



**Democratic Socialist Republic of Sri Lanka**

**STATEMENT OF CORPORATE INTENT  
MILCO (PVT) LIMITED**

**Agreement between Ministry of Finance,  
Ministry of Agriculture, Livestock Development, Irrigation and Fisheries &  
Aquatic Resources Development  
and  
MILCO (Pvt) Limited**

**10<sup>th</sup> June 2019**

**Ministry of Finance**

**Colombo 01**

**Statement of Corporate Intent**  
**between**  
**Ministry of Finance, Ministry of Agriculture, Livestock Development, Irrigation**  
**& Fisheries & Aquatic Resources Development**  
**and**  
**MILCO (Pvt) Limited**  
**2019 - 2021**

This Statement of Corporate Intent is agreed between the Ministry responsible for the subject of Finance (hereinafter referred to as "Ministry of Finance") and the Ministry of Agriculture, Livestock Development, Irrigation & Fisheries & Aquatic Resources Development (hereinafter referred to as 'Line Ministry') as one party, and the Board of Directors of the MILCO (Pvt) Limited (hereinafter referred to as "the Board"), a State Owned Enterprise (SOE), as the other party.

**WHEREAS**

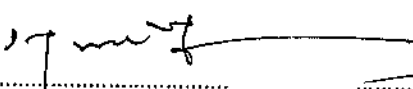


The Ministry of Finance and the Line Ministry are committed to clearly defining the working relationship between themselves and the MILCO (Pvt) Limited (MILCO) with a focus on performance;

The parties recognize the need for adequate and reasonable managerial and operational autonomy to facilitate achievement by the Board and the Management of the MILCO of the agreed and freely negotiated performance targets set out in this Agreement with a shared objectives to improve performance, efficiency and the quality of public services;

The parties are committed to improve the corporate governance of the MILCO and are desirous of enhancing transparency in the management of public resources and accountability for results;

The Board and MILCO Management have indicated its capacity and competence to perform duties and undertake functions specified under this Agreement.

SCI shall be updated annually with agreement of all the signing parties, to reflect the performance achieved in the past year and the update performance targets for the next three years, making it a rolling and agile management rule for the SOEs as well as for the shareholders.

 ..... Chairman	 ..... Secretary	 ..... Secretary
MILCO (Pvt) Limited Keerthi Mihiripemsa Chairman MILCO (Pvt.) Ltd No. 345-6/1, Galle Road, Colombo - 03.  Colombo 01	Ministry of Agriculture, Livestock Development, Irrigation & Fisheries & Aquatic Resources  K. D. S. Ruwanachandra Secretary Ministry of Agriculture, Rural Economic Affairs, Livestock Development Irrigation and Fisheries & Aquatic Resources No. 288, Sri Jayawardenapaya, Colombo 01	Ministry of Finance  DE R. H. S. SAMARATUNGA Secretary Ministry of Finance Colombo 01 Sri Lanka.  06.2019

**MILCO (PVT) LTD**  
**STATEMENT OF CORPORATE INTENT**  
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## EXECUTIVE SUMMARY

Operating in a country that has now committed itself to ensuring that fresh milk becomes accessible to all, which will alleviate malnutrition and build a strong and healthy nation, MILCO has been at the forefront in not only ensuring that this accessibility becomes a reality, but also that milk production is increased sustainably to meet this national objective.

In this endeavour, MILCO framework includes expanding milk collection, empowering farmer community by recognizing the role they play in national development, production of quality milk according to the accepted international standards, ensuring that productivity and efficiency is maximized through its dynamic team.

On August 7, 2017 MILCO commissioned the new milk powder processing plant, enhancing the processing capacity from 210,000 to 410,000 litres per day. However, MILCO had to collect 9.3 million litres of Milk in excess to its processing capacity within the first seven months of the year 2017. As a result, we had to discard 1.4 million litres, divert milk to other processors at lower rates, and got into other portfolios for longer expires. The total loss incurred by MILCO due to the above reasons was Rs. 600 million.

Now, MILCO is with sufficient processing capacities and plans are in place to increase the raw milk collection progressively up to 122 million litres from local dairy farmers by the year 2021. This productive effort will save millions of foreign exchange to the Country.

### Forecasted Milk Collection and Production Capacity

	Actual		Forecasted	
	2018	2019	2020	2021
Milk Collection (Litres)	90,640,984	100,671,613	111,929,540	121,991,975
Production Capacity (Litres per day)	400,000	410,000	410,000	600,000*

*\*With the delivery of Badalgama Factory.*

Through the SCI approach, it is expected to maximize the efficiency and effectiveness of MILCO and to extend substantial cooperation to the Government.

## **1. INTRODUCTION**

### **1.1 Establishment**

This institution was established in 1956 as “The National Milk Board” under the purview of the Ministry of Agriculture. It commenced its operations with a single Factory in Narahenpita, Colombo commissioned under the Colombo Plan.

