Rs. Mn |               | 6      | 32    | 67    | 135   | 294    |
| Current Assets                | Rs. Mn |               | 178    | 397   | 621   | 1,251 | 1,567  |
| Capital and Reserves          | Rs. Mn |               | 127    | 190   | 326   | 492   | 765    |
| Non-Current Liabilities       | Rs. Mn |               | 2      | 30    | 32    | 32    | 32     |
| Current Liabilities           | Rs. Mn |               | 55     | 209   | 330   | 862   | 1,064  |
| Gross Profit Ratio            | %      |               | 17.4   | 11.9  | 10.9  | 9.2   | 8.3    |
| Net Profit Ratio (5)          | %      |               | (2.9)  | 0.3   | 0.5   | 0.4   | 0.4    |
| Return on Equity              | %      |               | (13.4) | 3.2   | 5.5   | 4.5   | 6.8    |
| Operating Cash Cycle          | Days   |               |        | 20    | 28    | 25    | 15     |
| Current Ratio                 |        |               | 174.0  | 9.8   | 3.7   | 3.8   | 3.3    |
| Quick Ratio                   |        |               | 56.0   | 2.4   | 0.6   | 1.2   | 0.6    |
| Gearing Ratio                 | %      |               | 1.6    | 13.6  | 8.9   | 6.1   | 4.0    |
| Debt Equity Ratio             | %      |               | 1.6    | 15.8  | 9.8   | 6.5   | 4.2    |
| Number of Sales Outlets       | No.    |               | 50     | 68    | 100   | 150   | 210    |
| Average Turnover per Outlet   | Rs. Mn |               | 11.7   | 32.5  | 36.5  | 38.7  | 61.9   |
| Average Profit per Outlet     | Rs. Mn |               | (0.35) | 0.09  | 0.18  | 0.14  | 0.25   |
| Number of Employees           | No.    |               | 600    | 816   | 1,200 | 1,240 | 2,370  |
| Average Turnover per Employee | Rs. Mn |               | 1.0    | 2.7   | 3.0   | 4.7   | 5.5    |
| Average Employee per Outlet   | No.    |               | 12     | 12    | 12    | 8     | 11     |

Source: Lanka Sathosa Limited

The turnover been increased by 124 percent from Rs.5,808 Mn in 2009 to Rs.13,014 Mn in 2010. Gross profit and Profit before tax have increased significantly by 103 percent and 136 percent respectively in 2010 over 2009. However, gross profit margins have been continuously declining since 2006 from 17.4 percent to 8.3 percent due to the company's marketing policy that focuses the expansion of market share. During the year 2010, administration and distribution expenses have increased by Rs.45Mn and Rs.433Mn respectively. At the same, finance cost has also increased continuously from 2006 to 2010. This further reflects that the time taken for converting purchases in to cash has been reduced to 15 days in 2010 from 25 days in 2009. Return on Equity (ROE) has gone up from 4.5 percent in 2009 to 6.8 percent in 2010.

Average turnover per outlet has increased significantly by 60 percent from Rs.38.7 Mn in 2009 to Rs.61.9 Mn in 2010 . Accordingly, average profit per outlet has also increased by 69 percent in 2010 when compared to 2009. The provision of enhanced range of essential goods at a reasonable price is the main reason for achieving this remarkable result.

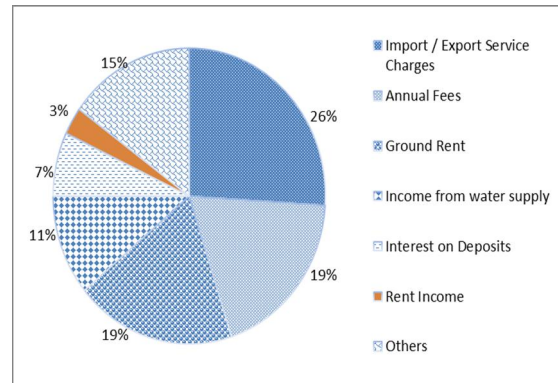
At the end of year 2010, Lanka Sathosa has employed 2,370 staff in various types of categories. It indicates that the average number of employees per outlet is 11 and that is far below the industry level. Hence, it has contributed to reduce the cost of employment and to increase the profitability. The average sales per employee are Rs.5.49 Mn in 2010 and it shows 17 percent increase than previous year. But the customer care training programs need to be conducted for employees and that will help to enhance customer satisfaction by increasing employee capabilities.

**Board of Investment of Sri Lanka**

Until 2010, the BOI functioned as the initial point of contact for investors who intended to invest in Sri Lanka. However, in 2010, the BOI scope was expanded further to be the premier investment promotion agency that will profile bigger opportunities for investors that exist in partnership with line agencies, by obtaining necessary clearance for investment requirements thus facilitate speedier investment approvals and implementation process.

The main income sources of BOI in 2010 were Import / Export Service Charges, Ground Rent, Annual Fees and income from the supply of water for enterprises which operate within BOI Zones.

**Chart 5.2**  
**Composition of Total Income in 2010**



**Table 5.5**  
**Financial Position and Performance of the Board of Investment of Sri Lanka**      Rs '000

|                                       | 2006             | 2007             | 2008             | 2009              | 2010              |
|---------------------------------------|------------------|------------------|------------------|-------------------|-------------------|
| Non Current Assets                    | 5,755,928        | 7,947,462        | 8,016,004        | 23,611,671        | 23,836,000        |
| Current Assets                        | 1,809,652        | 1,968,318        | 1,577,886        | 1,986,346         | 2,459,512         |
| <b>Total Assets</b>                   | <b>7,565,580</b> | <b>9,915,780</b> | <b>9,593,890</b> | <b>25,598,017</b> | <b>26,295,512</b> |
| Non Current Liabilities               | 1,213,254        | 1,213,254        | 1,279,444        | 1,459,436         | 1,760,087         |
| Current Liabilities                   | 429,873          | 653,554          | 411,424          | 669,510           | 885,617           |
| <b>Total Liabilities</b>              | <b>1,643,127</b> | <b>1,866,808</b> | <b>1,690,868</b> | <b>2,128,946</b>  | <b>2,645,704</b>  |
| Net Working Capital                   | 1,379,779        | 1,314,764        | 1,166,462        | 1,316,836         | 1,573,895         |
| Operating Revenue                     | 1,656,943        | 1,897,802        | 1,921,852        | 1,980,558         | 2,134,458         |
| Operating Expenditure                 | 1,498,125        | 1,735,056        | 1,830,253        | 1,921,761         | 1,951,782         |
| <b>Operational Surplus before Tax</b> | <b>158,818</b>   | <b>162,746</b>   | <b>91,599</b>    | <b>58,797</b>     | <b>182,676</b>    |
| Tax on Interest Income                | -                | -                | -                | 43,329            | 40,048            |
| <b>Operational Surplus after Tax</b>  | <b>158,818</b>   | <b>162,746</b>   | <b>91,599</b>    | <b>15,468</b>     | <b>142,628</b>    |
| <b>Total Non Oper. Rev. (Expen.)</b>  | <b>668</b>       | <b>243</b>       | <b>901</b>       | <b>1,137</b>      | <b>39</b>         |
| <b>Net Surplus</b>                    | <b>159,486</b>   | <b>162,989</b>   | <b>92,500</b>    | <b>16,605</b>     | <b>142,667</b>    |
| <b>Current Ratio</b>                  | <b>4.21</b>      | <b>3.01</b>      | <b>3.84</b>      | <b>2.97</b>       | <b>2.78</b>       |
| <b>Quick Ratio</b>                    | <b>4.19</b>      | <b>2.99</b>      | <b>3.80</b>      | <b>2.95</b>       | <b>2.77</b>       |
| <b>Net Working Capital Ratio</b>      | <b>0.18</b>      | <b>0.13</b>      | <b>0.12</b>      | <b>0.05</b>       | <b>0.06</b>       |
| <b>Return on Assets (ROA)</b>         | <b>0.021</b>     | <b>0.016</b>     | <b>0.010</b>     | <b>0.001</b>      | <b>0.005</b>      |

Sources: BOI

BOI's financial position has improved in 2010, with an increased surplus of Rs. 143 Mn, a growth of 759 percent when compared with the year 2009. This has been mainly triggered by an increase in operating revenue due to re-opening of closed factories (250 new agreements were signed in 2010) and increased number of transactions. However, several industrial zones such as Biyagama, Koggala, Polgahawela, Wathupitiwala, Mirigama and Mirijjawila Industrial Park have continued to incur losses in 2010 as well, although with slight recoveries as against the previous year.

However, BOI is confronted with several challenges to be accomplished through its operations in order to come in line with national targets as follows.

- Formulation of proper and practicable corporate plan identifying BOI's vertically and horizontally expanded scope
- Preparation of methodology to identify the existing investment opportunity areas in IT,

Urban Township Development, Leisure and Tourism, Import Replacement Industries, High Value added Industries and Agro Farms

- Preparation of program to attract suitable investors and facilitating to speed up investment approval and implementation process
- Transformation of 12 BOI Zones into model zones improving those to the standard with regard to environment, infrastructure, employee relations and technical improvement
- Establishment of new IT and knowledge based dedicated zones with private participation
- Revival of existing zones which are operated at sub-optimal level into productive zones by attracting suitable investors



### Sri Lanka Tourism Promotion Bureau (SLTPB)

SLTPB commenced operations on 01<sup>st</sup> October 2007 with objectives of marketing and promoting Sri Lanka as a tourism and travel destination of quality in accordance with the Tourist Development Plan.

By the end 2010, SLTPB was able to recover the loss of the previous year by earning a surplus of Rs. 14.8 million, mainly due to the contribution of Tourism Development Fund (TDF), which was increased by 37 percent in 2010 as against the previous year. The marketing and promotional expenses have increased by 41 percent from Rs 706 Mn in 2009 to Rs 996 Mn in 2010, which consists of Rs 268.72 Mn for foreign tourism promotions representing 27 percent of the total promotional cost and Rs 727.94 Mn for local

tourism promotion representing 73 percent of the total promotional cost in the year 2010.

**Table 5.6**  
**Financial Oversight – Operational Results**

|                                 | 2008<br>Rs. '000 | 2009<br>Rs. '000 | 2010<br>Rs. '000 |
|---------------------------------|------------------|------------------|------------------|
| <b>Income</b>                   |                  |                  |                  |
| Embarkation Levy                | 543,251          | 517,153          | 683,452          |
| Tourism Development Levy        | 195,302          | 242,248          | 359,275          |
| Other income                    | 62,418           | 57,935           | 78,560           |
| <b>Expenses</b>                 |                  |                  |                  |
| Administration & establishment  | 46,522           | 80,053           | 72,786           |
| Marketing and promotional       | 651,505          | 706,400          | 996,662          |
| Administration - Foreign        | 82,873           | 35,635           | 32,911           |
| <b>Operational Gain/ (Loss)</b> | <b>20,071</b>    | <b>(4,752)</b>   | <b>14,828</b>    |

Sources: SLTPB

**Table 5.7**  
**Tourist Arrivals by Country of Nationality - 2004 to 2010**

| Country         | 2005           | 2006           | 2007           | 2008           | 2009           | 2010           | Growth %     |
|-----------------|----------------|----------------|----------------|----------------|----------------|----------------|--------------|
| China           | 9,818          | 16,364         | 10,364         | 10,015         | 8,574          | 10,410         | 21.41        |
| France          | 26,641         | 22,703         | 9,540          | 10,703         | 16,205         | 31,119         | 92.03        |
| Germany         | 46,320         | 47,296         | 35,016         | 30,154         | 29,664         | 45,981         | 55.01        |
| India           | 113,023        | 128,520        | 105,906        | 88,628         | 83,650         | 125,112        | 49.57        |
| Japan           | 17,163         | 16,217         | 14,274         | 10,578         | 10,931         | 14,998         | 37.21        |
| Middle East     | 10,230         | 10,191         | 13,587         | 16,701         | 23,821         | 37,501         | 57.43        |
| Russia          | 3,719          | 8,000          | 13,530         | 15,831         | 11,390         | 13,312         | 16.87        |
| UK              | 92,929         | 88,531         | 94,089         | 80,214         | 81,682         | 105,938        | 29.70        |
| Other Countries | 229,459        | 221,781        | 197,702        | 175,651        | 181,973        | 270,105        | 48.43        |
| <b>Total</b>    | <b>549,308</b> | <b>559,603</b> | <b>494,008</b> | <b>438,475</b> | <b>447,890</b> | <b>656,486</b> | <b>46.57</b> |

Source: Sri Lanka Tourism Development Authority

Tourist arrivals to Sri Lanka during the year 2010 have increased by 47 percent when comparing to the previous year,

benefiting for the peaceful environment after the end of the conflict.

**Table 5.8**  
**Tourism Promotional Expenditure (Foreign) 2010**

| Country         | Promotional Expenditure (Rs) | Tourist Arrivals |               | Cost per Person Rs. |
|-----------------|------------------------------|------------------|---------------|---------------------|
|                 |                              | No.              | %             |                     |
| China           | 18,603,387                   | 10,410           | 1.59          | 1,787.07            |
| France          | 32,895,027                   | 31,119           | 4.75          | 1,057.07            |
| Germany         | 40,216,020                   | 45,981           | 7.03          | 874.62              |
| India           | 5,883,926                    | 125,112          | 19.12         | 47.03               |
| Japan           | 7,865,869                    | 14,998           | 2.29          | 524.46              |
| Middle East     | 21,340,882                   | 37,501           | 5.73          | 569.08              |
| Russia          | 19,972,499                   | 13,312           | 2.03          | 1,500.34            |
| U.K.            | 83,202,195                   | 105,938          | 16.19         | 785.39              |
| Other Countries | 38,740,968                   | 270,105          | 41.27         | 143.43              |
| <b>Total</b>    | <b>268,720,773</b>           | <b>654,476</b>   | <b>100.00</b> | <b>7,288.48</b>     |

|  | (Rs)               | %            |
|--|--------------------|--------------|
| <b>Total Promotional Expenditure - Foreign</b> | <b>268,720,773</b> | <b>26.96</b> |
| <b>Total Promotional Expenditure - Local</b>   | <b>727,941,666</b> | <b>73.04</b> |
| <b>Total Promotional Expenditure</b>           | <b>996,662,439</b> | <b>100</b>   |

*Source: Sri Lanka Tourism Development Authority, Annual Statistical Report 2010*

It is noted that despite incurring 31 percent of the total promotional cost in the UK market, only 16 percent tourist arrivals were recorded from UK, while 41 percent of tourist arrivals were recorded from other countries where only 14 percent of the total promotional cost was incurred.

As such the effectiveness of the existing marketing strategy of targeting selected tourist markets and promotion mix, especially Public Relation (PR), is a cause for concern. Therefore a result oriented marketing strategy targeting a wide range of potential tourist markets and a marketing program promoting

Sri Lanka as a safe country for tourism needs to be initiated.

The Bureau is confronted with the challenge of promoting tourism to achieve government development targets in tourism sector. Thus a comprehensive approach which covers all related activities and all stakeholders perspectives need to be taken. For this purpose, all government institutions functioning in the tourism sector need to be brought under one umbrella so as to ease facilitating the planning and implementation process. Therefore the earlier decentralized institutions namely, Sri Lanka Tourism

Promotion Bureau, Sri Lanka Convention Bureau, Sri Lanka Tourism Development Authority and Sri Lanka Institute of Tourism & Hotel Management should be amalgamated into one organization.

**Sri Lanka Convention Bureau (SLCB)**

SLCB's mandate covers developing and promoting Meetings, Incentive Travel, Conferences and Exhibitions (MICE) which deals with up-market clientele. During the year SLCB was able to directly facilitate 70 conferences, 115 meetings and 9 conferences were earmarked to be held in 2011.

According to SLCB, many other related activities are handled by Event Management Companies, for which SLCB's contribution was only in the capacity of promoting Sri Lanka as a venue.

