



Democratic Socialist Republic of Sri Lanka

Statement of Corporate Intent (SCI)
Development Lotteries Board

**Agreement among the General Treasury,
Ministry of Finance, Economic Stabilization & National
Policies (Line Ministry)
and
Development Lotteries Board**

04th April 2023

**Ministry of Finance, Economic Stabilization & National Policies
Colombo 01.**

Statement of Corporate Intent

among
The General Treasury, Ministry of Finance, Economic Stabilization &
National Policies
and
Development Lotteries Board
2023 - 2025

The Statement of Corporate Intent is agreed among the General treasury, Ministry of Finance, Economic Stabilization and National Policies (hereinafter referred to as "Line Ministry") and the Board of Directors of the Development Lotteries Board (hereinafter referred to as "the Board"), a State-Owned Enterprise (SOE) established under the Development Lotteries Act, No. 20 of 1997.

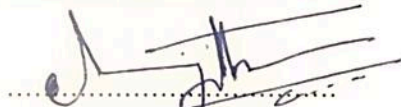
WHEREAS

The General Treasury is committed to clearly defining the working relationship among tri-parties.

The parties recognize the need for adequate and reasonable managerial and operational autonomy to facilitate achievement by the board and management of the SOE of the agreed and freely negotiated performance targets set out in this statement.

The parties recognize their responsibilities in enhancing transparency in the management of public resources and accountability for results and committed to perform duties to achieve the targets specified under this statement.

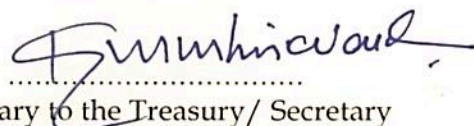
The parties are abiding by the responsibilities specified in the Guidelines for the Statement of Corporate Intent and subject to decisions taken by the Cabinet of Ministers as mentioned thereon or any other Government policy decisions.



Chairman
Development Lotteries Board

Date: .04.2023

Ajith Gunarathna Naragala
Chairman / CEO
Development Lotteries Board
No. 356, Union Place
Colombo 02



Secretary to the Treasury/ Secretary
Ministry of Finance, Economic Stabilization and
National Policies

Date: .04.2023

K.M.M. Siriwardana
Secretary to the Treasury and
Secretary to the Ministry of Finance,
Economic Stabilization and National Policies
The Secretariat
Colombo 01.

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EXECUTIVE SUMMARY

The Development Lotteries Board (DLB) is a state owned enterprise, of which the net earnings are credited to the President's Fund.

This SCI presents its financial plans for its operations for the upcoming three years, 2023 -2025. As per the unaudited financial statements for the year 2022, DLB has recorded a net profit before tax (PBT) of Rs. 3,266 Mn. In the year 2022, the President Fund and the Government received Rs. 3,210 Mn and Rs 786 Mn from DLB by way of transfers and indirect tax respectively in addition to Income Tax. Further, Despite the significant drop in gross profit margin in 2022 due to increase in printing cost together with increase in Value Added Tax (VAT) rate and introduction of Social Security Contribution Levy (SSCL) from the latter part of 2022, the forecasted remittances to the President Fund and Government in 2023 by way of transfer and indirect tax are estimated as Rs. 2,396 Mn and Rs. 1,463 Mn respectively.

DLB aims to achieve a PBT of Rs. 2,480 Mn, Rs. 2,492 Mn, and Rs.2,528 Mn in 2023, 2024, and 2025, respectively. The projection is fundamentally based on the selling price of Rs. 20, whereas if the ticket price is increased to Rs. 30 with effect from July 2023, the total profitability of the DLB will enhance to Rs. 3,702Mn whilst the total remittances (all taxes and the other receipts) to the President Fund and the Government will be Rs. 1,847Mn in 2023, provided that there will not be any significant change in the sales volume. Factors affecting the performance targets are highlighted in this SCI.

As a remedy to sustain the business performance, DLB has taken initiatives for product development and develop new markets through digital lotteries, sale through retail shops, and move on to modern trade.

DLB has allocated Rs.361 Mn worth of capital investments for 2023, which include IT system improvements, the purchase of draw machines, and improvement in the office building. DLB sources its capital expenditures from its own funds.