In 1986, the “National Milk Board” was converted into “Milk Industries of Lanka Company Limited” as a government-owned company. In terms of the joint venture agreement signed in 1997 between Government of Sri Lanka (GOSL) and National Dairy Development Board (NDDDB) of India, all assets and liabilities of “Milk Industries of Lanka Company Limited” were transferred to “Kiriya Milk Industries of Lanka (Private) Limited” with effect from 04th of February 1998. The said joint venture was not successful and NDDDB – India withdrew from the agreement. Treasury became the sole shareholder of the Company and its name and functions were changed in the name and style of “MILCO (PRIVATE) LIMITED” which now stands as a 100 % government owned organization with effect from 23rd of July 2001 under the provisions of the Companies Act.

Being a government institution in keeping with the government policy, MILCO has to run as a commercial organization and also to generate funds for its development. Further, it is also expected to deliver social benefits to society at large in addition to achieving economic goals and objectives. Today Milco is proud of having a wide network of milk collection, production, and sales administrated throughout the island which contributes towards the enrichment of the rural economy. These efforts will no doubt provide much-needed nutrition to the people of Sri Lanka.

In terms of milk collection, milk processors in the local industry collect around 70% of which MILCO is very proud to have possession of at least 30% of the national milk collection. Our total milk collection is carried out through approximately 2,300 farmers managed societies (FMSs) throughout the country. A 50,000 strong farmer families contribute to these efforts. By expanding our milk collection network, we are enabling farmers to have expanded accessibility to sell their harvest of milk and thus increase their income.

The greatest asset of MILCO is her brand name “HIGHLAND” and we employed numerous strategies that would enable us to market our products with much more clarity, by developing new targeted avenues in our distribution network. We have a total of ten sales centres including north and east areas and in making our products more accessible, distribution zones are re-demarcated.

It is noteworthy to mention, the 1,430 workforces in total make all these happen to the satisfaction of the entire Sri Lankan community.

### **1.2 Vision**

“MILCO to be the “Best in Class” nutritious food and beverage Company in Sri Lanka”.

### 1.3 Mission

"To be a proactive partner in achieving the targeted growth in fresh milk production while strengthening the local dairy farmer. Modern technology supported with continuous improvement initiatives to be applied in the processing of nutritious food and beverage to provide our valued consumers at affordable prices".

### 1.4 Core Business / Principal Business

MILCO (Pvt) Limited is involved in the business of manufacturing milk based products. Accordingly, three main areas of functions are;

- Dairy development and collection of raw milk.
- Manufacturing of milk based products.
- Marketing and selling of milk products.

### 1.5 Market Share

Table 1: Current Market Share

Product Item	Yogurt	Liquid Milk	Ice Cream	Curd	Condensed Milk	Butter	Milk Powder
Market Share (%)	20	60	15	5	22	30	12

Source: Business Plan 2018 – MILCO

### 1.6 Performance of Past 10 Years

Table 2: Financial Performance of Past 10 Years

Financial Year	Turnover	Profit after Tax	Net Profit Margin %	Rs. Mn	
				Non-Current Assets	Non-Current Liabilities
2008/2009	4,242	332	7.83	608	917
2009/2010	4,093	301	7.35	572	234
2010/2011	4,548	83	1.83	2,570	308
2011/2012	5,263	(226)	(4.30)	2,168	1,082
2012/2013	6,385	(298)	(4.67)	2,123	1,141
2013/2014	7,019	140	2.00	2,244	1,081
2014(Apr-Dec)	5,627	242	4.30	8,143	6,086
2015 (Jan-Dec)	7,584	(17)	(0.22)	12,261	10,078
2016 (Jan-Dec)	8,679	327	3.76	14,763	14,086
2017 (Jan-Dec)	10,161	(324)	(3.19)	16,320	15,166
2018(Jan- Dec)	11,759	(820)	(6.97)	17,462	16,308

Source:- MILCO (Pvt) Ltd.

**Table 3: Operational Performance of Past 07 Years**

Year	Annual Milk Collection	Production			
		Milk Powder (Kg)	Liquid Milk (Litres)	Yogurt (Litres)	Ice Cream (Litres)
2012	69,235,159	4,621,430	11,230,429	4,329,640	4,844,682
2013	65,641,897	4,188,157	13,792,884	4,831,913	4,529,596
2014	48,259,495	4,209,281	17,158,948	5,311,876	4,638,492
2015	64,583,159	4,281,532	16,274,604	6,079,908	4,522,778
2016	70,094,925	4,624,742	17,963,835	6,079,760	5,949,414
2017	96,202,230	7,252,714	19,718,371	6,586,770	6,123,888
2018	91,119,860	6,604,254	22,327,363	6,562,059	6,104,590

Source:- MILCO (Pvt) Ltd.

## 2. MACRO-ECONOMIC POLICY OF THE SECTOR

Increasing production and quality of livestock products to satisfy the local demand and to boost rural income with the objective of making our farmers capable to compete in local and international markets.