**Table 5.9**  
**Meetings & Conferences Facilitated by SLCB in 2010**

|                             | No. | No. of Participants |
|-----------------------------|-----|---------------------|
| Conferences                 | 70  | 5,361               |
| Meetings & Incentive groups | 115 | 9,086               |
| Conferences to be held      | 9   | 2,385               |

Source: SLCB

However, of the total revenue generated from MICE tourism, SLCB earns only participation fees etc, which was Rs. 997,500 in 2010, representing just 1 percent of SLCB's income of the year, while its main income source is the contribution from the Tourism Development Fund.

**Table 5.10**  
**Financial Performance of SLCB** Rs '000

|                            | 2010          | 2009          | 2008          |
|----------------------------|---------------|---------------|---------------|
| <b>Income</b>              | <b>72,813</b> | <b>40,347</b> | <b>49,958</b> |
| Tourism Development Fund   | 69,804        | 38,773        | 43,467        |
| Other Income               | 3,009         | 1,574         | 6,491         |
| <b>Expenses</b>            | <b>39,097</b> | <b>39,475</b> | <b>37,565</b> |
| Staff Cost                 | 5,942         | 5,799         | 5,297         |
| Marketing & Promotional    | 16,452        | 22,589        | 26,081        |
| Research & Development     | 10,695        | 7,296         | 2,315         |
| Membership Fee (ICCA)      | 432           | 388           | -             |
| Other                      | 5,576         | 3,791         | 3,872         |
| <b>Surplus / (Deficit)</b> | <b>33,716</b> | <b>872</b>    | <b>12,393</b> |

Source: SLCB

Of the total expenditure, 69 percent is incurred on marketing and promotional activities.

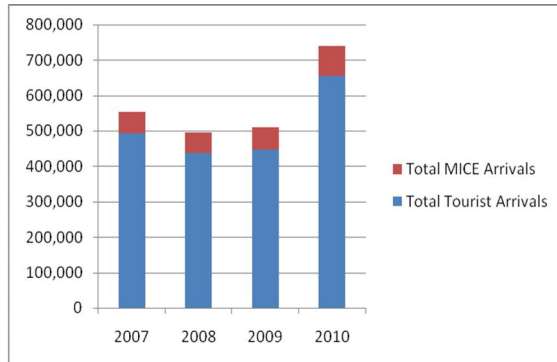
**Table 5.11**  
**MICE Arrivals**

| Year | Total MICE Arrivals No. | Total Revenue US \$ |
|------|-------------------------|---------------------|
| 2007 | 59,280                  | 36                  |
| 2008 | 57,002                  | 34                  |
| 2009 | 62,705                  | 38                  |
| 2010 | 85,082                  | 51                  |

Source: SLCB

MICE arrivals and the revenue generated thereby have increased annually, with a significant improvement in the year 2010, representing a 36 percent increase of MICE arrivals and 34 percent increase in revenue, as against the previous year.

**Graph 5.3**  
**Tourist Arrivals to Sri Lanka**



SLCB depends mainly on TDF allocations, despite incurring 69 percent of total expenditure on marketing and promotional activities in 2010. This raises a question on the effectiveness of the expenses incurred by SLCB. Thus, it seems that amalgamation of SLCB with Tourism Promotion Bureau will be feasible to avoid the duplication of work and expenditure incurred on MICE tourism promotion.

### Sri Lanka Institute Of Tourism and Hotel Management

Sri Lanka Institute of Tourism and Hotel Management (SLITHM) was established to train young people for travel and hospitality industry.

Main funding source of SLITHM is the Tourism Development Fund (TDF), 12 percent of which is allocated for the Institute.

The financial performance, SLITHM has gained a net surplus of Rs 38 million in the year 2010 ó an increase of 43 percent over the previous year. However, this was mainly due to the increase of the TDF contribution, which amounted to Rs.209 million in 2010.

**Table 5.12**  
**Operational Performance of Training Centers in 2010**

| Description                | Anuradhapura      | Bandarawela       | Kandy              | Koggala            | Ratnapura     | Total              |
|----------------------------|-------------------|-------------------|--------------------|--------------------|---------------|--------------------|
|                            | Rs000             |                   |                    |                    |               |                    |
| Course Related Income      | 1,333.80          | 2,251.00          | 2,760.80           | 3,271.90           | 352.00        | 9,969.50           |
| Other Income               | 143.80            | 12.60             | 27.80              | 108.40             | 71.00         | 363.60             |
| <b>Total</b>               | <b>1,477.60</b>   | <b>2,263.60</b>   | <b>2,788.60</b>    | <b>3,380.30</b>    | <b>423.00</b> | <b>10,333.10</b>   |
| Staff Expenses             | 3,914.90          | 4,106.60          | 6,492.70           | 6,032.40           | 2.80          | 20,549.40          |
| Course Related Expenses    | 1,273.50          | 2,258.00          | 2,303.50           | 3,375.00           | -             | 9,210.00           |
| Other OH                   | 4,226.10          | 4,500.00          | 4,435.70           | 6,756.60           | 356.20        | 20,274.60          |
| Total                      | 9,414.50          | 10,864.60         | 13,231.90          | 16,164.00          | 359.00        | 50,034.00          |
| <b>Surplus / (Deficit)</b> | <b>(7,936.90)</b> | <b>(8,601.00)</b> | <b>(10,443.30)</b> | <b>(12,783.70)</b> | <b>64.00</b>  | <b>(39,700.90)</b> |
| Head office income         |                   |                   |                    |                    |               | 19,382.90          |
| Tourism development Fund   |                   |                   |                    |                    |               | 209,411.50         |
| Head Office Total Cost     |                   |                   |                    |                    |               | (150,839.53)       |
| Surplus/(Deficit)          |                   |                   |                    |                    |               | 38,253.97          |

Source: SLITHM

All training centers of SLITHM have made huge losses in the year 2010 except Rathnapura. The main reason for the failure is

that the centers have not utilized its total capacity to recover the staff cost and other overheads.

**Table 5.13**  
**Training Program Progress in 2010 and 2011 Plan**

| Qualification level  | Proff. level |              | Craft level |            | Inter level |            | 3 year Diploma |           | Advanced level |            | Total      |              |
|----------------------|--------------|--------------|-------------|------------|-------------|------------|----------------|-----------|----------------|------------|------------|--------------|
|                      | 2010         | 2011         | 2010        | 2011       | 2010        | 2011       | 2010           | 2011      | 2010           | 2011       | 2010       | 2011         |
| Professional Cookery | 100          | 590          | 144         | 250        | 21          | 35         | -              | -         | 21             | 35         | 286        | 910          |
| Restaurant & Bar     | 101          | 510          | 75          | 250        | -           | -          | -              | -         | -              | -          | 176        | 760          |
| Hotel Housekeeping   | 39           | 315          | 33          | 95         | 4           | 10         | -              | -         | -              | -          | 76         | 420          |
| Front Office         | 57           | 295          | -           | -          | 13          | 25         | -              | -         | -              | -          | 70         | 320          |
| Food & Beverage      | -            | -            | -           | -          | 19          | 35         | -              | -         | 18             | 35         | 37         | 70           |
| MGT. Diploma         | -            | -            | -           | -          | -           | -          | 74             | 90        | -              | -          | 74         | 90           |
| Accom Operations     | -            | -            | -           | -          | -           | -          | -              | -         | 21             | 35         | 21         | 35           |
| <b>Total</b>         | <b>297</b>   | <b>1,710</b> | <b>252</b>  | <b>595</b> | <b>57</b>   | <b>105</b> | <b>74</b>      | <b>90</b> | <b>60</b>      | <b>105</b> | <b>740</b> | <b>2,605</b> |

Source: SLITHM

The institute has trained 740 people for tourism sector in the year 2010 and they plan to increase this number up to 2,605 in 2011. However, the concern is whether this progress is enough to achieve the expected target of 550,000 trained people to meet the required manpower for travel, tourism and hospitality industry by year 2016.

Therefore, SLITHM should formulate a proper plan to accomplish the government goals in consultation with Sri Lanka Tourism Authority for creating the capable employees for the future tourism market in Sri Lanka. It is clear that SLITHM has no physical and monetary resources to cope with such a huge training requirement. A proper co-operation and co-ordination with the tourism related local private sector institutes and international bodies as well as universities in the country is a prominent requirement. Furthermore,

implementation of the plan and monitoring the quantity and quality performance vigilantly and in timely manner will be vital to make the strategy a success.

### **Sri Lanka Tourism Development Authority**

Sri Lanka Tourism Developing Authority (SLTDA) was established for facilitating the planning and implementation of policy relating to the tourism industry and other related industries.

Main funding source of SLTDA is the Tourism Development Fund (TDF), 14 percent of whose year receipts, including embarkation and tourism development levy, are allocated for them. This allocation amounted to Rs.201 million in 2010.

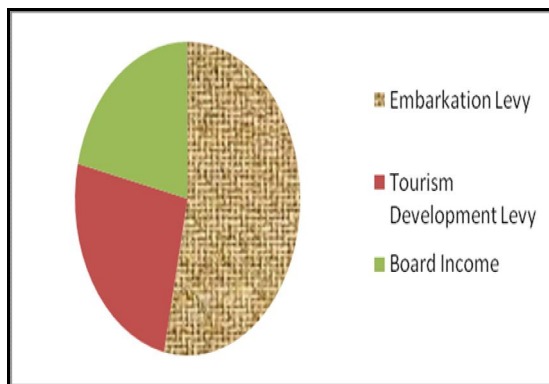
**Table 5.14**  
**Financial Performance of Sri Lanka Tourism Development Authority**

| Description                            | 2010<br>Rs '000 | 2009<br>Rs '000 | 2008<br>Rs '000 |
|--|-----------------|-----------------|-----------------|
| <b>Income</b>                          | <b>256,084</b>  | <b>212,656</b>  | <b>186,443</b>  |
| Embarkation Levy                       | 136,690         | 107,277         | 103,435         |
| Tourism Development Levy               | 64,553          | 56,505          | 48,226          |
| Board Income                           | 54,725          | 46,466          | 34,742          |
| Income from Holiday Resorts            | 116             | 2,408           | 40              |
| <b>Expenses</b>                        | <b>184,798</b>  | <b>147,326</b>  | <b>138,592</b>  |
| Administration & Establishment         | 155,557         | 129,676         | 125,433         |
| Trade Related Expenditure              | 29,241          | 17,650          | 13,159          |
| <b>Operational Surplus / (deficit)</b> | <b>71,286</b>   | <b>65,330</b>   | <b>47,851</b>   |
| Less: Provisions                       | 6,042           | 4,705           | 3,847           |
| <b>Surplus / (Deficit)</b>             | <b>65,244</b>   | <b>60,625</b>   | <b>44,004</b>   |

Source: SLTDA

Of the total income of SLTDA, 79 percent is from TDF allocations.

**Graph 5.4**  
**Composition of total revenue - 2010**



As per the total expenditure of SLTDA, the bigger portion has been incurred on administration and establishment matters, which amounts to 84 percent in year 2010, whereas, only 16 percent of the total expenses was incurred for trade related matters which is the main objective of the organization. This reflects that administration cost of Rs. 156Mn was incurred for managing Rs. 29Mn for operational activities. This raises a serious doubt of the effectiveness of SLTDA's operations.

**Table 5.15**  
**Gap analysis**

| Description                 | Measurement | Target | Current situation & projected |           |        | Gap    |
|-----------------------------|-------------|--------|-------------------------------|-----------|--------|--------|
|                             |             |        | Existing                      | projected | Total  |        |
| Tourist arrivals            | No Mn       | 4.0    | 0.65                          |           | 0.65   | 3.4    |
| Hotel rooms                 | No          | 75,000 | 15,270                        | 7,791     | 23,061 | 51,939 |
| Tourist expenditure per day | US\$        | 200    | 85.4                          |           | 85.4   | 114.6  |

Source: SLTDA

The tourist arrivals at present are only 650,000 in numbers that is tipped to be increase to 3.4 million by 2020, for which 51,939 more hotel rooms also have to be built. Therefore, these gaps need to be filled by using suitable strategies. Government expects to fill the existing gap by promoting up-scale tourism segment implementing following strategies.

- Present tourist market should be expanded by developing tourism infrastructure such as constructing new hotels with quality rooms, enhancing industry professionalism and improving the service standard specially safety and security. This encourage the tourist to come again Sri Lanka with other persons.

This is one type of promotion strategy which serves promotion expenditure.

- New markets should be captured through effective marketing campaigns focusing on America, East-Asia, Middle-east, Eastern Europe and Australia.
- Introduction of new tourist products such as mountain climbing, wildlife activities, boat riding, coastal fishing and dolphin, bird and whale watching is very important to attract the high expending tourists.
- Diversification of tourism by introducing healthcare, agro and community based tourism is required to increase the revenue from tourism sector.

**Table 5.16**  
**Existing and Expected Hotels & Rooms**

| Category | Existing |        | Finalized Project |       | Pending Projects |       | Total  |        |
|----------|----------|--------|-------------------|-------|------------------|-------|--------|--------|
|          | Hotels   | Rooms  | Hotels            | Rooms | Hotels           | Rooms | Hotels | Rooms  |
| 5*       | 14       | 3,230  |                   |       | 17               | 2,613 | 31     | 5,843  |
| 4*       | 14       | 1,638  | 3                 | 373   | 10               | 1,224 | 27     | 3,235  |
| 3*       | 14       | 1,144  | 4                 | 170   | 26               | 1,077 | 44     | 2,391  |
| 2*       | 39       | 2,324  | 1                 | 18    | 4                | 111   | 44     | 2,453  |
| Other    | 221      | 6,934  | 4                 | 64    | 55               | 2,141 | 280    | 9,139  |
| Total    | 302      | 15,270 | 12                | 625   | 112              | 7,166 | 426    | 23,061 |

Source: SLTDA

It is clear that the current plans of the authority are not adequate for reaching these goals and the government alone cannot infuse capital to implement these strategies. Therefore, the prime responsibility of SLTDA is to prepare a plan covering all sectors of the tourism and to facilitate the private sector to invest in tourism with ensuring the quality standard of the tourism products and security aspects of tourists.

SLTDA should formulate a master plan for the tourism sector identifying the each sector prevailing gaps between the government targets and current performance. It is very important to identify the tourist attracting areas to giving priority in infrastructure

development; otherwise, the investments will be idle assets. Further these development areas need to be facilitated with other related tourist products with necessary services.

A proper co-operation, co-ordination and provision of direction to other related government institutes such as Sri Lanka Institute and Hotel Management and Sri Lanka Tourism Promotion Bureau is a prominent requirement in preparation the sector plan. Furthermore, implementation of the plan and monitoring the quantity and quality performance vigilantly and in timely manner will be vital to make the strategy a success.

## Chapter 06 Agricultural Sector

The agriculture sector grew by 7.0 percent in 2010 compared to 3.2 percent growth in 2009. The growth was largely due to favorable increase in production of paddy, tea, and minor export crops along with the improvement of fisheries sector. The production of many export agriculture crops showed a positive trend in 2010. However the growth momentum was slowed down due to low production of coconut and livestock. Overall the share of the agriculture sector in the GDP decreased marginally to 11.9 percent.

Total paddy production grew by 17.8 percent to 4.3 mn metric tons in 2010. The 2009/2010 Maha production increased by 10 percent to 2.6 million metric tons while 2010 yala production increased by 31.8 percent to 1.6 million metric tone. This was mainly due to addition of the Northern and Eastern provinces production function and favourable weather condition. The paddy production was further sustained by the continuation of the fertilizer support scheme and paddy purchasing scheme of the government.

The production of other field crops showed a mixed performance in 2010 while fish production increased by 12 percent to 381,630 mt. A greater emphasis has been placed by the government on the increase the domestic crop production.

The contribution of the livestock sector to the national GDP in 2010 was 0.8 percent. Total milk production in the country increased by 6 percent to 247.5 mn liters in 2010 from the level of 233.3 mn liters in 2009. 35 percent of the national milk requirement was met by the local production in 2010.