DLB commits to continually improve its performance by introducing sound management practices. Further, DLB would focus on appropriate CSR initiatives as a responsible corporate citizen.

1. INTRODUCTION

1.1. Establishment

The DLB was incorporated on January 19, 1983, with great objectives. DLB was originally known as the Development Lotteries Center before being renamed the Development Lotteries Trust in 1993. Later, in August 1997, it was again transformed into the Development Lotteries Board by Development Lotteries Act, No. 20 of 1997.

1.2. Vision

Being the premier fortune-making public entity in Sri Lanka.

1.3. Mission

Conduct innovative and attractive lotteries using state-of-the-art technology, uphold trust and be excellent at fulfilling the aspirations of stakeholders at all times.

1.4. Core Business/ Principal Activities

The major business operations of the DLB are,

- Sell draw lotteries and scratch (instant) lotteries.
- Raise funds for the President's Fund and the Mahapola Scholarship Fund, which assist students pursuing higher education despite various obstacles.

1.5. Market share

As of December 31, 2022, DLB's average market share was 48.2%. Further, it is estimated that the market penetration of lotteries is about 5% of Sri Lanka's adult population. Therefore, the lottery industry has the potential to grow through approaches such as market penetration and product development.

Year	2021	2022
Lottery Sales of Sri Lanka (Rs.)	33,022,017,080.00	40,963,339,240.00
Lottery Sales of DLB (Rs.)	15,729,951,000.00	19,754,531,000.00
Market Share	47.6%	48.2%

Source: Development Lotteries Board and National Lotteries Board

1.6 Performance of Past 10 Years and Cadre Information

1.6.1. Financial Performance & Financial Position

Table 1: Financial Performance & Financial Position

Rs'000

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue (Gross)	10,611,073	12,732,115	12,280,456	15,314,070	14,628,777	16,577,565	17,799,324	15,400,049	15,729,951	19,754,531
Gross Profit	5,261,347	5,409,516	5,137,214	6,236,581	5,864,333	6,580,642	7,117,748	6,369,223	6,523,213	7,591,996
VAT	448,944	460,638	405,796	554,194	647,277	722,708	733,910	367,019	365,552	683,074
NBT	203,243	198,540	194,301	241,640	229,057	259,104	250,694	-	-	-
SSCL Levy	-	-	-	-	-	-	-	-	-	103,087
Net Profit Before Tax	2,195,111	2,422,223	2,389,617	2,700,523	2,331,187	2,735,247	2,897,131	2,993,502	2,953,529	3,266,592
Non Current Assets	1,733,435	1,594,827	1,537,875	1,372,755	670,526	721,353	1,252,626	1,236,649	1,158,676	1,095,293
Current Assets	641,588	342,264	405,088	684,044	2,012,195	1,941,174	2,429,225	2,013,724	2,246,952	2,515,240
Current Liabilities	1,228,404	581,768	846,842	1,237,896	1,722,249	1,414,220	1,484,836	1,209,938	1,733,768	1,897,686
Non Current Liabilities	232,575	223,288	1,615,847	1,318,430	38,180	35,395	36,110	40,027	37,656	34,280
Total Equity	914,043	1,132,035	-519,726	-499,527	922,292	1,212,912	2,160,905	2,000,409	1,634,204	1,678,567
Contribution To the President's Fund	2,126,438	2,015,610	1,678,053	1,783,387	507,037	2,187,604	2,668,793	2,982,580	2,870,088	3,210,687

Source: Development Lotteries Board

1.6.2. Cadre Information

Table 2: Cadre Information

Employee Category	Approved Cadre	Actual Cadre
Senior Management Level	02	02
Higher Management Level	02	02
Middle Management Level	11	06
Junior Management Level	21	21
Management Assistants	176	147
Primary Level	129	119
Trainees, Casual & Contract	-	05
Total	341	302

Source: Development Lotteries Board

1.6.3. Board of Directors' Responsibility for Operational and Financial Performance of the SOE

DLB's Board of Directors is responsible for the operational and financial performance of the Board. This SCI sets out the agreed-upon financial and non-financial targets of DLB for the 2023–2025 financial years.