### Key Strategies

- Ensure conducive and consistent policy support for livestock sector development.
- Uplift the living standards of the farmers and enhance the farm productivity providing high milk producing cattle and other required inputs at a subsidized rate.
- Strengthen and encourage private sector and public-private partnership involvement in production, processing, value addition and marketing of livestock products through the provision of interest subsidies and credit facility.
- Promote research and innovation of new technology for the livestock sector and maintain the quality standards of livestock product.
- Introduce modern technological interventions to increase production, productivity, profitability, and sustainability of livestock production systems.
- Increase sustainable usage of underutilized animal feed resources, introduce improved varieties of grass and fodder, upgrade the quality of animal feed resources and encourage research on livestock.
- Upgrade animal population by introducing appropriate technologies and improve animal genetic resources for higher productivity.
- Strengthening the veterinary and related service for better service delivery.

(Source: Public Investment Plan 2017-2020, Department of National Planning)

### 3. GOALS OF MILCO (PVT) LIMITED

**Goal 1:-** Providing superior quality dairy & other food and beverage to the nation.

**Goal 2:-** Strengthening the dairy farmers in Sri Lanka.

**Goal 3:-** Ensuring sustainability & growth in the local milk industry and the Company.

### 4. OBJECTIVES OF MILCO (PVT) LIMITED

**Table 4: Medium Term Objectives of MILCO**

Goal - 1	Objectives
Providing superior quality dairy & other food and beverage to the Nation.	<ol style="list-style-type: none"> <li>To increase the market share of milk-based products from 25% to 35% by the end of 2021.</li> <li>To increase the production capacity from the current 400,000 liters per day to 600,000 liters per day by the end of 2021.</li> </ol>
Goal - 2	Objectives
Strengthening the dairy farmers in Sri Lanka.	<ol style="list-style-type: none"> <li>To increase the current annual average income of dairy farmers by 9% by the end of 2021.</li> </ol>
Goal - 3	Objectives
Ensuring sustainability & growth in the local milk industry and the Company.	<ol style="list-style-type: none"> <li>To increase the current annual quantity of milk collection by 34% by the end of 2021.</li> <li>To increase the current annual turnover by 62% by the end of 2021.</li> </ol>

### 5. KEY PERFORMANCE INDICATORS (KPIs)

**Table 5: Key Performance Indicators of MILCO for the period of 2019-2021**

Strategic Objectives	KPIs	Unit of Measure	Base Year	Target		
			2018	2019	2020	2021
<b>Goal - 1 / Objective - 1</b>						
To increase the market share of milk-based products from 25% to 30% by the end of 2021.	<b>Input</b>					
	Quantity of the raw milk utilization	Litres	90,640,984	100,671,613	111,929,540	121,991,975
	Quality of the raw milk (Total Solids %)	%	12.8	12.9	13.0	13.2
	No of retail shops covered for "Highland" products	No.	35,411	40,000	45,000	50,000
<b>Output</b>						
	Sales quantity of liquid milk	Litres	22,327,364	26,972,410	31,192,309	33,388,740



	Sales quantity of milk powder	kg	6,604,254	6,823,987	7,259,843	6,875,687
	Sales quantity of yoghurt	Cups	77,765,012	95,241,000	120,780,000	159,820,000
	Sales quantity of ice cream	Litres	6,104,590	7,819,200	8,612,200	10,932,320
	Sales quantity of butter	kg	999,791	1,252,796	1,657,124	1,780,233
	<b>Outcome</b>					
	Total market share	%	25%	28%	31%	35%
	No of customer complains	No.	474	350	260	200
	<b>Impact</b>					
	The decrease in milk powder imports	%	<i>To be forecasted</i>			
<b>Goal - 1 / Objective - 2</b>						
To increase the production capacity from the current 400,000 liters per day to 600,000 liters per day by the end of 2021.	<b>Input</b>					
	Completion of constructions of the Badalgama Factory	%	70%	85%	100%	-
	Installation of a new Ice Cream machine at Digana Factory	%	20%	100%	-	-
	<b>Output</b>					
	Available production capacity (Litres Per Day)	Litres	400,000	410,000	410,000	600,000
	<b>Outcome</b>					
	Average daily milk consumption	Litres	251,781	279,643	310,915	338,867
	<b>Impact</b>					
Percentage of milk rejection on capacity issues	%	-	-	-	-	
<b>Goal - 2 / Objective - 1</b>						
To increase the current annual average income of dairy farmers by 12% by the end of 2021.	<b>Input</b>					
	Quantity of per cow production	Litres	4.00	4.50	4.75	5.00
	Average price per litre	Rs.	68.71	69.25	69.80	71.40
	No. of farmers with MILCO	No.	47,000	51,000	56,000	60,000
	<b>Output</b>					
	Total value of payment for raw milk	Rs. Mn	6,260	7,000	7,850	8,750
	<b>Outcome</b>					
Increase in average per farmer income	%	-	3	2	2.5	