### **Milk Industries Lanka Ltd. (MILCO)**

MILCO, the government milk distribution arm has been engaged in the Sri Lankan dairy industry for over 55 years. Currently the core business of MILCO consists of milk collection, processing and marketing.

They were able to collect 55 mn liters of milk in the year 2010 which was 22 percent of the total milk collection of the country. The milk collection network of MILCO consists of 2,100 farmer managed societies and 73 milk chilling centers. The average farm gate price of milk had been around Rs. 33.20 per liter which is around a 10 percent increase compared to 2009.

MILCO is presently operating with 4 milk processing plants, 13 regional distribution centers, 9 regional dairy development centers, 1 cattle feed plant and 1 model farm. During the year, MILCO was able to commence two chilling centers at Murunkan and at Katuwanwila. MILCO also purchased 02 ice cream machines and 01 deep cold room. The Sales outlet at Narahenpita was also upgraded during the year.

MILCO produces a wider range of dairy products including; Pasteurized Milk, Sterilized Milk, Yoghurt, Curd, Butter, Ice Cream, Ghee, Processed Cheese and Milk Powder.



**Table 6.1**  
**Financial and Operational review of Milco**

| Description  | 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 |
|--|---------|---------|---------|---------|---------|---------|
| Total Turnover (Rs. Mn)                              | 2,079   | 2,240   | 2,720   | 3,206   | 4,242   | 4,093   |
| Gross Profit/(Loss) (Rs. Mn)                         | 267     | 273     | 257     | 428     | 731     | 697     |
| Profit Before Tax (Rs. Mn)                           | 92      | 96      | 21      | 132     | 351     | 338     |
| Total Cost of Employment for the year (Rs. Mn)       | 349     | 399     | 502     | 556     | 647     | 672     |
| Current Assets as at end of the year (Rs. Mn)        | 1,226   | 1,361   | 1,408   | 1473    | 2,032   | 2392    |
| Current Liabilities as at end of the year (Rs. Mn)   | 720     | 757     | 846     | 784     | 917     | 953     |
| Amount spent on diary development activities (Rs.Mn) | 51      | 63      | 89      | 112     | 98      | 136     |
| Total Milk Collection (Ltrs. Mn)                     | 48      | 53      | 54      | 52      | 53      | 55      |
| Number of Employees as at end of the year (NOs)      | 1,277   | 1,449   | 1,483   | 1411    | 1,490   | 1523    |
| <b>Ratio Analysis</b>                                |         |         |         |         |         |         |
| Gross Profit (%)                                     | 12.84   | 12.19   | 9.45    | 13.34   | 17.24   | 17.04   |
| Net Profit (Before Tax) (%)                          | 4.40    | 3.96    | 0.68    | 4.04    | 7.83    | 8.28    |
| Current Ratio (%)                                    | 1.71    | 1.81    | 1.67    | 1.88    | 2.22    | 2.51    |
| Return On Assets (%)                                 | 6.39    | 5.51    | 1.07    | 7.00    | -       | -       |
| Total Cost of Employment per Employee (Rs.'000)      | 273.38  | 275.11  | 338.29  | 394.04  | 434.22  | 441.23  |

Source: Milk Industries Lanka Ltd Annual Accounts

During the year 2010, MILCOs turnover decreased by 3.6 percent while gross profit decreased by 4.6 percent. Cost of employment has also increased considerably in 2010 due to the increase in number of employees from 1,490 to 1,523.

The company has the potential to perform better by focusing on modern machineries, suitable promotion campaigns and proper human resource management.

#### **National Livestock Development Board (NLDB)**

NLDB mainly focuses on arresting the dwindling national herd of cattle and buffaloes by concentrating on planned intensive programmes.

The Board engages in breeding and multiplication of livestock, issuing of quality breeding materials to farmers at a reasonable price, establishment and maintenance of marketing outlets to supply quality farm products at reasonable prices, sale of fresh cow milk to the public to popularize consumption of fresh milk etc.

The board presently manages 23 dairy farms, 06 goat farms, 09 poultry farms, 2 swine farms and 10 buffalo farms and a training centre. Further the Board operated 136 milk stalls in various parts of the country during the year with a view to promote liquid milk consumption.

During the year the NLDB managed to produce 3.9 mn liters of milk, 0.5 mn of layer chicks and 1.8 mn broiler chicks.

**Table 6.2**  
**Milk Production of NLDB**

|                     | Units          | 2006  | 2007  | 2008  | 2009  | 2010  |
|---------------------|----------------|-------|-------|-------|-------|-------|
| Neat Cattle         | Ltrs (Mn)      | 3.1   | 2.9   | 3.2   | 4.1   | 3.2   |
| Buffaloes           | ..             | 0.58  | 0.65  | 0.68  | 0.63  | 0.68  |
| Goat Milk           | ..             | 0.025 | 0.023 | 0.023 | 0.028 | 0.013 |
| Curd Production     | ..             | 0.290 | 0.286 | 0.313 | 0.339 | 0.428 |
| Yoghurt (80ml Cups) | Nos .(Mn) '000 | 0.355 | 0.408 | 0.422 | 0.511 | 0.516 |

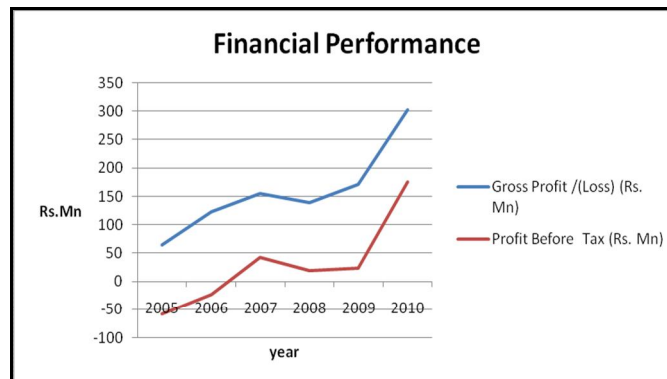
Source: National Livestock Development Board Annual Accounts

**Table 6.3**  
**Financial & Operational Review of NLDB**

|                                   | 2005   | 2006   | 2007   | 2008   | 2009   | 2010   |
|-----------------------------------|--------|--------|--------|--------|--------|--------|
| Total Revenue (Rs. Mn)            | 543    | 647    | 870    | 957    | 890    | 1100   |
| Gross Profit /(Loss) (Rs. Mn)     | 64     | 122    | 154    | 138    | 171    | 302    |
| Profit Before Tax (Rs. Mn)        | (58)   | (23)   | 43     | 20     | 24     | 176    |
| Total Cost of Employment (Rs. Mn) | 206    | 264    | 315    | 385    | 334    | 375    |
| Current Assets (Rs. Mn)           | 245    | 296    | 298    | 359    | 321    | 364    |
| Current Liabilities (Rs. Mn)      | 231    | 286    | 290    | 342    | 341    | 300    |
| Number of Employees (Nos)         | 2,493  | 2,448  | 2,449  | 2,617  | 2449   | 2496   |
| <b>Ratio Analysis</b>             |        |        |        |        |        |        |
| Gross Profit (%)                  | 11.79  | 18.86  | 17.70  | 14.42  | 19.00  | 27.45  |
| Net Profit (Before Tax) (%)       | -10.68 | -3.55  | 4.94   | 2.09   | 2.0    | 16.27  |
| Current Ratio (%)                 | 1.06   | 1.03   | 1.03   | 1.05   | 0.93   | 1.21   |
| Cost per Employee (Rs.'000)       | 82.63  | 107.84 | 128.62 | 147.11 | 136.38 | 150.24 |

Source: National Livestock Development Board Annual Accounts

**Chart.6.1**  
**Financial Performance of NLDB**



Despite an increase in the overall cost elements including cost of employment during the year, the NLDB was able to increase their revenue by 23 percent compared to the year 2009 and also managed to sustain an increase in gross profit margin and the net profit margin within the year. The board has the

potential to generate even more revenue if they utilize and maintain their existing assets appropriately and if they adopt necessary management reforms to mitigate the weaknesses of existing financial and operational system and internal controlling system.

### Ceylon Fertilizer Co. Ltd. (CFCL)

The Ceylon Fertilizer Co. Ltd is the pioneer distribution arm of the Fertilizer Subsidy Scheme introduced under the 'Mahinda Chinthana' Development Programme. The Company engages in importing, blending and distributing fertilizer with a total of 393 employees. At present 2/3 of fertilizer subsidy scheme is handled by CFCL.

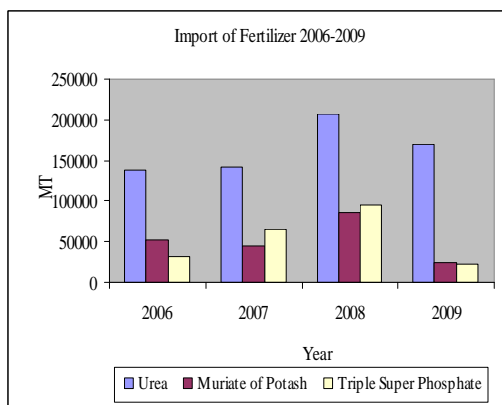
The company imports fertilizer mainly from United Arab Emirates, China, Ukraine, Egypt and State of Qatar. In addition to that Dolomite and Eppawala Rock Phosphate are purchased locally. The distribution network covers the entire island inclusive of the Northern and Eastern Provinces.

**Table 6.4**  
**Financial and Operational Review of Ceylon Fertilizer Co. Ltd**

|                                       | 2006    | 2007    | 2008    | 2009    | 2010    |
|---------------------------------------|---------|---------|---------|---------|---------|
| Total Revenue (Rs. Mn)                | 1,739   | 1,598   | 900     | 1,370   | 1,904   |
| Gross Profit /(Loss) (Rs. Mn)         | 124     | 236     | 204     | 221     | 323     |
| Profit Before Interest & Tax (Rs. Mn) | 60      | 117     | 96      | 140     | 118     |
| Profit Before Tax (Rs. Mn)            | 21      | 3       | 27      | 35      | 42      |
| Total Cost of Employment (Rs. Mn)     | 133     | 147     | 98      | 114     | 175     |
| Current Assets (Rs. Mn)               | 4,091   | 6,621   | 8,628   | 15,433  | 23,887  |
| Current Liabilities (Rs. Mn)          | 3,490   | 6,038   | 8,035   | 14,803  | 11,410  |
| Purchase of Fertilizer - Imports (MT) | 221,834 | 252,112 | 252,213 | 247,892 | 229,331 |
| Local (MT)                            | 1,656   | 2,202   | 2,202   | 727     | 987     |
| Sale of Fertilizer (MT)               | 245,106 | 231,039 | 296,384 | 181,923 | 280,717 |
| Number of Employees (Nos)             | 331     | 490     | 493     | 403     | 393     |
| Ratio Analysis                        |         |         |         |         |         |
| Gross Profit (%)                      | 7       | 15      | 23      | 16      | 17      |
| Net Profit (Before Tax) (%)           | 1.2     | 0.2     | 3.0     | 2.6     | 2.2     |
| Current Ratio                         | 1.2     | 1.1     | 1.1     | 1.0     | 2.1     |
| Cost per Employee (Rs.'000)           | 402.44  | 299.38  | 198.7   | 282     | 445.02  |

Source: Ceylon Fertilizer Co. Ltd

**Chart.6.2**



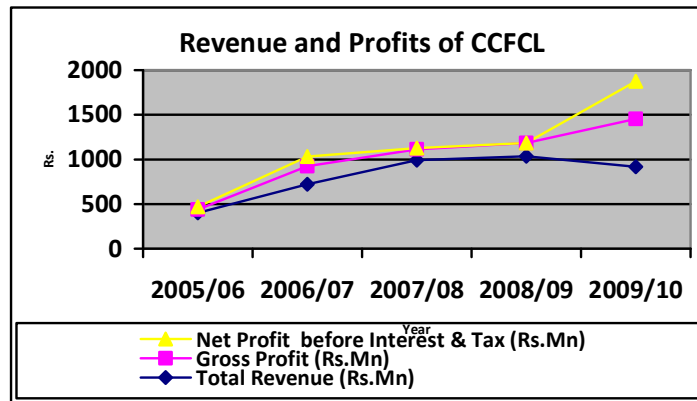
Importation of fertilizer has slightly declined in 2010 due to the limited application which resulted from unfavorable weather conditions that prevailed during the period. The company recorded increase in gross profit margin and net profit margin over the period. Increase in overtime payment and number of employees has resulted in the increase in total cost for employment and, therefore, the company needs to assess its carder requirement properly. The credit repayment of the company on timely basis has been backed by the government. The govt. has issued a guarantee amounting to Rs. 12 billion on behalf of the company.

### Colombo Commercial Fertilizer Co. Ltd. (CCFCL)

The company engages in importing fertilizer, mixing of neat fertilizer as prescribed for each plantation sectors and on customer

requests, distribution of fertilizer mixtures via its distribution centers and dealers, and testing of fertilizer mixtures for its quality. At present 1/3 of fertilizer subsidy scheme is handled by Colombo Commercial Fertilizer Co. Ltd.

Chart.6.3



**Table 6.5**  
**Performance of CCFCL**

|   | 2005/06 | 2006/07 | 2007/08 | 2008/09  | 2009/10  |
|---|---------|---------|---------|----------|----------|
| Total Revenue (Rs.Mn)   | 401.7   | 722.6   | 992.0   | 1,035.0  | 916.7    |
| Gross Profit (Rs.Mn)  | 35.9    | 201.2   | 122.5   | 150.0    | 536.2    |
| Net Profit before Interest & Tax (Rs.Mn)                      | 31.2    | 107.8   | 12.1    | .2       | 422.8    |
| Financial Charges (Rs.Mn)                                     | 20.9    | 20.6    | 18.2    | 41.6     | 237.0    |
| Total Cost of Employment (Rs.Mn)                              | 8.8     | 22.6    | 23.6    | 31.2     | 85.0     |
| Capital Expenditure (Rs.Mn)                                   | .1      | .2      | 8.8     | 3.1      | 1.1      |
| Non Current Asset (Rs.Mn)                                     | 115.8   | 214.2   | 212.9   | 205.3    | 196.6    |
| Current Asset (Rs.Mn)   | 597.4   | 1,378.1 | 5,620.3 | 20,888.8 | 16,772.1 |
| Current Liabilities (Rs.Mn)                                   | 485.1   | 5,355.5 | 5,421.3 | 20,724.3 | 8,532.5  |
| Non Current Liabilities (Rs.Mn)                               | 228.2   | 408.6   | 412.0   | 369.7    | 8,436.2  |
| Equity (Rs.Mn)  | 100.0   | 100.0   | 100.0   | 100.0    | 100      |
| No of employees   |         |         | 117     | 114      | 116      |
| <b>Ratio Analyst</b>  |         |         |         |          |          |
| Net Profit before Interest Tax to Equity ( %)                 | 31.21   | 107.85  | 12.07   | 0.22     | 422.8    |
| Net Profit Before Financial Changes & Tax to Total Asset ( %) | 4.38    | 6.54    | 0.21    | 0.001    | 3.9      |
| Current Ratio (%)   | 123.16  | 25.73   | 103.67  | 100.79   | 196.60   |
| Cost per Employee (Rs.'000)                                   | 258.04  | 422.61  | 427.3   | 433.82   | 733.44   |

Source: Colombo Commercial Fertilizer Co. Ltd Annual Accounts

Despite the decline of revenue by 12 percent compared to the previous year, there is a substantial increase in gross profit during the

year concerned. Distribution and finance cost and other expenses of the company was very high over the period.

## Chapter 07

### Plantation Sector

The PEs relating to the plantation sector comprises 05 fully government owned enterprises i.e Sri Lanka State Plantation Corporation, Janatha Estate Development Board, Chilaw Plantations Private Ltd, Kurunegala Plantations Private Ltd and Elkaduwa Plantations Private Ltd. In addition to that there are 23 Regional Plantations Companies (RPC) out of which 3 are fully government owned i.e. Chilaw, Elpitiya and Kurunegala Plantation.