2. MACRO-ECONOMIC POLICY OF THE SECTOR

Generating income through lotteries mainly for achieving the objectives of President Fund and the Mahapola Trust Fund.

3. GOALS OF DEVELOPMENT LOTTERIES BOARD

Goal 1: Increase revenue and market share.

Goal 2: Maximize contribution to the President's Fund.

Goal 3: Acquire & utilize modern technology effectively.

Goal 4: Assist in the achievement of the primary goals of the board by enhancing the efficiency and productivity of staff.

4. OBJECTIVES OF DEVELOPMENT LOTTERIES BOARD

Goal 1: Increase revenue and market share.

1.1 Achieve a revenue growth of 25% in 2023.

1.2 Gain a 51% market share of the lottery market by 2025.

Goal 2: Maximize contribution to the President's Fund.

2.1 Improvements in the efficiency of the workflow, systems, and the processes.

Goal 3: Acquire & utilize modern technology effectively.

3.1 System modernization and optimization.

3.2 Infrastructure development.

Goal 4: Assist in the achievement of the primary goals of the board by enhancing the efficiency and productivity of staff.

4.1 Facilitate working friendly environment for all staff.

5. KEY PERFORMANCE INDICATORS (KPIs)

Table 3: Key Performance Indicators

Perspective	Basis	Based Year		Period	
		2022	2023	2024	2025
Financial Perspective					
Revenue Growth	%	26%	25%	3%	3%
GP Margin	%	38%	36%	36%	36%
NP (PBT)	%	17%	10%	10%	10%
ROA	%	90%	64%	63%	62%
Current Ratio	Rs.	1.90	1.22	1.22	1.22
Customer/Stakeholder Perspective					
Number of brand/sales promotions con	Qty	8	18	18	18
Market Share	%	48%	49%	50%	51%
No of retail sales outlets opened	Qty	543	1,000	1,100	1,200
No of lottery shops opened	Qty	58	50	10	10
Internal Business Perspective					
% Ticket return (on sale)	%	8%	5%	5%	5%
Learning and Growth Perspective					
Revenue per employee	Rs.	64,138	80,247	82,655	85,134
Per employee cost	Rs.	56,207	74,856	77,234	79,603

Note: 2022 Mid-term forecast has been used as the base line to calculate the above financial ratios.

6. FACTORS AFFECTING THE SCI

6.1. Revenue

- Political and economic stability

The annual income of the DLB mainly depends on the number of tickets sold for the period. The board has eight (8) draw lotteries and two instant ticket brands. Changes in the political and economic environment directly affect sales revenue. Also, changes in fiscal policy and economic conditions affect the disposable income of lottery buyers, which in turn affect revenue.

- High detachment of selling network

Due to the low income generated by the sellers, the industry is becoming less attractive for sellers. As a result, many are switching to other jobs. As a result, channel sustainability has become a major concern for the industry.

➤ Negative perception about lottery industry

The lottery business is considered a pavement business that is distant from the affluent segments of the market. Credibility of the product is low because there is no permanently structured business.

6.2. Expenditure

➤ Exchange rate fluctuation

Increased material costs affect all cost segments. Therefore, cost forecasting is difficult. This leads to unpredictable bottom line.

➤ The inability to obtain printing materials has an impact on printing costs

Due to supply chain issues, printing material supplies get disrupted, affecting the sales forecast.

➤ Erratic cost increases in overheads and utilities

Cost forecasting and profitability working are unpredictable due to overhead and utility cost increases.

➤ Increase in Government taxes effecting the profitability

In contrast to other industries, an increase in indirect taxes cannot be passed on directly to the customer. Therefore, profitability is affected by time-to-time changes in government tax policies.

7. ASSUMPTIONS UNDERLYING THE SCI

The key assumptions used to prepare the financial projections included in this SCI are explained below. These are the key factors of the Board to provide the final working results either on monthly basis or on annual basis.

Table 4: Assumptions Underlying the SCI

Underlying performance Factors	Assumed value (2023)	Sensitivity (Provide an impact on 2023 results of changes in the underlying assumptions)
Margin per ticket	At Rs. 20/- ticket price: Margin Rs. 1.87	If the ticket price goes up by Rs.10, the profit will be changed by Rs. 5 Bn.