	<b>Impact</b>					
	No. of farmers families without direct government subsidies	No.	<i>To be forecasted</i>			
<b>Goal - 3 / Objective - 1</b>						
To increase the current annual quantity of milk collection by 34% by the end of 2021.	<b>Input</b>					
	Number of farmer managed Societies (FMSs) in operation	No.	2,200	2,550	2,800	3,000
	No. of Milk Chilling Centres in operation	No.	92	98	102	106
	No. of 200 LPD (litres per day) farms	No.	44	74	104	134
	No. of 100 LPD farms	No.	90	140	190	240
	No. of farmers trained (Annually)	No.	5,000	6,000	6,000	6,000
	<b>Output</b>					
	Quantity of total annual milk collection	Litres	91,096,466	101,177,500	112,492,000	122,605,000
	<b>Outcome</b>					
	Increase in local milk collection	%	5	11	11	9
<b>Impact</b>						
The decrease in dairy products imports	%	<i>To be forecasted</i>				
<b>Goal - 3 / Objective - 2</b>						
To increase the current annual turnover by 62% by the end of 2021.	<b>Input</b>					
	No. of dealers for finished goods	No.	176	200	225	275
	Cost of production	Rs. Mn	11,354	13,832	16,240	17,814
	Selling & distribution cost	Rs. Mn	429	293	310	335
	<b>Output</b>					
	Total annual Turnover	Rs. Mn	11,759	15,068	17,691	19,156
	<b>Outcome</b>					
	Decreasing percentage in overheads (Admin/ Distribution/ Finance cost as a % of sales)	%	12	9	8	8
	Profit maximization	Rs. Mn	(820)	431	585	432
	<b>Impact</b>					
Contribution in dairy sub-sector	%	<i>To be forecasted</i>				

## 6. FACTORS AFFECTING THE SCI

- In case, discontinuation of the current subsidy payment of Milk Powder sales can be affected by the company performance as follows;

P & L Forecast	2019	2020	2021
Budgeted Profit (Rs.Mn)	431	585	432
Expected subsidy on Milk Powder (Rs.Mn)	360	377	392
Revised Profit/ Loss (Rs.Mn)	71	208	40

- Any government policy decision on price increment of raw milk will have a negative impact on the company performance as depicted below in Sec.06. (Assumptions Underlying the SCI/ Sensitivity)
- Government tariff and tax policy on imported milk powder will have an impact on MILCO (PVT) LTD.

## 7. ASSUMPTIONS UNDERLYING THE SCI

### 7.1 The assumptions used for the Preparation of Statement of Comprehensive Income

- Following costs have been calculated based on the per month milk collection forecasted by the procurement division (Collection \* Per litre cost based on 2016)
  - \* Raw milk – purchases
  - \* Chilling cost
  - \* Development cost
  - \* Bowser transport
  - \* Direct labour
  - \* Furnace oil
  - \* Electricity
  - \* Diesel
  - \* Water
  - \* Lab chemicals
  - \* Detergent/cleaning material
- Sales forecast has been prepared based on the collection in each month, assuming all collected milk are converted into products and all produced items will be sold within the month.
- Administration and other cost have considered based on the 2016 figures and no inflation and other cost escalations have been taken into the account.
- Cost of interest of the DESMI project has accounted under finance expenses based on the loan agreements.
- NBT Assumed to be constant at 2% over the 2019- 2021 years.
- The subsidy paid for the 400g @ 25/- and 1kg @ 55/- milk powder will be granted throughout the budgetary period.
- Impact of depreciation on DESMI assets has been calculated at 10% p.a. considering the existing accounting policies.
- Raw & packing material cost determined considering the prevailing market prices assuming no price revisions within 2019 -2021.

## 7.2 The assumptions used for the preparation of the Statement of Financial Position

- Depreciation has been made at the rate of 5% considering the total property plant and equipment value, irrespective of the asset class of the same.
- Construction of New factory premises located at Badalgama will be finalized and capitalized at the beginning of 2021.
- The company will incur capital expenses as depicted below, out of which 50% are financed through loans/ leases and 50% are financed through excess funds earned through the operation.  
Year 2019: Rs.500 Mn  
Year 2020: Rs.350 Mn  
Year 2021: Rs.250 Mn
- USD to LKR conversion rate will be remaining at Rs.170/- within the three years.
- The company will make taxable losses due to the increased amount of capital allowances granted on account of DESMI Modernization and Badalgama relocation projects, thus no tax liabilities will be raised and existing tax receivable will be raised by 10% considering ESC paid.
- Considering the growing trend of the operations, inventory balance of the company will be raised by 5% annually.
- The company will be invested Rs. 75 Mn in fixed deposits each year out of the excess funds from operation.
- 15% of the debtors are collected at the following month to the sales are made.
- 15% of the creditors are settled at the following month to the purchases are made.