A significant recovery was experienced in the plantation sector in 2010 and registered the highest ever annual tea production at 329 million Kg a growth of 13 percent. The national average yield per ha has increased from 1,435 kg per ha in 2008 to 1,484 Kg per ha in 2010. The growth in 2010 was largely attributed to the favourable weather conditions that prevailed in all tea growing districts. Low grown tea constructed 60

percent of the total tea productions in the country. Tea smallholder sector continued to play a major role in total tea production contributing 76.4 percent to the total tea production in 2010. Meanwhile in 2010 the highest minimum wage rate increase was recorded in the plantation sector at 33.7 percent.

Rubber production reached 153 mn kg registering a 12 percent growth over the previous year. National yield of rubber increased by 11.8 percent to 1,607 kg per ha in 2010 due to better agriculture practices such as fertilizer usage, improved techniques of latex tapping etc.

There was a sharp decline in the coconut production by 19 percent to 2,317 nuts in 2010 due to the lag effect of low rain fall in 2009 in major coconut growing areas. This resulted in a severe shortage of nuts for consumption as well as industrial usage

**Table 7.1**  
**Contribution of plantation sector to the National Production**

| Year | Tea                    |                     |                    | Rubber |        | Coconut |
|------|------------------------|---------------------|--------------------|--------|--------|---------|
|      | Production<br>( Kg mn) | HighGrown/Rs/<br>Kg | LowGrown/R<br>s/kg | Kg mn  | Rs/Kg  | Nuts mn |
| 2000 | 305.80                 | 128.46              | 144.79             | 87.6   | 66.87  | 3,096   |
| 2001 | 295.09                 | 135.56              | 154.50             | 86.2   | 66.17  | 2,769   |
| 2002 | 310.03                 | 141.73              | 160.55             | 90.5   | 69.21  | 2,392   |
| 2003 | 303.20                 | 138.31              | 160.86             | 92.0   | 105.30 | 2,562   |
| 2004 | 308.09                 | 171.78              | 189.86             | 94.7   | 127.41 | 2,591   |
| 2005 | 317.19                 | 172.24              | 199.01             | 104.4  | 148.07 | 2,515   |
| 2006 | 310.80                 | 204.58              | 204.50             | 109.2  | 201.57 | 2,785   |
| 2007 | 304.60                 | 252.46              | 298.66             | 117.6  | 234.65 | 2,869   |
| 2008 | 318.47                 | 273.83              | 336.38             | 129.2  | 267.90 | 2,909   |
| 2009 | 291.00                 | 320.93              | 389.11             | 136.9  | 211.65 | 2,853   |
| 2010 | 329.00                 | -                   | -                  | 153.0  | 403.02 | 2,317   |

Source: Department of Public Enterprises

### Regional Plantation Companies (RPCs)

Out of 23 Regional Plantation Companies, 20 companies are privatized Companies operating under management companies while the balance 3 companies are fully owned by the

government. Accordingly the government receives share of dividend proportionately to its share holding and agreed upon lease rentals. Lease rentals received from RPCs for last four years are as follow.

**Table 7.2**  
**Lease rentals received from RPCs**

| No | Company         | 2006<br>(Rs.Mn) | 2007<br>(Rs.Mn) | 2008<br>(Rs.Mn) | 2009<br>(Rs.Mn) | 2010<br>(Rs.Mn) |
|----|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| 1  | Hapugastenna    | 15.18           | 25.30           | 20.24           | 20.24           | 37.25           |
| 2  | Watawala        | 34.31           | 40.56           | 14.52           | 36.24           | 29.10           |
| 3  | Balangoda       | 12.96           | 21.83           | 12.52           | 23.88           | 21.10           |
| 4  | Kahawatte       | -               | 15.01           | 3.02            | 9.82            | 13.18           |
| 5  | Bogawantalawa   | 24.75           | 82.63           | 20.03           | 66.41           | 43.77           |
| 6  | Malwatte Valley | 30.69           | 24.55           | 9.21            | 3.07            | 27.30           |
| 7  | Maskeliya       | 16.11           | 17.72           | 14.88           | 22.37           | 24.74           |
| 8  | Agalawatte      | 4.00            | 31.64           | 14.52           | 39.41           | 28.12           |
| 9  | Talawakelle     | 9.58            | 16.30           | 11.50           | 14.38           | 19.37           |
| 10 | Kelani Valley   | 25.84           | 26.41           | 25.76           | 25.84           | 39.72           |
| 11 | Horana          | 7.47            | 9.34            | 17.24           | 7.47            | 11.66           |
| 12 | Maturata        | 1.00            | 2.99            | -               | 32.14           | 10.27           |
| 13 | Elpitiya        | 12.91           | 22.95           | 38.48           | 19.69           | 33.56           |
| 14 | Madulsima       | 3.47            | 6.33            | 4.31            | 8.23            | 7.26            |
| 15 | Kegalle         | 20.76           | 20.76           | 15.57           | 15.57           | 35.81           |
| 16 | Pussellawa      | 29.96           | 43.44           | 42.75           | 17.94           | 22.42           |
| 17 | Kotagala        | 28.63           | 54.97           | 67.13           | 36.54           | 61.25           |
| 18 | Namunukula      | 3.81            | 4.07            | 29.31           | 14.13           | 31.83           |
| 19 | Chilaw          | 15.12           | 16.64           | 9.12            | 14.57           | 28.55           |
| 20 | Kurunegala      | 15.52           | 29.14           | 5.00            | 15.16           | 17.50           |
| 21 | Elkaduwa        | -               | -               | -               | -               | -               |
| 22 | Agarapathana    | -               | -               | -               | -               | -               |
| 23 | Udupussallawa   | -               | -               | -               | 7.20            | -               |
|    | <b>Total</b>    | <b>312.07</b>   | <b>512.58</b>   | <b>375.11</b>   | <b>450.30</b>   | <b>543.76</b>   |

Source: PMMD

### Kurunegala Plantations Limited (KPL)

Kurunegala Plantations Ltd, and Elkaduwa Plantations Ltd are fully government owned RPCs.

Total revenue, Gross Profit and the Net Profit of the company indicated it highest over the period in 2010 as 447.49, 203.17 and 152.17 respectively. Earning per share indicated as Rs, 7.61per share and it is a54.67 percent growth compared to 2009.

**Table 7.3**  
**Financial Performance of KPL**

|  | 2006     | 2007    | 2008    | 2009    | 2010    |
|--|----------|---------|---------|---------|---------|
| Total Revenue (Rs.Mn)                                | 196.62   | 293.54  | 360.29  | 343.81  | 447.49  |
| Cost of Sale (Rs.Mn)                                 | 146.06   | 169.36  | 211.24  | 211.28  | 244.28  |
| Gross Profit/(loss) (Rs.Mn)                          | 50.56    | 124.17  | 144.39  | 132.56  | 203.17  |
| Net Profit (Rs.Mn)                                   | 19.75    | 81.65   | 95.87   | 98.45   | 152.17  |
| Finance Charges (Rs.Mn)                              | 16.03    | 18.32   | 20.46   | 23.87   | 26.78   |
| Total Assets (Rs.Mn)                                 | 596.62   | 666.7   | 768.70  | 859.68  | 1044.62 |
| Non Current Liabilities (Rs.Mn)                      | 152.86   | 161.20  | 164.21  | 165.84  | 169.39  |
| Current Liabilities (Rs.Mn)                          | 106.93   | 92.13   | 105.16  | 115.08  | 143.31  |
| Share Capital (Rs.Mn)                                | 200.00   | 200.00  | 200.00  | 200.00  | 200.00  |
| <b>Contribution To the Consolidated Fund (Rs.Mn)</b> | -        | 10      | 20      | 25      |         |
| <b>Profitability Ratios</b>                          |          |         |         |         |         |
| Gross Profit (%)                                     | 25.71    | 42.30   | 40.07   | 38.55   | 45.40   |
| Net Profit (%)                                       | 10.04    | 27.81   | 26.60   | 28.63   | 34.00   |
| Return on Capital Employed (ROCE) (%)                | 8.83     | 17.46   | 17.79   | 16.97   | 20.37   |
| Return on Total Assets (%)                           | 3.31     | 12.24   | 12.47   | 11.45   | 14.56   |
| <b>Liquidity ratios</b>                              |          |         |         |         |         |
| Current Assets (%)                                   | 0.66 :1  | 1.1: 1  | 1.63: 1 | 2.04: 1 | 2.45: 1 |
| Acid Test (%)  | 0.49 : 1 | 0.89: 1 | 1.21: 1 | 1.82: 1 | 2.29: 1 |
| <b>Efficiency Ratios</b>                             |          |         |         |         |         |
| Total Assets Turnover (%)                            | 32.95    | 44.02   | 46.87   | 39.99   | 42.83   |
| Earning Per Share(Rs)                                |          | 4.08    | 4.85    | 4.92    | 7.61    |

Source: Kurunegala Plantations Limited Annual Accounts

### Chilaw Plantations Limited (CPL)

The company has been experiencing a steady increase in its revenue over the years with the company recording a turnover of Rs. 422.67

mn in 2010, a growth of 35 percent over 2009. However, the EPS has declined slightly to Rs. 4.86 in 2010 from Rs. 4.90 in 2009.

**Table 7.4**  
**Financial Performance of CPL**

|  | 2006   | 2007   | 2008   | 2009   | 2010    |
|--|--------|--------|--------|--------|---------|
| Total Revenue (Rs.Mn)                                | 171.08 | 291.20 | 310.98 | 312.68 | 422.67  |
| Cost of Sale (Rs.Mn)                                 | 108.93 | 149.59 | 139.53 | 198.23 | 250.5   |
| Gross Profit/(loss) (Rs.Mn)                          | 62.15  | 141.61 | 171.45 | 114.45 | 172.17  |
| Net Profit (Rs.Mn)                                   | 36.90  | 105.40 | 10.50  | 98.07  | 97.26   |
| Finance Charges (Rs.Mn)                              | 13.76  | 15.29  | 17.79  | 20.50  | 22.44   |
| Other Income and Gains (Rs.Mn)                       | 31.98  | 57.08  | 86.68  | 95.42  | 86.25   |
| Total Assets (Rs.Mn)                                 | 744.58 | 876.69 | 868.75 | 932.79 | 1111.00 |
| Non Current Liabilities (Rs.Mn)                      | 167.25 | 159.96 | 164.57 | 167.71 | 239.78  |
| Current Liabilities (Rs.Mn)                          | 50.699 | 84.69  | 61.67  | 60.12  | 63.27   |
| Share Capital (Rs.Mn)                                | 200.00 | 200.00 | 200.00 | 200.00 | 200.00  |
| <b>Contribution to the Consolidated Fund (Rs.Mn)</b> | -      | -      | -      | 30     | 75      |
| <b>Profitability Ratios</b>                          |        |        |        |        |         |
| Gross Profit (%)                                     | 36.32  | 48.6   | 55.13  | 36.6   | 40.73   |
| Net Profit (%)                                       | 21.56  | 36.19  | 3.23   | 29.61  | 23.01   |
| Return on Capital Employed (ROCE) (%)                | 8.68   | 15.42  | 6.57   | 18.03  | 15.15   |
| Return on Total Assets (%)                           | 4.95   | 12.02  | 1.20   | 10.51  | 8.75    |
| <b>Liquidity ratios</b>                              |        |        |        |        |         |
| Current Assets (%)                                   | 7.53:1 | 5.9:1  | 7.7:1  | 8.2:1  | 9.9:1   |
| Acid Test (%)  | 6.75:1 | 5.27:1 | 6.9:1  | 7.5:1  | 9.4:1   |
| <b>Efficiency Ratios</b>                             |        |        |        |        |         |
| Total Assets Turnover (%)                            | 22.9   | 33.2   | 35.7   | 33.5   | 33.5    |
| Earning Per Share                                    | 1.85   | 5.27   | 0.53   | 4.90   | 4.86    |

Source: Chilaw Plantations Limited Annual Accounts

Total Turnover of the company shows a growing trend over the period and indicated the highest of Rs. 422.67 million 2010. It is

#### **Sri Lanka State Plantation Corporation. (SLSPC)**

Sri Lanka State Plantation Corporation is currently maintaining 12 estates which were not handed over to RPCs. Tea cultivation had been made in 4,051.53 Hectares of total

35.18 percent growth considering the 2009. Earning per Share indicated as 4.86 in 2010 and 4.90 in 2009.

extended of lands belonged to SLSPC. SLSPC utilizes almost 42 percent of its land. 4051 h for tea cultivation. 26 percent for other produce, which almost 32 percent of the land at 3075 h uncultivated as it is considered unproductive.



**Table 7.5**  
**Utilization of SLSPC's lands**

|                   | Extent (Hectares) | Percentage ( %t) |
|-------------------|-------------------|------------------|
| Tea cultivation   | 4,051.53          | 41.8 %           |
| Other cultivation | 2,562.96          | 26.4 %           |
| Unproductive land | 3,075.48          | 31.8 %           |
| <b>Total</b>      | <b>9,689.97</b>   | <b>100</b>       |

Source: State Plantations Corporation Annual Account

**Table 7.6**  
**Financial Performances of SPC**

|   | 2006     | 2007    | 2008     | 2009     | 2010     |
|---|----------|---------|----------|----------|----------|
| Total Revenue (Rs.Mn)   | 459.94   | 499.76  | 587.67   | 527.15   | 575.07   |
| Cost of Sale (Rs.Mn)  | 532.61   | 490.46  | 627.85   | 583.75   | 648.67   |
| Gross Profit/(loss) (Rs.Mn)   | (72.67)  | 9.29    | (40.17)  | (56.6)   | (73.60)  |
| Net Profit (Rs.Mn)  | (83.37)  | 45.89   | (4.13)   | 34.14    | (14.17)  |
| Finance Charges (Rs.Mn)   | 0.09     | 0.15    | 0.16     | 21.12    | 27.32    |
| Operating Profit (Rs.Mn)  | (119.62) | (98.39) | (141.99) | (140.81) | (171.81) |
| Total Assets (Rs.Mn)  | 1319.78  | 940.02  | 956.32   | 1130.45  | 859.48   |
| Non Current Liabilities (Rs.Mn)   | (8.82)   | 490.54  | 509.85   | 541.69   | 318.08   |
| Current Liabilities (Rs.Mn)   | 574.4    | 634.84  | 698.26   | 762.11   | 867.80   |
| Share Capital (Rs.Mn)   | 3,897    | 3,897   | 3,897    | 3,897    | 3,897    |
| <b>Profitability Ratios</b>   |          |         |          |          |          |
| Gross Profit ( %)   | (15.79)  | 1.85    | (6.8)    | (10.7)   | (12.80)  |
| Net Profit ( %)   | (18.12)  | 9.18    | (0.70)   | 6.47     | (2.46)   |
| Operating Profit ( %)   | (26.00)  | 19.68   | 24.16    | 26.71    | 29.87    |
| Return on Capital Employed (ROCE)<br>(Issued average share capital) (%) | (2.13)   | 1.17    | (0.10)   | 0.87     | (0.36)   |
| Return on Total Assets ( %)   | (6.31)   | 4.8     | (0.39)   | 3.02     | (1.65)   |
| <b>Liquidity ratios</b>   |          |         |          |          |          |
| Current Assets ( %)   | 1.55:1   | 0.81:1  | 0.80:1   | 0.81:1   | 1.67:1   |
| Acid Test (%)   | 1.46:1   | 0.63:1  | 0.70:1   | 0.71:1   | 1.02:1   |
| <b>Efficiency Ratios</b>  |          |         |          |          |          |
| Total Assets Turnover ( %)  | 34.84    | 53.16   | 56.73    | 46.63    | 66.91    |

Source: State Plantations Corporation Annual Account

The company has deployed 6,273 employees. Gross profit margin of the SLSPC has remained for the last few years. The liquidity ratio such as Current Ratio and Quick Ratio are also deteriorating indicating that the corporation giving concern remained valuable. As such the corporation should create strategies that will enhance its productivity and makes serious issues on going concern of the entity. The company has not utilized its assets to generate maximum revenue.