Printing cost per ticket	Per ticket Rs. 0.98	Increase in 20% of ticket printing cost will decrease 10.4% of the net profit.
Winning prize per ticket	50% from the sale price	Increase in 3% of prize allocation will increase 5% of sales volume.

8. MAJOR RISKS TO DELIVER THE SCI OUTCOMES AND MITIGATION STRATEGIES

Table 5: Major Risk & Mitigation Factor

Anticipating Risk	Mitigation Strategy
1. Fiscal policy changes-Tax.	1. Increase price of the ticket.
2. Exchange rate fluctuations.	1. Increase price of the ticket. 2. Supplier agreements.
3. Risk of failure of IT system implementation and maintenance due to lack of in-house skills.	1. Recruit IT professional for both system. maintenance and incident management. 2. Train existing employees.
5. Risk of breaching contracts by main service providers.	1. Include penalty clauses. 2. Reduce dependency by Increase number of service providers.
6. Risk of fraud through software systems and processes.	1. Conduct required audits on software systems. 2. Implement controls focusing duty segregation. 3. Conduct security upgrades and vulnerability assessment periodically.
7. Risk of system failure through external and internal cyber security threats.	1. User awareness training. 2. Update and upgrade operating systems, firewalls and endpoint security software. 3. Implement a policy for external drives.
8. Risk of operational interruption through natural disasters and weather fluctuations.	1. Focus on online tickets 2. New methods of distribution

Anticipating Risk	Mitigation Strategy
9. Risk of non-availability of Data recovery site.	1. Implement a DR site. 2. Keep the high availability for all applications.
10. Risk of introducing government policies restricting certain developments.	1. Re-allocation of resources.
11. Risk of not adopting to the organizational changes due to lack of skills and competencies of staff.	1. Training and development for K-S-A management. 2. Appoint a change management agent.
12. Loss of market share as a result of adjacent competition and market disruption.	1. Portfolio mapping and contingency changes to the price structures. 2. Conducting mini special draws. 3. Focus on untapped markets. 4. Digital adoption.
13. Risk of non-achievement of sales due to un engaged lottery buying/selling behavior of generation (gen 'z').	1. Build corporate brand appealing to youth. 2. Introduce online games and digital adoption.
14. Loss of market place due to urban development plans.	1. Get ministerial support from the central government. 2. Upgrade distribution from pavement to permanent retail outlets. 3. Digital adoption

9. COMPETITIVE NEUTRALITY

Although there are two players competing in the lottery industry, both are government entities. Therefore, both companies have got the government backing equally. Since there is no private competition, a true competition does not exist.

10. NON-COMMERCIAL GOODS AND SERVICES

Not applicable.

11. FINANCING POLICY

All the operational and capital expenditure are planned to be met through internally generated funds.

12.LEVY POLICY

In terms of Section 9 (2) (f) of the Finance Act, No.38 of 1971, DLB is bound to pay levy, which will be determined and imposed by the General Treasury on behalf of the Minister of Finance from time to time.