## 8. MAJOR RISKS TO DELIVER THE SCI OUTCOMES AND MITIGATING STRATEGIES

Table 7:- Major Risks and Mitigation Strategies

Anticipated Risk	Description	Mitigating strategy
1. Liquidity risk and funding management	Liquidity risk refers to the possibility of the company not having sufficient cash to meet its payment obligations, especially fortnightly payments of farmer community. This arises primarily due to mismatches in the maturity profile of the company's assets and liabilities. Adequate liquidity is critical to meet the company's commitments to ensure a continuous relationship with all suppliers and farmers.	The company has taken action to ensure the availability of adequate funds on time by matching its maturity profiles of creditors with debtors. Sudden liquidity crisis situations are managed by the way of financial assistance of bankers in most favorable ways to the company. Further, it is expected to claim the additional price/ expenditure which is paying for raw milk from the Treasury, since this an implementation of budget proposals.
2. Credit risk/ Default risk	Credit risk is the possibility arising due to the uncertainty in counterparty's ability to meet its obligations. Our credit risk is the uncertainty of the settlement of debtors (product dealers) within the credit period.	The company has taken action to reduce the credit risk of trade debtors by obtaining bank guarantees from its debtors. Currently, as a policy, the company exposed only to the extent of bank guarantee limit and the company takes recovery actions of those guarantees of defaulted dealers.
3. Risk of unavailability of adequate raw milk intake in future	The company will have a significantly increased amount of processing capability with the Modernized Ambewela Factory and the establishment of Badalgama Factory. Thus, the company has to ensure the availability of adequate raw milk in good quality to ensure utilization of the full capacity of those factories.	The company is already having and in the process of further extending its wide collection channel through establishing new Farmer Managed Societies (FMSs) and Milk Chilling Centres (MCCs) while encouraging farmers to ensure good quality of the milk supplied. Further, programs are in place to collect the milk of imported milk cows and to develop mega farmers.
4. Risk of unavailability of an adequate distribution channel to cater to customer needs.	Within the prevailing market competition of the industry, as well as the possible new entrants with lower cost products with new strategies, might bring an extensive risk to the company turnover and continuous customer loyalty.	The company is already having and in the process of further extending its wide distribution channel through gaining new distributors while introducing new sales promotion strategies to gain additional market share.
5. Risk of market failure due to high production cost.	Due to the current tax structure of the imported milk powder, competitors in the private sector have tended to import milk powder from the world market at a lower cost than the local production cost. Being an SOE, we are unable to reduce the price of raw milk which is the main cost component. The further industry is unable to bear any price increase in raw milk as MILCO has achieved maximum retail prices of our product portfolio.	The company is expecting a revision of the tariff structure of imported milk products through the revision of existing policies of the government. Further company expects no further prices revisions for local raw milk supply since it will have a direct impact on its cost structure. Any upward price revision will entail MILCO a rebate of the same magnitude, if not fall of local milk processing industry is very imminent.

**6. Risk of milk quality failure.**

Being a highly perishable liquid, the company has a risk of damaging customer loyalty through receiving and processing of raw milk which are not within the accepted and specified quality measures.

The company has established adequate quality supervision process covering milk reception, processing, and finished products. Further, MILCO has taken due actions to educate farmers on milking and maintaining cattle farms. The conditions of raw milk transportation and chilling also are being continuously monitored and the facilities are being upgraded.

## 9. COMPETITIVE NEUTRALITY

Sri Lanka intends to be self-sufficient in milk within few years and government has realized that as the largest dairy producer in the island and being a national entity, MILCO to be empowered with sufficient production capacity and modern technology.

MILCO has undertaken the responsibility of driving this goal and major development projects have been implemented known as Modernization of Processing Factories (Digana, Ambewela and Polonnaruwa factories) Project and Factory relocation (new factory at Badalgama) project with the investments of Euro 97.8 million. Being a state-owned enterprise, such investments are implementing through the General Treasury with favourable attention and assistance of the Government.

**Table 8: Debt Serviced by General Treasury**

Project	Loan Amount	Repayments made by the Treasury on behalf of the MILCO as of 30.04.2019 (Rs. Mn.)		
		Principal	Interest	Other Fees
Modernization of Processing Factories of MILCO	Euro 33.8 Mn.	4,040.92	765.12	461.12
Establishment of Dairy Processing Plant at Badalgama	Euro 64.0 Mn	1,266.79	1,051.68	79.02

Source: Department of External Resources

## 10. NON-COMMERCIAL GOODS OR SERVICES

- Even though it had been allocated rupees 300 million by the government budget 2015 (read on November 2014) to MILCO to be subsidized for reduction of milk powder price according to the government decision, only part of that amount was reimbursed.
- In addition to above, only MILCO is buying raw milk from farmers at higher prices which lead to cost escalation of all the items produced by MILCO. Since this was a budget proposal, the Treasury agreed to reimburse the additional cost of Rs. 20/- per litre and a balance amount is receivable. The loss born by MILCO, on account of such increased raw milk prices is as follows;

Loss born due to price increment from Rs.50 to Rs.60 with effect from 01/11/2014 (As at 31.12.2018)	Rs.Mn	3,386
Loss born due to price increment from Rs.60 to Rs.70 with effect from 16/07/2015 (As at 31.12.2018)	Rs.Mn	2,267
Total (As at 31.12.2018)	Rs.Mn	5,653
Amount received from Treasury	Rs.Mn	344
Balance amount (As at 31.12.2018)	Rs.Mn	5,309