#### **Janatha Estate Development Board (JEDB)**

JEDB is currently maintaining 17 estates which were not handed over to RPCs. In order to increase productivity of existing lands the JEDB has taken initiatives to diversify crops and identify other sources of income such as eco tourism and mini hydro etc.

JEDB has been able to re-cultivate 416 acres of coconut in Pallai after the end of the war. In addition to that they also started planting sugar cane in Kumarawaththa in Monaragala to be sold to Palawatta Sugar Company.

**Table 7.7**  
**Financial Performance of JEDB**

|                                 | 2006     | 2007     | 2008     | 2009     | 2010    |
|---------------------------------|----------|----------|----------|----------|---------|
| Total Revenue (Rs.Mn)           | 419.6    | 594.4    | 626.8    | 590.1    | 768.6   |
| Gross Profit (Rs.Mn)            | (86.9)   | (26.2)   | (54.1)   | (175.4)  | (130.4) |
| Net Profit /Loss (Rs.Mn)        | (153.3)  | (112.1)  | (63.5)   | (225.1)  | (225.1) |
| Current Assets (Rs.Mn)          | 1113.1   | 1680.0   | 1663.0   | 2732.4   | 2035.6  |
| Total Assets (Rs.Mn)            | 1596.0   | 1677.6   | 1163.0   | 2732.4   | 2735.6  |
| Total Equity (Rs.Mn)            | (617.2)  | (2668.1) | (1743.4) | (1978.5) | 2704.2  |
| Current Liabilities (Rs.Mn)     | 2213.6   | 2626.6   | 1175.9   | 1220.3   | 1317.7  |
| Investment (Rs.Mn)              | -        | -        | -        | -        | -       |
| Debtors (Rs.Mn)                 | 1005.9   | 1011.1   | 483.6    | 621.84   | 523.12  |
| Cash & Cash Equivalents (Rs.Mn) | (413.3)  | (455.4)  | (361.8)  | (251.6)  | (256.0) |
| Fixed Assets (Rs.Mn)            | 483.5    | 505.828  | 544.4    | 1981.8   | 2,035.6 |
| Working Capital (Rs.Mn)         | (1100.4) | (1217.8) | (557.3)  | 469.7    | 1,386.5 |
| Creditors (Rs.Mn)               | 1410.3   | 1437.5   | 303.1    | 903.43   | 978.6   |
| <b>Profitability Ratios</b>     |          |          |          |          |         |
| Gross Profit ( % )              | (20.7)   | (4.4)    | (8.1)    | (29.7)   | (8.3)   |
| Net Profit ( % )                | (36.5)   | (18.8)   | (10.1)   | (38.1)   | (12.43) |
| Return on Assets ( % )          | (9.6)    | (6.67)   | (5.46)   | (8.24)   | (3.06)  |
| <b>Liquidity Ratios</b>         |          |          |          |          |         |
| Current Assets ( % )            | 1:0.50   | 1:0.70   | 1:0.99   | 1:2.24   | 1:2.0   |
| Acid Test ( % )                 | 0.48:1   | 0.44:1   | 0.45:1   | 0.54     | 0.45:1  |
| <b>Efficiency Ratios</b>        |          |          |          |          |         |
| Total Assets Turnover ( % )     | 26.3     | 35.4     | 53.8     | 21.6     | 32.8    |

Source: Janatha Estate Development Board Annual Accounts

JEDB has been incurring losses in the past 5 years and in 2010 too. The losses are mainly due to insufficient revenue to cover even administrative expenses. The existing negative working capital of the Board

indicates going concern issues of the entity. Therefore the Board is required to adopt effective internal control system and necessary management reform to arrest this situation.

## Chapter 08 Industrial Sector

### Central Engineering Consultancy Bureau (CECB)

CECB has been in existence for over 38 years operation as a Self Financing Semi

Government Organization which is primarily engaged in Consultancy, Constructions and Turnkey Engineering Projects.

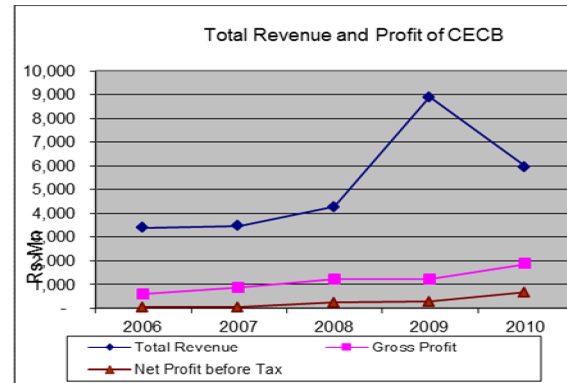
**Table 8.1  
Financial Highlights of CECB**

|  | 2006  | 2007  | 2008  | 2009  | 2010  |
|--|-------|-------|-------|-------|-------|
| Turnover                                   | 3,161 | 3,318 | 4,105 | 8,722 | 5,819 |
| Other Income                               | 233   | 155   | 162   | 184   | 147   |
| Total Revenue (Rs.Mn)                      | 3,395 | 3,474 | 4,267 | 8,906 | 5,966 |
| Gross Profit (Rs.Mn)                       | 589   | 872   | 1,212 | 1,213 | 1,859 |
| Net Profit before Interest and Tax (Rs.Mn) | 52    | 44    | 238   | 271   | 669   |
| Financial Charges (Rs.Mn)                  | 28    | 39    | 40    | 20    | 20    |
| Cost of Employment (Rs.Mn)                 | 381   | 535   | 631   | 634   | 670   |
| Non-Current Assets (Rs.Mn)                 | 275   | 323   | 330   | 405   | 460   |
| Current Assets (Rs.Mn)                     | 3,481 | 4,211 | 5,869 | 2,586 | 4,352 |
| Current Liabilities (Rs.Mn)                | 3,296 | 4,032 | 5,592 | 2,262 | 3,714 |
| Non-Current Liabilities (Rs.Mn)            | 112   | 175   | 173   | 176   | 176   |
| Equity (Rs.Mn)                             | 348   | 326   | 433   | 553   | 922   |
| Investment (Rs.Mn)                         | 31    | 55    | 55    | 57    | 70    |
| Number of Employees (Nos)                  | 666   | 950   | 960   | 1,044 | 1,156 |
| Administration Cost (Rs.Mn)                | 770   | 983   | 1,135 | 1,032 | 1,198 |
| <b>Key Performance Indicators</b>          |       |       |       |       |       |
| Gross Profit Ratio ( %)                    | 19    | 26.3  | 30    | 14    | 32    |
| Net Profit Ratio ( %)                      | 0.68  | 0.14  | 4.66  | 2.81  | 10.88 |
| Return on Capital Employed (ROCE) ( %)     | 3.45  | 0.07  | 25    | 28    | 44    |
| Return on Assets ( %)                      | 1.38  | 0.97  | 3.84  | 9     | 14    |
| Administration Cost Ratio ( %)             | 96.46 | 96.19 | 89.69 | 96.72 | 93.37 |
| Current Ratio ( %)                         | 1.06  | 1.04  | 1.05  | 1.14  | 1.17  |

Source: CECB

Increased debtors over the periods implies the need of a higher concern of the management to implement a better debt recovery programme and also improving the internal control measures. Undertaking assignments by

CECB without proper internal & external assessments which leads to delays and cost escalation, has also oriented liquidity issue to the organization.

**Chart 8.1**


The gross profit and net profit of CECB increased by 44.10 percent and 160 percent respectively in year 2010 despite the decline of its total revenue by 33 percent to Rs. 5,966Mn.

### State Engineering Corporation of Sri Lanka (SEC)

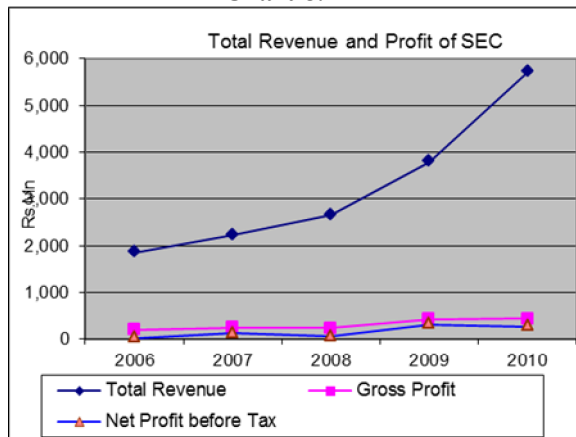
SEC provides services on consultancy, construction, civil and electro machinery as one of the main Public sector institution, in Sri Lanka. The Corporation has recorded total revenue of Rs.5,712 million in year 2010,

which is significant increase of 50 percent compared to Rs. 3,794 million recorded in year 2009. However Net Profit before Tax has decreased by Rs. 40 million to Rs.273 million in the same year when compared with the previous year.

**Table 8.2**  
**Financial Highlights of SEC**

| Year                              | 2006  | 2007  | 2008  | 2009  | 2010  |
|-----------------------------------|-------|-------|-------|-------|-------|
| Turnover (Rs.Mn)                  | 1,844 | 2,219 | 2,652 | 3,794 | 5,712 |
| Other Income (Rs.Mn)              | 22    | 28    | 18    | 61    | 30    |
| Total Revenue (Rs.Mn)             | 1,866 | 2,247 | 2,670 | 3,856 | 5,742 |
| Gross Profit (Rs.Mn)              | 201   | 243   | 240   | 432   | 443   |
| Net Profit before Tax (Rs.Mn)     | 20    | 128   | 60    | 313   | 273   |
| Financial Charges (Rs.Mn)         | 5     | 4     | 1     | 0     | 0     |
| Cost of Employment (Rs.Mn)        | 416   | 546   | 638   | 765   | 995   |
| Non- Current Assets (Rs.Mn)       | 97    | 133   | 128   | 120   | 163   |
| Current Assets (Rs.Mn)            | 1,607 | 2,272 | 2,690 | 3,808 | 5,282 |
| Current Liabilities (Rs.Mn)       | 1,391 | 1,895 | 2,424 | 3,231 | 4,492 |
| Non- Current Liabilities (Rs.Mn)  | 346   | 210   | 247   | 275   | 278   |
| Equity (Rs.Mn)                    | (33)  | 96    | 147   | 421   | 674   |
| Investment (Rs.Mn)                | 1     | 1     | 1     | 1     | 1     |
| Number of Employees (Nos.)        | 2,702 | 2,552 | 2,174 | 2,203 | 2,343 |
| <b>Key Performance Indicators</b> |       |       |       |       |       |
| Gross Profit Ratio (%)            | 10.89 | 10.96 | 9.05  | 11.38 | 7.7   |
| Net Profit Ratio (%)              | 1.07  | 5.69  | 2.24  | 8.12  | 4.7   |
| Return on Capital Employed (%)    | 268   | 112   | 35    | 65    | 40.5  |
| Return on Assets (%)              | 1.2   | 5.32  | 2.13  | 7.97  | 5     |
| Administration Cost Ratio (%)     | 71.66 | 59.29 | 70.15 | 83.56 | 79.80 |
| Current Ratio (%)                 | 1.16  | 1.20  | 1.11  | 1.18  | 1.17  |

Source: \* Draft accounts

**Chart 8.2**


This is mainly due to the net loss recorded by the mechanical and electrical group and higher administrative expenditure when complied with increase of the group revenue of SEC. Increase of the debtors by 70 percent during the year signs the need of a better recovery mechanism. Reduction of the current ratio when compared to last year indicates the liquidity issue of the institution

### State Development and Construction Corporation (SD&CC)

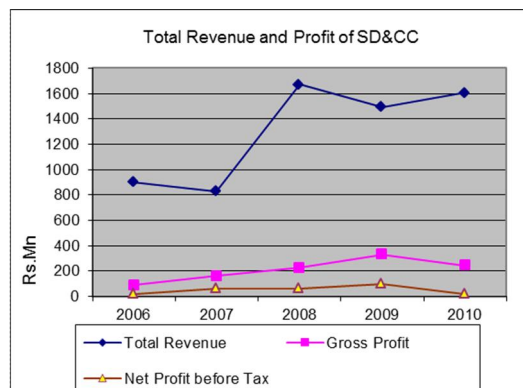
SD&CC is one of the Public Sector Engineering Organization engaged in developing infrastructure such as constructing

Roads, Bridges, Buildings, Irrigation and Water Supply Schemes. SD&CC is also manufacturing precast power transmission poles, bridge beams and RCC pipes.

**Table 8.3**  
**Financial Highlights of SD & CC**

|                                       | 2006  | 2007  | 2008  | 2009  | 2010  |
|---------------------------------------|-------|-------|-------|-------|-------|
| Turnover (Rs.Mn)                      | 867   | 802   | 1,635 | 1,466 | 1,581 |
| Other Income (Rs.Mn)                  | 35    | 30    | 38    | 28    | 26    |
| Total Revenue (Rs.Mn)                 | 902   | 831   | 1,671 | 1,494 | 1,607 |
| Gross Profit (Rs.Mn)                  | 88    | 161   | 228   | 330   | 245   |
| Net Profit before Tax (Rs.Mn)         | 22    | 42    | 52    | 101   | 20    |
| Financial Charges (Rs.Mn)             | 15    | 18    | 77    | 119   | 81    |
| Non-Current Assets (Rs.Mn)            | 938   | 907   | 896   | 874   | 853   |
| Current Assets (Rs.Mn)                | 881   | 1,208 | 1,553 | 1,753 | 1,677 |
| Current Liabilities (Rs.Mn)           | 734   | 989   | 1,178 | 1,190 | 1,290 |
| Non-Current Liabilities (Rs.Mn)       | 151   | 165   | 235   | 345   | 367   |
| Equity (Rs.Mn)                        | 934   | 960   | 928   | 1,017 | 872   |
| Investments (Rs.Mn)                   | 101   | 65    | 53    | 50    | 50    |
| Number of Employees (Nos)             | 588   | 565   | 570   | 531   | 498   |
| <b>Key Performance Indicators</b>     |       |       |       |       |       |
| Gross Profit Ratio (%)                | 10.15 | 20.07 | 13.94 | 22.51 | 15.50 |
| Net Profit Ratio (%)                  | 2.46  | 5     | 3.11  | 6.76  | 1.37  |
| Return on Capital Employed (ROCE) (%) | 2.02  | 2.7   | 5.6   | 8.7   | 2.29  |
| Return on Assets (%)                  | 1.22  | 3.03  | 2.57  | 4.33  | 0.79  |
| Administration Cost Ratio (%)         | 80.96 | 68.49 | 59.70 | 47.54 | 58.37 |
| Current Ratio (%)                     | 1.20  | 1.22  | 1.30  | 1.47  | 1.30  |

Source: Annual Reports & Accounts, SD&CC

**Chart 8.3**


The gross profit and net profit of SD&CC decreased by 32.42 percent and 78.21 percent respectively in year 2010 despite the increase in its turnover by 14.05 percent to Rs. 1,672Mn.

This is mainly due to the changing of the accounting practice adopted by the SD & CC during the financial year.

**Paranthan Chemicals Co. Ltd (PCCL)**

PCC is now engaged only in importing and sale of heavy chemicals such as liquid

Chlorine, Caustic Soda and Hydrochloric Acid.