13.FINANCIAL INFORMATION

13.1 Forecasted Financial Statements

13.1.1 Forecasted Income Statement

Table 6: Forecasted Income Statement

<i>for the year ended 31st Dece</i>	2021 Actual	2022 Actual	2023 Projection	2024 Projection	2025 Projection
	Rs.	Rs.	Rs.	Rs.	Rs.
Revenue(Net of VAT)	15,364,398,498	19,071,456,751	23,732,262,786	24,444,230,669	25,177,557,589
Cost of Tickets	433,523,004	844,240,759	1,252,983,997	1,315,633,197	1,355,102,193
Prize payout	7,865,640,218	9,884,078,986	12,634,710,439	13,013,751,752	13,404,164,305
Draw Cost	542,022,297	751,141,022	908,690,400	935,951,112	964,029,645
Gross Profit	6,523,212,978	7,591,995,984	8,935,877,950	9,178,894,608	9,454,261,447
Other Income	110,304,701	320,846,644	385,734,557	385,734,557	385,734,557
Distribution Cost	3,484,491,585	4,487,324,271	6,415,584,433	6,608,051,966	6,806,293,525
Administrative Expenses	536,791,467	605,097,921	774,553,956	813,281,654	853,945,737
Surplus after operating Exp	2,612,234,628	2,820,420,437	2,131,474,118	2,143,295,545	2,179,756,742
Finance Cost	936,549	979,196	1,000,000	1,050,000	1,102,500
Prize Write back	342,230,480	447,150,260	350,000,000	350,000,000	350,000,000
Profit before Tax	2,953,528,558	3,266,591,501	2,480,474,118	2,492,245,545	2,528,654,242
Income Tax	83,440,185	55,904,459	84,321,043	86,850,674	89,456,195
Profit after Income Tax	2,870,088,373	3,210,687,041	2,396,153,075	2,405,394,871	2,439,198,047
Other Comprehensive income					
Re-measurement gain/ (loss) on Employee Benefit plan	5,863,008	9,112,463	-	-	-
Revaluation Surplus	-	5,853,857	-	-	-
Total Comprehensive income for the Year	2,875,951,381	3,225,653,361	2,396,153,075	2,405,394,871	2,439,198,047

Source: Development Lotteries Board

13.1.2. Forecasted Statement of Financial Position

Table 7: Forecasted Statement of Financial Position

<u>As at 31st December</u>	<u>2021 Actual</u> Rs.	<u>2022 Actual</u> Rs.	<u>2023 Projection</u> Rs.	<u>2024 Projection</u> Rs.	<u>2025 Projection</u> Rs.
Assets					
<u>Non Current Assets</u>					
Property Plant & Equipme	1,138,357,289	1,082,575,630	1,449,240,149	1,492,717,353	1,537,498,874
Capital work in progress	2,778,884	3,228,884	2,778,884	2,778,884	2,778,884
Intangible Assets	17,539,784	9,488,402			
Total Non Current Assets	1,158,675,958	1,095,292,917	1,452,019,033	1,495,496,238	1,540,277,758
<u>Current Assets</u>					
Inventories	43,102,269	45,970,611	60,000,000	61,800,000	63,654,000
Prepayment & Deposits	11,141,943	6,223,428	12,000,000	12,360,000	12,730,800
Trade Debtors & Other rec	150,441,764	163,480,972	86,236,081	88,823,163	91,487,858
Staff loan receivable			73,763,919	75,976,837	78,256,142
Fixed Deposit	1,142,259,436	1,742,324,887	1,849,390,989	1,904,872,719	1,962,018,900
Cash & Cash equivalent	900,006,350	557,240,367	335,652,344	345,721,914	356,093,572
Total Current Assets	2,246,951,762	2,515,240,265	2,417,043,333	2,489,554,633	2,564,241,272
Total Assets	3,405,627,719	3,610,533,182	3,869,062,366	3,985,050,871	4,104,519,030
<u>Equity & Liabilities</u>					
<u>Contributed Capital</u>					
President Fund	2,200,000	2,200,000	2,200,000	2,200,000	2,200,000
Mohapola Trust Fund	2,200,000	2,200,000	2,200,000	2,200,000	2,200,000
Prize Reserve Account	448,131,648	725,956,289	645,000,000	664,350,000	684,280,500
Presidents' Fund Payable	564,219,473	315,791,041	580,000,000	597,400,000	615,322,000
Revaluation Surplus	614,729,237	620,583,095	614,729,237	633,171,115	652,166,248
Re-measurement gain/(lo	2,723,891	11,836,354			
Total Equity	1,634,204,250	1,678,566,779	1,844,129,237	1,899,321,115	1,956,168,748
<u>Non Current Liabilities</u>					
Employee Benefit Liabilit	(9,372)	(4,438,730)	5,322,099	5,481,762	5,646,215
Dealer & Distributor Depo	37,664,881	38,718,881	38,000,000	39,140,000	39,140,000
Total Non Current Liabili	37,655,509	34,280,151	43,322,099	44,621,762	44,786,215
<u>Current Liabilities</u>					
Trade & Other Payable	640,706,596	771,026,177	640,000,000	659,200,000	678,976,000
Prize Payable	962,793,104	1,003,306,515	1,206,611,029	1,242,857,994	1,281,366,567
Credit Vouchers Payable	130,268,260	123,353,560	135,000,000	139,050,000	143,221,500
Total Current Liabilities	1,733,767,960	1,897,686,252	1,981,611,029	2,041,107,994	2,103,564,067
Total Equity & Liabilities	3,405,627,719	3,610,533,182	3,869,062,366	3,985,050,871	4,104,519,030