- Due to above non-commercial services on government decisions, MILCO is in an unfavourable financial situation with over one billion rupees bank overdraft. Therefore MILCO expects a reasonable reimbursement from the Treasury.
- MILCO had taken action to refurbish three processing plants at Ambewela, Digana, and Polonnaruwa under the Factory modernization project known as DESMI. The investment was Euro 33.8 million for the project.
- Further, construction works were started for a modern factory at Badalgama and the Board of Directors has taken a decision in principle to manage this factory as 100% subsidiary of MILCO. Investment for this factory is Euro 64 million.
- These projects were implemented with loan facilities through the treasury and it is expected to set-off loan instalments with receivables from the treasury.
- Further, MILCO has agreed to divest approximately 10 acres of land currently occupied by MILCO Colombo facility. We expect the realizable amount of this land to be also set-off with above two investment proposals namely DESMI modernization program and Badalgama new factory. Further MILCO expects Treasury, to negotiate with Ministry of Megapolis and Western Development and to get the best out of this transaction.

## **11. FINANCING POLICY**

Fifty percent (50%) of the projected capital expenditure from 2019 to 2021 will be financed through internal funding while the balance part will be finance through loan facilities.

Additionally, the company will also invest Rs.75mn in Fixed deposits each year to meet its future capital/ working capital necessities.

## **12. DIVIDEND POLICY**

Contribute to the consolidated fund by way of annual dividend of 30% of the equity capital (Capital + reserves) or 30% of the Profit after Tax, whichever is higher"

The above will be subject to, ensuring legal capacity by the way of solvency test in accordance with the Companies Act No. 7 of 2007, whilst ensuring that Company retains adequate funds to support its investments and optimize its capital structure, thus ensuring creation of sustainable growth for the company.

## **13. RESPONSIBILITIES OF TRI-PARTIES**

### **13.1 Secretary, Ministry of Finance**

- As the trustee of the public property signs the tripartite agreement. Moreover, the Ministry of Finance will make policy directives affecting the SOEs and ensure the compliance of the SCI process.
- Submit progress reports on SOEs progress to the Cabinet of Ministers bi-annually.
- Arrange meetings and discussions as and when required.

### **13.2 Secretary, Line Ministry**

- Supervise and provide policy directives to the SOEs at all stages of SCI process through the audit and management committee of the ministry.
- Appoint a liaison officer to coordinate the SCI process with the respective agencies.
- Ensure timely submission of the monthly, quarterly and annual progress reports of the SCI with his/her recommendations to the Department of Public Enterprises.

### **13.3 Chairman and Board of Directors of the MILCO (Pvt) Ltd.**

- Should ensure the implementation of the SCI process efficiently and effectively and ensure sub-agreements have been signed with the management to implement the SCI and to achieve the stipulated targets.
- Should actively negotiate the targets and expectations of SCI, Corporate Plan to be achieved and other limitations.
- Should empower the SOE management to ensure the achievement of the objectives and targets stipulated in the SCI and hold it accountable for results.
- Should introduce proper risk management strategies to identify, assess and mitigate the potential risks of SOEs.
- Should submit a board memorandum to discuss the progress and monitor the achievements against KPIs as stipulated in SCI at monthly Board meetings and provide directives to the management.
- Should establish a proper mechanism to ensure the timely submission of relevant information and progress reports of SCI to the relevant Line Ministry and to the Ministry of Finance.
- Should appoint a liaison officer to coordinate the SCI process with the respective ministries - line ministry and MOF.
- Should report and actively participate at the audit and management committee meeting of the line ministry.



## 14. FINANCIAL INFORMATION

### 14.1 Forecasted Financial Statements

Table 9: Forecasted Income Statement 2019-2021

	For the Year Ended 31st December, 2019 Rs.	For the Year Ended 31st December, 2020 Rs.	For the Year Ended 31st December, 2021 Rs.
Revenue	15,068,000,000	17,690,987,990	19,064,801,331
Cost of Sales	(13,832,424,000)	(16,240,326,975)	(17,730,265,237)
<b>Gross Profit</b>	<b>1,235,576,000</b>	<b>1,450,661,015</b>	<b>1,334,536,093</b>
Other Operating Income	587,886,667	617,281,000	648,145,050
	1,823,462,667	2,067,942,015	1,982,681,143
Administrative Expenses	(787,569,311)	(866,326,242)	(952,958,867)
Distribution Expenses	(293,002,547)	(309,592,290)	(333,634,023)
<b>Profit from Operations</b>	<b>742,890,808</b>	<b>892,023,483</b>	<b>696,088,253</b>
Finance Expenses	(312,213,226)	(307,180,660)	(264,460,637)
<b>Net Profit Before Taxation</b>	<b>430,677,582</b>	<b>584,842,823</b>	<b>431,627,617</b>
<b>Net Profit/(Loss) for the Year after Taxation</b>	<b>430,677,582</b>	<b>584,842,823</b>	<b>431,627,617</b>
Basic Earnings Per Share	17.86	18.31	13.51

Figures in brackets indicate deductions.