**Table 8.4**  
**Financial Highlights of PCCL**

|                                   | 2006  | 2007  | 2008  | 2009  | 2010<br>(Draft) |
|-----------------------------------|-------|-------|-------|-------|-----------------|
| Turnover (Rs.Mn)                  | 123   | 153   | 197   | 192   | 180             |
| Other Income (Rs.Mn)              | 6     | 10    | 7     | 5     | 7               |
| Total Revenue (Rs.Mn)             | 129   | 162   | 204   | 197   | 187             |
| Gross Profit (Rs.Mn)              | 42    | 54    | 82    | 80    | 74              |
| Net Profit before Tax (Rs.Mn)     | 13    | 21    | 41    | 30    | 22              |
| Cost of Employment (Rs.Mn)        | 13    | 15    | 18    | 21    | 23              |
| Non-Current Assets (Rs.Mn)        | 34    | 37    | 82    | 77    | 72              |
| Current Assets (Rs.Mn)            | 106   | 113   | 94    | 113   | 140             |
| Current Liabilities (Rs.Mn)       | 10    | 11    | 17    | 17    | 30              |
| Non-Current Liabilities (Rs.Mn)   | 15    | 10    | 7     | 10    | 13              |
| Equity (Rs.Mn)                    | 115   | 129   | 152   | 163   | 169             |
| Investment (Rs.Mn)                | 53    | 66    | 31    | 41    | 69              |
| Number of Employees (Nos)         | 42    | 46    | 56    | 59    | 67              |
| <b>Key Performance Indicators</b> |       |       |       |       |                 |
| Gross Profit Ratio (%)            | 34.51 | 35.38 | 41.84 | 41.94 | 41.30           |
| Net Profit Ratio (%)              | 9.74  | 13.07 | 19.92 | 15.27 | 12.46           |
| Return on Capital Employed (%)    | 9.26  | 13.01 | 18.71 | 8.85  | 5.60            |
| Return on Assets (%)              | 9.01  | 14.17 | 23.17 | 15.81 | 10.60           |
| Administration Cost Ratio (%)     | 97.41 | 97.54 | 97.54 | 75.83 | 80.87           |
| Current Ratio (%)                 | 10.36 | 9.96  | 5.54  | 6.71  | 4.68            |

Source: Annual Reports & Accounts, PCC

By the end of the year 2010, net profits before tax of the company indicated 25 percent decline in comparison to the previous year and

reported as Rs.22.5 Mn. The decrease in revenue attributed the decline.

### Manthai Salt Limited (MSL)

The primary activity of the company is to produce normal salt, crushed salt and iodated salt. The company intends to expand the

Mannar Saltern in order to increase the salt production for catering to the national demand.

Chart 8.4

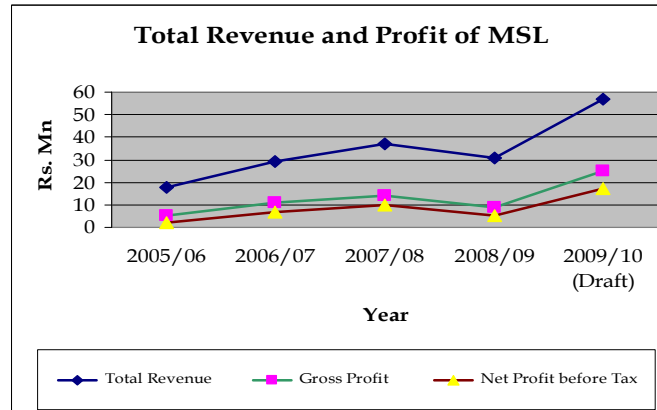


Table 8.5  
Financial Highlights of MSL

| Year                              | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10<br>(Draft) |
|-----------------------------------|---------|---------|---------|---------|--------------------|
| Turnover (Rs.Mn)                  | 18      | 29      | 36      | 30      | 55                 |
| Other Income (Rs.Mn)              | 0       | 0       | 1       | 2       | 2                  |
| Total Revenue (Rs.Mn)             | 18      | 29      | 37      | 31      | 57                 |
| Gross Profit (Rs.Mn)              | 5       | 11      | 14      | 9       | 25                 |
| Net Profit before Tax (Rs.Mn)     | 2       | 7       | 10      | 5       | 17                 |
| Non-Current Assets (Rs.Mn)        | 60      | 60      | 80      | 75      | 87                 |
| Current Assets (Rs.Mn)            | 11      | 18      | 2       | 17      | 23                 |
| Current Liabilities (Rs.Mn)       | 3       | 4       | 5       | 3       | 6                  |
| Non-Current Liabilities (Rs.Mn)   | 1       | 1       | 2       | 2       | 3                  |
| Equity (Rs.Mn)                    | 67      | 73      | 85      | 87      | 101                |
| Number of Employees (Nos)         | 74      | 81      | 77      | 61      | 58                 |
| <b>Key Performance Indicators</b> |         |         |         |         |                    |
| Gross Profit Ratio (%)            | 25.64   | 39.37   | 38.56   | 30.01   | 46.48              |
| Net Profit Ratio (%)              | 8.74    | 22.76   | 26.38   | 16.53   | 30.37              |
| Return on Capital Employed (%)    | 2.20    | 7.78    | 8.59    | 3.82    | 16.12              |
| Return on Assets (%)              | 2.23    | 8.42    | 10.63   | 5.71    | 15.48              |
| Administration Cost Ratio (%)     | 97.15   | 87.94   | 98.30   | 98.90   | 98.84              |
| Current Ratio (%)                 | 3.87    | 4.15    | 0.38    | 6.21    | 3.87               |

Source: MSL

When compared to the year 2008/2009, turnover and overall profitability of the company has increased significantly in the

year 2009/2010. Current ratio has decreased to 3.87 in 2009/2010, compared to 6.21 reported in 2008/2009.

### Lanka Mineral Sands Limited (LMSL)

The current principal business activities of the company are, mining, separating, refining and processing of heavy mineral sands. It also manufactures by-products of refining heavy beach mineral sands.

LMSL's future plans include Modernization and upgrading of the existing plant, diversification of products, expanding value added products, renovation of damaged jetty, construction of new welding electrode plant and exploitation of heavy mineral deposits in the areas cleared by the security forces.

**Table 8.6**  
**Financial Performances of LMSL**

|                                   | 2006  | 2007  | 2008  | 2009  | 2010  |
|-----------------------------------|-------|-------|-------|-------|-------|
| Turnover (Rs.Mn)                  | 618   | 897   | 589   | 880   | 1,094 |
| Other Income (Rs.Mn)              | 91    | 190   | 215   | 217   | 294   |
| Total Revenue (Rs.Mn)             | 709   | 1,087 | 805   | 1,098 | 1,388 |
| Gross Profit (Rs.Mn)              | 259   | 427   | 374   | 362   | 709   |
| Net Profit before Tax (Rs.Mn)     | 127   | 333   | 234   | 324   | 678   |
| Non-Current Assets (Rs.Mn)        | 29    | 33    | 65    | 56    | 84    |
| Current Assets (Rs.Mn)            | 1,699 | 1,908 | 1,916 | 2,098 | 2,068 |
| Current Liabilities (Rs.Mn)       | 103   | 138   | 110   | 213   | 242   |
| Non-Current Liabilities (Rs.Mn)   | 71    | 80    | 51    | 59    | 66    |
| Equity (Rs.Mn)                    | 1,553 | 1,723 | 1,821 | 1,882 | 1,844 |
| Investment (Rs.Mn)                | 683   | 876   | 520   | 502   | 218   |
| Number of Employees (Nos)         | 660   | 638   | 639   | 648   | 643   |
| <b>Key Performance Indicators</b> |       |       |       |       |       |
| Gross Profit Ratio (%)            | 41.98 | 47.62 | 63.51 | 41.18 | 64.81 |
| Net Profit Ratio (%)              | 17.86 | 30.67 | 29.11 | 29.52 | 61.97 |
| Return on Capital Employed (%)    | 5.61  | 13.79 | 9.00  | 12.27 | 35.49 |
| Return on Assets (%)              | 7.33  | 17.17 | 11.82 | 15.04 | 31.51 |
| Administration Cost Ratio (%)     | 13.24 | 13.03 | 20.66 | 15.05 | 18.01 |
| Current Ratio Rs.                 | 16.52 | 13.82 | 17.44 | 9.84  | 8.54  |

Source: LMSL

In the year 2010, financial indicators of LMSL relating to the revenue and profitability recorded a significant increase. With the end of civil conflict which prevailed in Northern

and Eastern provinces LMSL was able to extend the mining area and the company is in the process of upgrading its existing plants.



**Sri Lanka Cement Corporation (SLCC)**  
 Since its factory at Kankasanturai was destroyed due to terrorist activities, SLCC

currently engages only in importing and selling cement.

**Table 8.7**  
**Financial Highlights of SLCC**

| Year                              | 2006  | 2007    | 2008  | 2009   | 2010  |
|-----------------------------------|-------|---------|-------|--------|-------|
| Turnover (Rs.Mn)                  | 19    | 2       | 127   | 1,071  | 411   |
| Other Income (Rs.Mn)              | 33    | 39      | 44    | 29     | 35    |
| Total Revenue (Rs.Mn)             | 52    | 41      | 170   | 1,099  | 446   |
| Gross Profit (Rs.Mn)              | 2     | (0)     | 2     | (66)   | 4     |
| Net Profit before Tax (Rs.Mn)     | 0.04  | (0)     | 8     | (79)   | 5     |
| Non-Current Assets (Rs.Mn)        | 1,901 | 2,096   | 2,432 | 2,099  | 2,459 |
| Current Assets (Rs.Mn)            | 55    | 381     | 476   | 476    | 148   |
| Current Liabilities (Rs.Mn)       | 10    | 11      | 100   | 100    | 221   |
| Non-Current Liabilities (Rs.Mn)   | 508   | 515     | 515   | 513    | 511   |
| Equity (Rs.Mn)                    | 1,437 | 1,951   | 1,960 | 1,880  | 1,885 |
| Investment (Rs.Mn)                | 1,090 | 1,128   | 1,090 | 1,135  | 1,090 |
| Number of Employees (Nos)         | 94    | 89      | 81    | 75     | 66    |
| <b>Key Performance Indicators</b> |       |         |       |        |       |
| Gross Profit Ratio ( % )          | 11.39 | (17.80) | 1.43  | (6.18) | 0.97  |
| Net Profit Ratio ( % )            | 0.08  | (0.05)  | 4.99  | (7.22) | 1.22  |
| Return on Capital Employed ( % )  | 0.00  | (0.00)  | 0.43  | (4.22) | 0.21  |
| Return on Assets ( % )            | 0.00  | (0.00)  | 0.33  | (3.18) | 0.19  |
| Administration Cost Ratio (%)     | 62.27 | 68.68   | 68.44 | 87.97  | 85.74 |
| Current Ratio ( % )               | 5.24  | 33.30   | 4.74  | 4.74   | 0.67  |

Source: SLCC

SLCC reported a net profit of Rs.5Mn in 2010 which is a significant increase compared to the net loss of Rs.79 Mn incurred in previous year. But the current ratio of the Corporation

has decreased drastically during the year 2010 indicating liquidity issues.

**Lanka Phosphate Limited (LPL)**

The principal business activities of the company are excavating, processing and selling of rock phosphate which is used as a fertilizer for perennial agricultural crops.

There is a significant increase in both gross profit ratio and net profit ratio of the company in the year 2009/10 when compared to the previous year.

**Table 8.8**  
**Financial Highlights of LPL**

|  | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 |
|--|---------|---------|---------|---------|---------|
| Turnover (Rs.Mn)                           | 203     | 208     | 260     | 239     | 351     |
| Other Income (Rs.Mn)                       | 19      | 14      | 23      | 30      | 30      |
| Total Revenue (Rs.Mn)                      | 222     | 222     | 283     | 269     | 381     |
| Gross Profit (Rs.Mn)                       | 107     | 102     | 102     | 111     | 194     |
| Net Profit before Interest and Tax (Rs.Mn) | 39      | 11      | 16      | 25      | 104     |
| Financial Charges (Rs.Mn)                  | 4       | 0       | 0.3     | 1       | 1       |
| Non-Current Assets (Rs.Mn)                 | 85      | 83      | 83      | 73      | 62      |
| Current Assets (Rs.Mn)                     | 219     | 228     | 245     | 283     | 372     |
| Current Liabilities (Rs.Mn)                | 15      | 7       | 11      | 31      | 36      |
| Non-Current Liabilities (Rs.Mn)            | 33      | 44      | 47      | 37      | 39      |
| Equity (Rs.Mn)                             | 256     | 260     | 269     | 288     | 359     |
| Investment (Rs.Mn)                         | 1       | 1       | 1       | 1       | 1       |
| Number of Employees (Nos)                  | 304     | 293     | 303     | 295     | 295     |
| <b>Key Performance Indicators</b>          |         |         |         |         |         |
| Gross Profit Ratio ( % )                   | 52.78   | 49.04   | 39.36   | 46.33   | 55.10   |
| Net Profit Ratio ( % )                     | 17.55   | 5.08    | 5.71    | 9.20    | 27.38   |
| Return on Capital Employed ( % )           | 10.93   | 2.52    | 5.02    | 4.54    | 20.37   |
| Return on Assets ( % )                     | 12.84   | 3.64    | 4.93    | 6.95    | 24.02   |
| Administration Cost Ratio ( % )            | 40.87   | 45.22   | 36.45   | 43.68   | 40.80   |
| Current Ratio ( % )                        | 14.22   | 31.90   | 21.82   | 9.06    | 10.25   |

Source: Annual Reports & Accounts, LPL

### Ceylon Ceramics Corporation (CCC)

CCC was incorporated in 1972 under the State Industrial Corporation Act No.49 of 1957. Although the CCC has 09 brick and tile factories, only six factories are operated currently. According to a Cabinet Decision

dated 20<sup>th</sup> October 2010 Cabinet of Ministers decided to lease out all factories of CCC jointly or severally to selected private sector investors for a period of 30 years on long term lease basis and Ministry of State Recourses and Enterprise Development is currently in the process of selecting suitable investors.

**Table 8.9**  
**Financial Highlights of CCC**

| Year                              | 2006   | 2007   | 2008    | 2009    | 2010    |
|-----------------------------------|--------|--------|---------|---------|---------|
| Turnover (Rs.Mn)                  | 250    | 257    | 244     | 178     | 144     |
| Other Income (Rs.Mn)              | 14     | 8      | 15      | 10      | 2       |
| Total Revenue (Rs.Mn)             | 264    | 265    | 259     | 188     | 146     |
| Gross Profit (Rs.Mn)              | 3      | 10     | (5)     | (37)    | (55)    |
| Net Profit before Tax (Rs.Mn)     | (10)   | (20)   | (43)    | (63)    | (77)    |
| Financial Charges (Rs.Mn)         | 3      | 4      | 5       | 4       | 3       |
| Non-Current Assets (Rs.Mn)        | 93     | 91     | 87      | 40      | 25      |
| Current Assets (Rs.Mn)            | 107    | 131    | 149     | 116     | 100     |
| Current Liabilities (Rs.Mn)       | 318    | 359    | 463     | 408     | 356     |
| Non-Current Liabilities (Rs.Mn)   | 0.2    | -      | -       | -       | -       |
| Equity (Rs.Mn)                    | (117)  | (137)  | (226)   | (253)   | (231)   |
| Investment (Rs.Mn)                | 55     | 55     | 55      | 12      | -       |
| Number of Employees (Nos)         | 848    | 756    | 710     | 644     | 589     |
| <b>Key Performance Indicators</b> |        |        |         |         |         |
| Gross Profit Ratio (%)            | 1.17   | 3.99   | (2.13)  | (20.80) | (38.04) |
| Net Profit Ratio (%)              | (2.55) | (6.28) | (14.76) | (31.37) | (50.63) |
| Return on Capital Employed (%)    | 8.49   | 14.87  | 18.94   | 24.95   | 33.45   |
| Return on Assets (%)              | (3.37) | (7.52) | (16.16) | (37.82) | (59.48) |
| Administration Cost Ratio (%)     | 8.79   | 12.12  | 15.63   | 12.16   | 9.51    |
| Current Ratio (%)                 | 0.34   | 0.36   | 0.32    | 0.28    | 0.28    |

Source: CCC

Profitability of the Corporation has eroded drastically during the past few years due to the

increase in cost of raw materials and low demand.