Source: Development Lotteries Board

13.1.3. Forecasted Statement of Cash Flow

Table 8: Forecasted Statement of Cash Flow

<i>for the year ended 31st December</i>	2021 Actual	2022 Budgeted	2023 Projection	2024 Projection	2025 Projection
	Rs.	Rs.	Rs.	Rs.	Rs.
IN FLOWS					
Sales	15,729,950,780	19,211,806,856	24,716,116,760	25,457,600,263	26,221,328,270
Others Income	110,304,701	221,026,742	382,144,873	385,734,557	385,734,557
Staff loan	(520,880)	3,000,000	(4,093,316)	(4,093,316)	(4,093,316)
Total Inflow	16,381,397,364	20,335,839,948	25,799,116,661	26,544,189,848	27,307,917,856
OUT FLOW					
Purchase of Tickets	444,034,641	797,268,828	1,252,983,997	1,315,633,197	1,355,102,193
Debtors/ Creditors	57,379,665	-	-	(2,096,761)	(11,512,314)
Prize Payments	7,374,680,230	9,305,903,428	12,284,710,439	12,977,504,422	13,365,656,555
Commission	194,383,757	310,241,780	306,911,459	316,118,803	325,602,367
Draw cost	542,022,297	808,487,800	908,690,400	935,951,112	964,029,645
Advertising	168,952,012	431,994,935	605,415,000	623,577,450	642,284,774
Marketing related Expenses	2,957,578	8,000,000	14,000,000	14,420,000	14,852,600
Selling Expenses	3,053,040,972	3,968,036,311	5,010,491,764	5,160,806,517	5,315,630,712
Admin & Finance Expenses	448,703,916	670,889,434	775,553,956	814,331,654	855,048,237
Other Fixed Assets/deposit	(162,698,614)	326,379,804	361,613,000	43,477,204	44,781,521
VAT/SSCL	365,552,282	705,414,586	1,462,620,184	1,506,498,790	1,551,693,753
Income Tax	653,294	50,400,004	84,321,043	86,850,674	89,456,195
President Fund	2,991,728,983	2,451,671,766	2,396,153,074	2,405,394,871	2,439,198,047
Total Out Flow	15,481,391,013	19,834,688,676	25,463,464,317	26,198,467,933	26,951,824,284
Closing Balance	900,006,351	501,151,272	335,652,344	345,721,915	356,093,572

Source: Development Lotteries Board

13.1.4. Capital Investment and Financial Plan

Table 9: Capital Investment Plan

	2021 Budgeted Rs.Mn	2022 Projection Rs.Mn	2023 Projection Rs.Mn	2024 Projection Rs.Mn	2025 Projection Rs.Mn
Motor Vehicles	-	20.0	20.0	20.6	21.2
Office Equipment	5.5	1.5	1.5	1.5	1.6
Building	117.5	60.0	76.0	78.3	80.6
Machinery		1.5	100.0	103.0	106.1
Furniture & Fittings	3.0	3.0	3.0	3.1	3.2
Computers & Accessori	53.9	110.1	91.3	94.1	96.9
Computer Software	76.7	129.5	68.0	70.0	72.1
Motor Bicycle			1.0	1.0	1.1
Mobile Phone	0.5	0.8	0.8	0.8	0.8
Total	257.1	326.4	361.6	372.5	383.6
Sources of Finance					
Equity	-	-	-	-	-
Internal Fund	257.1	326.4	361.6	372.5	383.6
Debt	-	-	-	-	-
Total	257.1	326.4	361.6	372.5	383.6

Note: All Capital Expenditure is funded by DLB

Source: Development Lotteries Board