**Table 10: Forecasted Statement of Financial Position 2019 - 2021**

	As at 31st December, 2019 Rs.	As at 31st December, 2020 Rs.	As at 31st December, 2021 Rs.
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, Plant and Equipment	6,027,329,882	6,055,111,970	18,308,937,487
Capital Work-In-Progress	12,044,194,350	12,351,375,010	60,000,000
Financial Instrument - Held to Maturity	495,040,000	514,841,600	535,435,264
<b>Total Non-Current Assets</b>	<b>18,566,564,231</b>	<b>18,921,328,580</b>	<b>18,904,372,751</b>
<b>Current Assets</b>			
Inventories	936,146,539	1,029,761,192	1,141,334,012
Trade and Other Receivables	615,763,084	752,935,187	903,191,496
Income Tax Receivable	46,048,061	50,652,867	55,718,154
Financial Instrument - Held to Maturity	305,000,000	380,000,000	455,000,000
Cash and Cash Equivalents	297,753,809	365,787,525	465,788,759
<b>Total Current Assets</b>	<b>2,200,711,492</b>	<b>2,579,136,772</b>	<b>3,021,032,422</b>
<b>Total Assets</b>	<b>20,767,275,723</b>	<b>21,500,465,352</b>	<b>21,925,405,173</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Stated Capital and Reserves</b>			
Stated Capital	319,454,060	319,454,060	319,454,060
Capital Reserve	25,000,000	25,000,000	25,000,000
Revaluation Reserve	336,454,463	336,454,463	336,454,463
Sinking Fund	1,689,978	1,689,978	1,689,978
Retained Earnings	917,414,316	1,502,257,139	1,933,884,755
<b>Shareholders' Fund</b>	<b>1,600,012,817</b>	<b>2,184,855,639</b>	<b>2,616,483,256</b>
<b>Non-Current Liabilities</b>			
Deferred Tax Liability	31,663,933	39,579,916	49,474,895
Interest Bearing Borrowings - Long-Term	541,875,669	576,875,669	521,875,669
Payable to the Treasury of Government of Sri Lanka	17,319,810,642	17,473,400,972	17,523,400,972
Retirement Benefit Obligations - Gratuity	496,932,939	506,871,598	517,009,029
Deferred Income - Government Grant	67,246,646	63,884,313	60,690,098
<b>Total Non-Current Liabilities</b>	<b>18,457,529,828</b>	<b>18,660,612,467</b>	<b>18,672,450,663</b>
<b>Current Liabilities</b>			
Trade and Other Payables	709,733,079	654,997,245	636,471,254
<b>Total Current Liabilities</b>	<b>709,733,079</b>	<b>654,997,245</b>	<b>636,471,254</b>
<b>Total Equity and Liabilities</b>	<b>20,767,275,723</b>	<b>21,500,465,352</b>	<b>21,925,405,173</b>
Figures in brackets indicate deductions.			