## Chapter 09 Service Sector

### Sri Lanka Broadcasting Corporation (SLBC)

While competing with private channels, SLBC provides its services through 7 main channels, 5 regional channels, 5 public channels and 6

foreign channels, covering Sri Lanka as well as some parts in the world.

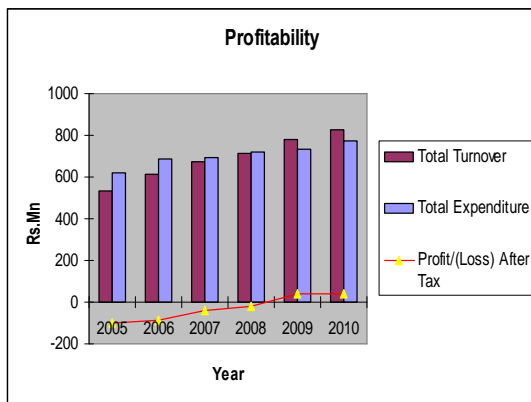
SLBC has been able to reversing the loss making trend, recording a net profit of Rs.43 Mn in 2010. However, the accumulated losses of SLBC stood at Rs.685 Mn by the end of 2010.

**Table 9.1**  
**Financial Performance of SLBC**

| Item                  | 2005    | 2006    | 2007    | 2008    | 2009 | 2010 |
|-----------------------|---------|---------|---------|---------|------|------|
| Turnover (Rs.Mn)      | 535     | 613     | 672     | 72      | 781  | 828  |
| Net Profit (Rs.Mn)    | (97.96) | (87.23) | (37.37) | (18.23) | 38   | 43   |
| Total Assets (Rs.Mn)  | 1032    | 999     | 979     | 1034    | 1121 | 1192 |
| Total Liabilities     | 645     | 654     | 605     | 608     | 567  | 820  |
| Cash Balances (Rs.Mn) | 5.8     | 9.2     | (27.6)  |         | 61   | 94   |
| Number of Staff (Nos) | 1179    | 1099    | 1031    | 955     | 911  | 875  |

Source: Annual Accounts of SLBC

**Chart 9.1**



### Sri Lanka Rupavahini Corporation (SLRC)

SLRC has commenced NTV in November 2009 fulfilling long felt need of a channel which is dedicated to English-speaking viewers, expanding its services with 4 main TV channels in Sri Lanka.

In 2010, Total Income increased by 3 percent to Rs. 1930 Mn, Net Profit before tax increased to Rs. 43 mn from Rs.12.3 Mn in 2009. However the performance indicators were not at satisfactory level although there was a year on year growth in revenue.

**Table 9.2**  
**Financial Performance of SLRC**

| Item                              | 2007  | 2008  | 2009  | 2010  |
|-----------------------------------|-------|-------|-------|-------|
| Total Income (Rs.Mn)              | 1,761 | 1,639 | 1,866 | 1930  |
| Net Profit before Tax (Rs.Mn)     | 30    | 30    | 12.3  | 42    |
| Net Profit after Tax (Rs.Mn)      | 3     | 5     | 4.7   | 12    |
| Taxes Paid (Rs.Mn)                | 26    | 25    | 7     | 30    |
| Cash Balance (Rs.Mn)              | 172   | 17    | 25    | 543   |
| Number of Staff (Nos)             | 979   | 970   | 923   | 932   |
| <b>Key Performance indicators</b> |       |       |       |       |
| Net Profit Ratio ( % )            | 0.18  | 0.3   | 0.25  | 0.62  |
| Current Ratio                     | 3:5:1 | 3:1:1 | 3:9:1 | 4.5:1 |
| Cost per Employee (Rs."000")      | 622   | 625   | 644   | 575   |

Source: Annual Accounts of SLRC

**Independent Television Network (ITN)**

ITN has expanded its services with 3 TV channels (ITN, Vasantham TV, Prime TV) and 3 FM radio channels (Lakhanda, Vasantham FM, Prime radio) serving all the communities who speak Sinhala, Tamil and English. ITN had a daily transmission of 18 hours while giving special emphasis to children and religious programmes.

compared to Rs 185 mn in 2009. Revenue increased by 19 percent to Rs.1777 Mn. Total Asset base of ITN increased by 30 percent to Rs.1751 Mn mainly due to the increase in commercial debt.

Due to the establishment of new TV and Radio channels, the number of Employees of ITN has increased significantly from 583 in 2009 to 739 in 2010.

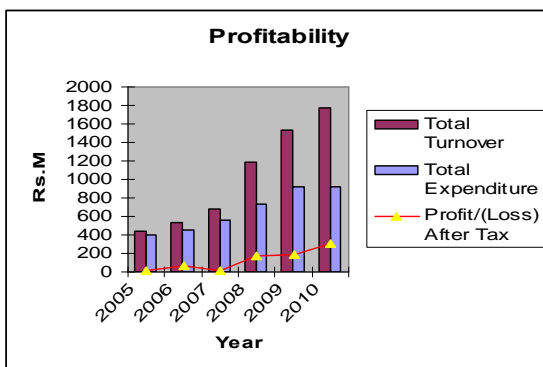
In 2010, ITN recorded its highest ever profit of Rs 308 mn, an increase of 66 percent

**Table 9.3**  
**Financial Performance of ITN**

|   | 2005 | 2006 | 2007 | 2008 | 2009  | 2010 |
|---|------|------|------|------|-------|------|
| Revenue (Rs.Mn)                                 | 455  | 600  | 685  | 1185 | 1,499 | 1777 |
| Gross Profit (Rs.Mn)                            | 285  | 451  | 456  | 938  | 1130  | 1333 |
| Financial Charges (Rs.Mn)                       | 0.23 | 0.32 | 2.1  | 3.4  | 7.5   | 6.1  |
| Administration & Establishment Expenses (Rs.Mn) | 292  | 379  | 482  | 573  | 675   | 777  |
| Selling & Distribution Expenses (Rs.Mn)         | 112  | 71   | 80   | 154  | 248   | 137  |
| Net Profit before Interest and Tax (Rs.Mn)      | 39   | 89   | 9.7  | 317  | 296   | 495  |
| Total assets                                    | 577  | 671  | 723  | 1021 | 1338  | 1751 |
| Non-Current Assets (Rs.Mn)                      | 254  | 307  | 329  | 304  | 376.6 | 496  |
| Current Assets (Rs.Mn)                          | 323  | 364  | 394  | 717  | 961   | 1254 |
| Current Liabilities (Rs.Mn)                     | 106  | 134  | 154  | 282  | 455   | 596  |
| Equity (Rs.Mn)                                  | 238  | 302  | 318  | 494  | 637   | 937  |
| Number of Employees (Nos)                       | 461  | 487  | 500  | 509  | 583   | 739  |

Source: Annual Accounts of ITN

**Chart 9.2**



They are now proposing capital investments for expansion activities specially to provide modern digital audio consoles and computerized automation equipments.

The company is now planning to expand it's operations and proposing capital investments to provide modern digital equipment.

## Chapter 10 Health Care Sector

The State Pharmaceuticals Corporation (SPC) and State Pharmaceuticals Manufacturing Corporation (SPMC) which are categorized as PEs in health care sector play a significant role in manufacturing, importing and supplying safe, effective and high quality medicinal products at an affordable price. Further they are the major suppliers of medicinal products of the government hospitals. During the year 2010 SPC & SPMC have supplied Rs. 11,836 million worth of

medicinal products to the Department of Health Services (DHS) an increase of 10 percent of from 2009.

### State Pharmaceuticals Corporation (SPC)

During the year 2010 total turnover of the SPC increased by 8.5 percent compared to the year 2009. The sales of the corporation increased 5.3 percent while the supplies made to the DHS recorded an increase of 9.8 percent in 2010.

**Table 10.1**  
**Financial Highlights of SPC**

|  | 2006  | 2007  | 2008  | 2009  | 2010   |
|--|-------|-------|-------|-------|--------|
| Revenue of SPC (Rs.Mn)                 | 2,467 | 2,621 | 2,934 | 3,331 | 3507   |
| DHS (Rs.Mn)                            | 5,617 | 8,816 | 9,306 | 9,990 | 10,968 |
| Net Profit after Interest & Tax(Rs.Mn) | 179   | 258   | 215   | 238   | 179    |
| Finance Cost (Rs.Mn)                   | 128   | 281   | 220   | 360   | 332    |
| Net Assets (Rs.Mn)                     | 1,745 | 1,960 | 2,221 | 2,436 | 2,599  |
| Non-Current Assets (Rs.Mn)             | 555   | 594   | 595   | 629   | 675    |
| Current Assets (Rs.Mn)                 | 3,626 | 3,939 | 5,084 | 4,144 | 7,243  |
| Income Tax (Rs.Mn)                     | 206   | 232   | 209   | 148   | 207    |
| Treasury Levy (Rs.Mn)                  | 20    | 20    | 25    | 25    | 60     |

Source: SPC

### State Pharmaceuticals Manufacturing Corporation (SPMC)

The net profit of SPMC increased by 57 percent compared to 2009. The operating profit of the Corporation also increased by

119 percent compared to the year 2009. The performance of SPMC has been improving over the last 5 years. Increase in operational revenue was mainly due to the increasing sales to the Department of Health Services.

**Table 10.2**  
**Financial Highlights of SPMC**

|                            | 2006  | 2007  | 2008  | 2009  | 2010  |
|----------------------------|-------|-------|-------|-------|-------|
| Revenue SPC (Rs.Mn)        | 234   | 314   | 353   | 420   | 510   |
| DHS (Rs.Mn)                | 177   | 284   | 536   | 732   | 868   |
| Net Profit (Rs.Mn)         | 9     | 32    | 78    | 98    | 154   |
| Net Assets (Rs.Mn)         | 1,034 | 1,057 | 1,138 | 1,629 | 1,494 |
| Non Current Assets (Rs.Mn) | 726   | 702   | 674   | 1,016 | 1,157 |
| Current Assets (Rs.Mn)     | 350   | 415   | 577   | 701   | 693   |
| Income Tax (Rs.Mn)         | -     | 44    | 42    | 53    | 75    |
| Treasury Levy (Rs.Mn)      | 5     | 10    | 10    | 10    | 10    |

Source: SPMC

## Chapter 11 Handling of Post Privatization Matters

In line with the Government's policy of non-privatization in July 2007, The Cabinet of Ministers decided to close down the Public Enterprises Reform Commission of Sri Lanka (PERC) by repealing the PERC Act No 1 of 1996. Therefore, the post privatization monitoring of the institutions divested by PERC was vested with the Department of Public Enterprises. (PED)

At the time of PED taking over of post privatization activities from PERC, there were approximately 30 divested enterprises with unresolved issues (outright transfer or lease), court cases, employee matters, violation of Share Sales and Purchase Agreements, non-payment of installment payments to the Government etc. Since 2008, PED successfully finalized these outstanding matters and only the issues relating to the following institutions are still to be completed.

### **Ambewela Livestock Company Ltd (ALCL) & Pattipola Livestock Company Ltd (PLCL)**

90 percent of shares of ALCL and PLCL were sold to Lanka Milk Food Ltd in September 2001 and 10 percent of shares of each company were gifted to its employees. The lands of two companies were leased for a term of 50 years commencing from September 2001. These lease rentals were collected by the Treasury till 2010 and now this collection is being carried out by the District Secretariat of Nuwara-Eliya.

### **Acland Insurance Services Ltd (AISL)**

90 percent of shares in AISL were sold to P&I Insurance Brokers in 1993.

### **Colombo Commercial Company (Engineers) Ltd (CCC)**

CCE was first privatized in 1994 and re-vested with the GOSL in 1997. 90 percent of shares of the company were re-divested to Serendib Engineering Agencies (Pvt.) Ltd on 17.12.1997 for a purchase consideration of Rs. 38.4 Million. GOSL took over the liabilities of the company as at December 1997. One Arbitration case against GOSL and employees cases are still pending.

### **Lanka Tractors Ltd (LTL)**

In 1994, GOSL sold 60 percent of shares in LTL to M/s Globe Commercial Trading Ltd (GCTL) for Rs 144.48 Mn. 10 percent of shares were gifted to its employees and remaining 30 percent is held by the ST. GCTL subsequently sold part of its holdings to other investors.

### **Lanka Canneries Ltd**

60 percent of LCL shares were sold to Heath & Co. for Rs 102.5 Mn in 1993. 10 percent shares to be gifted to employees and remaining 30 percent held by ST. LCL had made a *right issue* in 2003 which has diluted the ST's holding (30 percent) together with employees' shares (10 percent) to 9.09 percent.

### **Mattegama Textile Lanka Ltd (MTLL)**

MTML was first privatized in 1993 and was a failure. In 1997 MTLL was re-vested with the Government. 100 percent shares of MTML was sold to Kabool of Korea for Rs 30 Mn. However, Purchaser had left the country by mortgaging its assets to the People's Bank.

### **Thulhiriya Textile Ltd**

In Novø 1989, Assets of TTL were sold to the Korean Co. by National Textile Corporation for Rs 277.1 Mn. The purchaser had mortgaged such assets to HNB and BOC for US\$50Mn and had leaved the country in 2003. The aforementioned assets were acquired by the government and leased to MAS investment to develop a Special Textile Processing Zone.

### **Lanka Loha Hardware Ltd**

LLHL was first privatized in 1993. The company ceased production in 1996 due to failure of management to run the company efficiently. In 1997, LLHL was vested with the Government. LLHL was re- divested to Ceylon Heavy Industries & Construction Co. in Decø1997

### **Sevanagala Sugar Industries Ltd**

90 percent of the shares of SSIL were sold to Daya Apparel Export (Pvt) Ltd on 20.06.2002. 10 percent shares were gifted to its employees. In terms of Clause 3.1 (g) of the SSPA, Mahaweli Authority was to enter into a 50 year lease agreement with SSIL within two years from the closing date. Due to the determination of year of valuation, finalization of lease agreement is delayed

### **Pugoda Textile Lanka Ltd (PTLL)**

PLTT was divested to Lakshmi Textile of India in April 1990. Due to operational difficulties and labor disputes, the mill was closed down in March, 1997. The Government re-vested the company on 08.05.1997 under the Rehabilitation Act and appointed Mr. S. Ediriwickrama as the Competent Authority. Subsequent attempts to operate the mill were failed and the employees were sent on VRS at a cost of Rs. 620Mn to the government. The factory premises of PTLL were handed over to BOI. Only the Show Room building situated at Main Street Pettah was available with the company. This property is leased to Ramonas Pvt Ltd for a term of two years



## Chapter 12

### Minority Share Holding Companies

#### Government Investments in Minority Share Holding Companies.

The Government has invested in 49 companies including 20 plantation companies where the government's investment varies from 1 percent to 49 percent of shares. Total value of the cost of the investment made by the government in these minority share holding companies amount to Rs. 4,111 Mn or 14.1 percent of the total government investment in companies of Rs. 28,522 Mn as at 31st December 2010. The government has made 85 percent of its investments in 51 companies with controlling interest, while 15 percent have made in 49 companies where the government has minority share holdings.

The Secretary to Treasury as the custodian of government investments has appointed treasury representatives the Boards of 13 companies including 6 minority shareholding plantation companies to safeguard the public fund invested in minority share holding companies. Of these 49 companies, 25 have been enlisted in the Colombo Stock Exchange including 17 plantations companies. However the government has not transacted in any shares of these companies in the CSE for the year 2010. The market value of 17 listed plantation companies amounted to 602 Mn against the cost of investment of Rs. 407 Mn. It shows 47 percent increase in value of the investment.