**Table 11:- Forecasted Statement of Cash Flow 2019- 2021**

	As at 31st December, 2019 Rs.	As at 31st December, 2020 Rs.	As at 31st December, 2021 Rs.
<b>Cash Flow from Operating Activities</b>			
Net Profit Before Taxation	430,677,582	584,842,823	431,627,617
Adjustments for;			
Depreciation on Property, Plant and Equipment	301,366,494	302,755,599	915,446,874
Income from Investment	(60,003,000)	(67,113,120)	(74,282,645)
Interest Expense	400,583,780	407,155,586	282,855,627
Lease Interest	4,877,505	5,853,006	7,023,608
Recognized Income on Deferred Grants	(26,253,695)	(28,879,064)	(31,766,970)
Exchange Gain	(19,040,000)	(19,801,600)	(20,593,664)
Provision for Defined Benefit Plans - Gratuity	47,743,783	47,938,659	50,137,432
	<u>649,274,868</u>	<u>647,909,066</u>	<u>1,128,820,262</u>
<b>Operating Profit Before Working Capital Changes</b>	<u>1,079,952,449</u>	<u>1,232,751,888</u>	<u>1,560,447,878</u>
(Increase)/Decrease in Inventories	(44,578,407)	(93,614,654)	(111,572,820)
(Increase)/Decrease in Trade and Other Receivables	(130,159,526)	(241,572,601)	(168,169,494)
Increase/(Decrease) in Trade and Other Payables	11,762,984	(54,735,834)	(118,525,991)
	<u>(162,974,949)</u>	<u>(389,923,089)</u>	<u>(398,268,305)</u>
<b>Cash Generated from Operations</b>	<u>916,977,500</u>	<u>842,828,800</u>	<u>1,162,179,573</u>
Interest Paid	(81,281,350)	(86,531,350)	(78,281,350)
Tax Paid - FSC and Income Tax	(75,340,000)	(88,454,940)	(95,324,007)
Payment of Defined Benefit Plans - Gratuity	(38,000,000)	(38,000,000)	(40,000,000)
	<u>(194,621,350)</u>	<u>(212,986,290)</u>	<u>(213,605,357)</u>
<b>Net Cash Flow From/(Used In) Operating Activities</b>	<u>722,356,150</u>	<u>629,842,510</u>	<u>948,574,216</u>
<b>Cash Flow from Investing Activities</b>			
Investments in Property, Plant and Equipment in the Course of Construction	(216,351,975)	(238,921,913)	(542,855,627)
Interest Received	33,550,000	67,113,120	74,282,645
Withdrawal/(New) Short-Term and Long-Term Investment (Net)	(75,000,000)	(75,000,000)	(75,000,000)
<b>Net Cash From/(Used In) Investing Activities</b>	<u>(257,801,975)</u>	<u>(246,808,793)</u>	<u>(543,572,982)</u>
<b>Cash Flow from Financing Activities</b>			
Lease Rental Paid	(31,173,733)	(37,408,480)	(44,890,176)
During the Year Loan Granted	(250,000,000)	(175,000,000)	(125,000,000)
Loans and Borrowings Repayments	(129,785,177)	(102,591,520)	(135,109,824)
<b>Net Cash From/(Used in) Financing Activities</b>	<u>(410,958,910)</u>	<u>(315,000,000)</u>	<u>(305,000,000)</u>
<b>Net Increase in Cash and Cash Equivalents</b>	<u>53,595,265</u>	<u>68,033,717</u>	<u>100,001,234</u>
<b>Cash and Cash Equivalents at the Beginning of the Year (Note A)</b>	<u>244,158,544</u>	<u>297,753,809</u>	<u>365,787,525</u>
<b>Cash and Cash Equivalents at the End of the Year (Note B)</b>	<u>297,753,809</u>	<u>365,787,525</u>	<u>465,788,759</u>
<b>At the Beginning of the Year</b>			
Balances at Banks	(1,208,793,518)	291,753,809	359,787,525
Petty Cash in Hand	6,000,000	6,000,000	6,000,000
	<u>(1,202,793,518)</u>	<u>297,753,809</u>	<u>365,787,525</u>
Bank Overdrafts	-	-	-
	<u>(1,202,793,518)</u>	<u>297,753,809</u>	<u>365,787,525</u>
<b>At the End of the Year</b>			
Balances at Banks	291,753,809	359,787,525	459,788,759
Petty Cash in Hand	6,000,000	6,000,000	6,000,000
	<u>297,753,809</u>	<u>365,787,525</u>	<u>465,788,759</u>
Bank Overdrafts	-	-	-
	<u>297,753,809</u>	<u>365,787,525</u>	<u>465,788,759</u>

Figures in brackets indicate deductions.

## 14.2 Base of Financial Forecast

Table 12: Milk Collection Forecast 2019 - 2021 (Ltrs.)

Month	Actual		Forecasted	
	2018	2019	2020	2021
January	7,417,023	5,642,000	7,130,000	7,672,500
February	6,839,127	5,180,000	6,874,000	7,434,000
March	8,189,461	6,979,650	8,757,500	9,532,500
April	8,813,202	8,365,500	9,405,000	10,275,000
May	9,878,728	9,848,700	10,881,000	11,904,000
June	9,277,031	10,249,500	11,310,000	12,390,000
July	8,877,572	11,160,000	12,059,000	13,190,500
August	7,660,430	10,577,200	11,454,500	12,508,500
September	6,731,421	9,070,500	9,795,000	10,725,000
October	7,178,787	8,782,300	9,083,000	9,889,000
November	5,037,305	7,846,500	8,055,000	8,745,000
December	5,196,379	7,475,650	7,688,000	8,339,000
<b>Total</b>	<b>91,096,466</b>	<b>101,177,500</b>	<b>112,492,000</b>	<b>122,605,000</b>

Table 13: Sales Forecast

Month	Actual		Forecasted	
	2018	2019	2020	2021
January	923	949	1,184	1,274
February	901	882	1,130	1,220
March	1,038	1,086	1,408	1,528
April	938	1,246	1,467	1,596
May	940	1,408	1,653	1,796
June	1,084	1,453	1,724	1,875
July	1,006	1,574	1,825	1,983
August	1,186	1,507	1,764	1,912
September	1,114	1,325	1,529	1,659
October	1,046	1,294	1,440	1,554
November	788	1,189	1,300	1,399
December	795	1,154	1,266	1,359
<b>Total</b>	<b>11,759</b>	<b>15,068</b>	<b>17,691</b>	<b>19,156</b>

Rs. Mn

### 14.3 Capital Investment Plan

The company will incur following capital expenses by the way to invest in new machinery, motor vehicles and other equipment require to the entity.

Table 14: Capital Investment Plan

Description	Forecasted			<i>Rs. Mn</i>
	2019	2020	2021	
<b>Total Investment</b>	500	350	250	
<b>Sources of Finance</b>				
Through Retained Funds	250	175	125	
Through Leasing/ Loans	250	175	125	