**Table 12.1**  
**Companies where the Government holds less than 50 percent shares**

|   | Plantation | Other | Total |
|---|------------|-------|-------|
| No of Companies Government with govt. holding is less than 50 % (Nos) | 20         | 29    | 49    |
| Companies where Treasury Reps have been appointed (Nos)               | 6          | 7     | 13    |
| Companies without Treasury Reps. (Nos)                                | 14         | 22    | 36    |
| No of Companies Enlisted in CSE (Nos)                                 | 17         | 7     | 25    |
| No. of Companies Not enlisted in CSE (Nos)                            | 3          | 22    | 24    |
| Total cost of Investment (Rs. Mn)                                     | 407        | 3,704 | 4,111 |
| Total Value of investment Based on Market Value (Rs. Mn)              | 602        | -     | -     |
| Dividends Received in 2009 (Rs. Mn)                                   | 3.9        | 92.5  | 96.4  |
| Return On Investment Baesd on Nominal Value (%)                       | 0.84       | 2.21  | 2.07  |

Source: Department of Public Enterprises

The total dividend received from minority share holdings for the year 2010 was Rs. 96.4 Mn. It is a 12 percent increase in comparison to the Rs. 85.13 Mn in 2009. This is mainly due to the dividend paid by Ms Thomas De La Rue Ltd of Rs. 34.4 Mn in current year out of the payment of Rs. 100 Mn in year 2008.

The financial performance of these enterprise are not subject to review of the Auditor General as well as COPE.

## Chapter 13 Financial Management

The budgetary allocation and actual expenditure of the Department of Public Enterprises for the year 2010 are as follows.

**Table 13.1**  
**Budgetary allocation and actual expenditure for year 2009 & 2010**

|  | Actual Expenditure |               | Net Budgetary Provision |               |
|--|--------------------|---------------|-------------------------|---------------|
|  | 2009               | 2010          | 2009                    | 2010          |
| <b>Recurrent</b>                         |                    |               |                         |               |
| Personal Emoluments (Rs.Mn)              | 20,211             | 23,252        | 21,650                  | 24,192        |
| Other Recurrent (Rs.Mn)                  | 17,044             | 11,415        | 18,448                  | 12,269        |
| <b>Total (Rs.Mn)</b>                     | <b>37,255</b>      | <b>34,667</b> | <b>40,098</b>           | <b>36,461</b> |
| <b>Capital</b>                           |                    |               |                         |               |
| <b>Rehabilitation &amp; Improvement</b>  |                    |               |                         |               |
| 2001 Building & Structure(Rs.Mn)         | 4,723              | -             | 4,850                   | -             |
| 2002 Plant, Machinery & Equipment(Rs.Mn) | 65                 | -             | 170                     | -             |
| 2003 Vehicle(Rs.Mn)                      | -                  | -             | 85                      | -             |
| <b>Acquisition</b>                       |                    |               |                         |               |
| 2101 Vehicle(Rs.Mn)                      | -                  | -             | -                       | -             |
| 2102 Furniture & Office Equipment(Rs.Mn) | 1,158              | 505           | 1,185                   | 505           |
| 2103 Plant, Machinery & Equipment(Rs.Mn) | -                  | -             | -                       | -             |
| <b>Capacity Building</b>                 |                    |               |                         |               |
| 2401 Training & Capacity Building(Rs.Mn) | 612                | 541           | 680                     | 800           |
| <b>Other</b>                             |                    |               |                         |               |
| 2501 Restructuring(Rs.Mn)                | -                  | 417           | -                       | 417           |
| 2502 Other Investment(Rs.Mn)             | 3,125              | -             | 3125                    | -             |
| <b>Total (Rs.Mn)</b>                     | <b>9,683</b>       | <b>1,463</b>  | <b>10,095</b>           | <b>1,722</b>  |

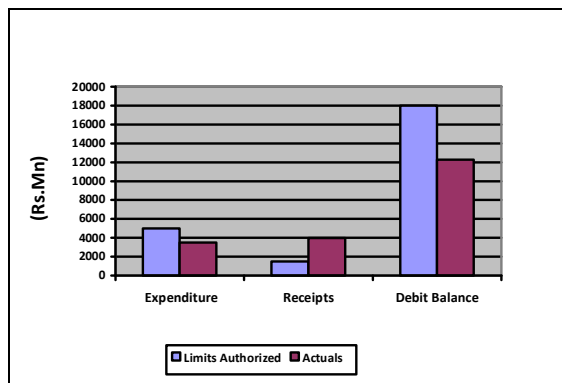
Source: Department of Public Enterprises

**Table 13.2**  
**Public Officers Advance Account 2010**  
**Public Officers Advance Accounts Limits & Actual Rs.'000**

|  | Limits Authorized | Actual at the end of the Year |
|--|-------------------|-------------------------------|
| Maximum Limit of Expenditure(Rs.Mn)    | 5,000             | 3,489                         |
| Maximum Limit of Receipts (Rs.Mn)      | 1,500             | 3,967                         |
| Maximum Limit of Debit Balance (Rs.Mn) | 18,000            | 12,258                        |

Source: Audited Accounts of Department of Public Enterprises

**Chart 13.1**



The Annual Appropriation Account and the Annual Reconciliation Statement in respect of Advances to Public Officers Accounts for the year 2010 have been submitted to the Department of Auditor General.

## Chapter 14

### Human resources management

**Table 14.1**  
**Cadre position as at 31st December 2010**

| Designation                 | Approved Cadre | Existing Cadre | Vacant/Excess |
|-----------------------------|----------------|----------------|---------------|
| Director General            | 01             | 01             | -             |
| Additional Director General | 01             | -              | 01            |
| Directors                   | 04             | 03             | 01            |
| Deputy Director             | 08             | 03             | 05            |
| Assistant Directors         | 06             | 10             | (04)          |
| Financial Analyst           | 02             | -              | 02            |
| Administration Officers     | 01             | 01             | -             |
| Research Assistance         | 11             | 01             | 10            |
| Management Assistance       | 21             | 13             | 08            |
| Data Entry Operators        | 05             | 02             | 03            |
| Drivers                     | 05             | 04             | 01            |
| K.K.S                       | 06             | 05             | 01            |
| Total                       | 71             | 43             | 28            |

Source: Department of Public Enterprises

In 2010, PED continued to obtain the service of two officers from the Central Bank of Sri Lanka who assigned to the Financial Management Cell of this Department in 2007, which was established to closely monitor the performance of State Banks.

Further the capacity of the Department of Public Enterprises was strengthened by obtaining the services of Accountants who are under the practical training

programme in fulfillment of the requirement of the Institute of Chartered Accountants of Sri Lanka. These Accountants who were recently absorbed to the government service are qualified financial management professionals.

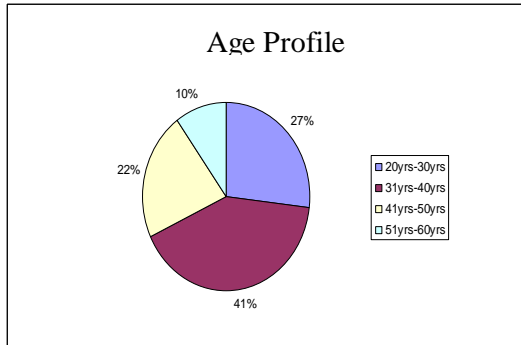
During this period several employees in each category was transferred to and from the Department as referred to in Table 14.2.

**Table 14.2.**

| Designation             | Number of workers  |                      |
|-------------------------|--------------------|----------------------|
|                         | Transferred to PED | Transferred from PED |
| Directors               | 01                 | -                    |
| Deputy Directors        | -                  | 02                   |
| Assistant Directors     | 03                 | 01                   |
| Consultants             | 01                 | -                    |
| Administration Officers | 01                 | 01                   |
| Research Assistance     | -                  | 03                   |
| Development Assistant   | 04                 | -                    |
| Management Assistance   | 03                 | 01                   |
| Drivers                 | 01                 | 01                   |
| K.K.S                   | 01                 | 01                   |

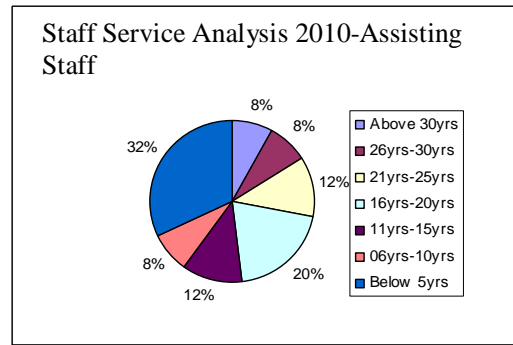
Source: Department of Public Enterprises

**Chart 14.1**



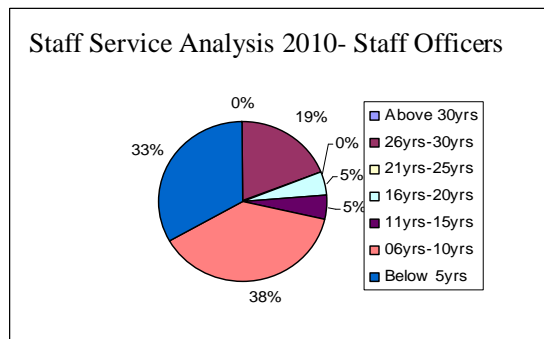
68 percent of the staff of Department of Public Enterprises falls within the age group of 20 - 40 years.

**Chart 14.3**



68 percent of entire assisting staff of the PED is experienced to fulfill their duties.

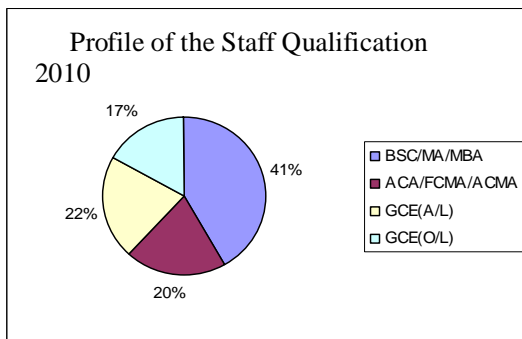
**Chart 14.2**



67 percent of entire staff officers of the PED is experienced and professional.

Most of the staff members in the Department possess degree in Business Management, Business Administration, Accountancy, Commerce or Economics.

**Chart 14.4**



Five staff officers are members of Institute of Chartered Accountants of Sri Lanka and two staff officers are associate members of Chartered Institute of Management Accountant.

**Table 14.3**  
**Staff Training (Seminars / Courses / Workshops) in the year 2010**

|   | Title of the training  | No: of Participants                          | Duration  |
|---|--|--|-----------|
| Local   | Register of Master of Arts in Financial Economics - 2009/2010                                      | 02DD/AD                                      | 02 year   |
|   | Certificate, Diploma, Higher Diploma and Post- Graduate Diploma Courses in International Relations | 1 MAs  | 01 Year   |
|   | PPP Awareness seminar - 2010   | 01AD   | 02 days   |
|   | Public Private - Partnerships Awareness Seminar - 2010   | 01AD   | 01 day    |
|   | Diploma in Information Technology batch 21   | 01DEO 02                                     | 06 Month  |
|   | Training Program on Project Management   | 01MAs  | 02 day    |
|   | Diploma in Communicational Skills in English - Batch - XVI   | 02MAs  | 200 hours |
|   | Material Stores Management & Supply Chain Management   | 02MAs  | 01 day    |
|   | Training Program on Disciplinary Procedure   | 02MA   | 03 days   |
|   | Training Program on Database Management (MS ACCESS)  | 01 MA  | 034days   |
|   | Training Program on Productivity & Quality Improvement of Public Service                           | 02MA   | 01 day    |
|   | Training Program on Presentation design Skills   | 01MA   | 02 days   |
|   | Foreign  | 5 <sup>th</sup> Asia Clean Energy Forum 2010 | 01AD      |
| Ceylon Agro - Industries Limited                        |  | 01 DD  | 03 days   |
| Visit of Directors to INDIA                             |  | 02 DD, AD                                    | 06 days   |
| Training Programme for Middle and Junior Level Officers |  | 01 D,DD,AD                                   | 07 days   |
| Singapore Co-operation Programme Awards                 |  | 01 AD  | 14 days   |
|   | Impact of the Global Crisis on Asia, Lessons Learned, Policy insights and Outlook                  | DG   | 04 days   |

Source: Department of Public Enterprises

DG- Director General

DD - Deputy Director

AD- Assistant Director

AO – Administration Officer

MA- Management Assistant

**Staff Officer's Profile**

| <b>No.</b> | <b>Name</b>                | <b>Designation</b>     |
|------------|----------------------------|------------------------|
| 1          | Mr. S. R. Attygalle        | Director General       |
| 2.         | Mrs.D. Senanayake          | Add. D.G               |
| 3.         | Mr. V.M. Ameen             | Director               |
| 4.         | Mr. D.C.Siribaddana        | Director               |
| 5.         | Mr.R.M.A.Ratnayake         | Director               |
| 6.         | Mrs. Anoma Nandani         | Director               |
| 7.         | Mr. P.A.S.Athula Kumara    | Director               |
| 8.         | Mrs.W.G.Chandrika          | Deputy Director        |
| 9.         | Mrs.S.A.Batagoda           | Deputy Director        |
| 10.        | Miss. M.T.I.V. Amarasekera | Asst. Director         |
| 12.        | Mr. R.M.Wijesinghe Banda   | Asst. Director         |
| 13.        | Mrs. G.M.I.U. Bandara      | Asst. Director         |
| 14.        | Mrs.D.G.N.Kumari           | Asst. Director         |
| 15.        | Mr.K.S.P.Rupasinghe        | Asst. Director         |
| 16.        | Mrs.L.G.S.Dushyanthi       | Asst. Director         |
| 17.        | Mrs.S.M.Rajapaksha         | Asst. Director         |
| 18.        | Mr.K.S.M.De Silva          | Asst. Director         |
| 19.        | Mr. Vijitha Perera         | Asst. Director         |
| 20.        | Mrs.J.P.P.Liyanage         | Senior Manager         |
| 21.        | Mrs.A.R.Wickramasinghe     | Senior Manager         |
| 22.        | Mr.D.P.Perera              | Administrative Officer |

**Officers who left the department during the year 2010**

|     |                           |                  |
|-----|---------------------------|------------------|
| 1.  | Dr. B.M.S.Batagoda        | Director General |
| 2.  | Mrs. S.P.M.K.Siriwardane  | Director         |
| 3.  | Mr. S.G.Senaratne         | Director         |
| 4.  | Mr. B.Lokuranamuka        | Deputy Director  |
| 5.  | Mrs. R.M.D.K.Ratnayaka    | Deputy Director  |
| 6.  | Mr. H.A.N.S.Kumara        | Asst. Director   |
| 7.  | Mrs. Champa N. Balasuriya | Asst. Director   |
| 8.  | Mrs. I.T.K. Ilangamudali  | Asst. Director   |
| 9.  | Mrs. K.A.N. Kumarasingha  | Asst. Director   |
| 10. | Mr. L.S.A.Serasihghe      | Consultant       |

## Chapter 15 Way Forward

### Performance and Issues of other SOEs

Although SOEs constitute a very large segment of the economy, their performance seems to be hampered by

- Lack of clear understanding of the mandate (objectives) of the entity thereby
- Engaging in non core activities
- engaging in activities that is not in line with government policy
- Reliance on government budget
- Human resources issues
- excess employees
- Lack of employees with core skills
- Irrational recruitments and appointments
- Weak balance sheets that continues to erode capital expansion and thereby deteriorate productivity.

- Boards of Directors that do not have the managerial competence and the capacity to manage the organization thereby taking imprudent decisions.
- Boards of Directors and corporate management who disregard best practices in corporate governance and government policy and directions.
- Lack of proper accounts and clear assessment of financial performances in facilitating decision making.

Improved performance of many of the following SOEs would require considerable improvement in corporate governance, appointment of competent CEOs, professionals for procurement, Finance, Human resource management and other key managerial positions, adoption of realistic pricing and investment strategies, institutionalizing of performance audit and financial management controls, strict adherence to the annual budgets and commitment controls in expenditure management.