PERFORMANCE REPORT

2012

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”

Contents

1. Performance of the Department of Public Enterprises

1.1 Overview

The Department of Public Enterprises is the apex government institution that ensures good governance of State Owned Enterprises (SOEs) in Sri Lanka in order to achieve the development targets of “Mahinda Chinthana – The Vision for the Future”. Sate Owned Business Enterprises (SOBEs) which are engaged in activities in the fields of ports, aviation, water, electricity, energy, banking and insurance, play a strategic role in the national economy. They have gained relatively greater importance in recent years, in view of the non-privatization policy stance of the Government since 2005; The Department of Public Enterprises ensures the improvement of good governance practices, effective and efficient utilization of resources in order to achieve desired targets of the enterprise. The department also engaged in developing and issuing guidelines on operational and financial management of enterprises with a view to enforce financial discipline.

Further the department assisted SOEs to improve Human Resource Development of SOBEs such as BoC, PB, CEB, NWS & DB and SLPA having entering into Collective Agreements. Circular instructions were issued extending mandatory retirement age of all SOE employees to 60 years, Public Enterprise Department also facilitated to support SOBEs through budgetary provisions inclusive of grants and loans and government guarantees enabling SOBEs to have access to external financing.

Further, the department assisted the Committee on Public Enterprises (COPE) by providing reports on the performance of SOEs considering audit findings of respective entities while officials of the department attended 41 COPE meetings during 2012. It is noted that most of the SOBEs have demonstrated improvements in terms of governance and business modeling, following the recommendations of the Committee on Public Enterprises (COPE) and increased monitoring and supervision by the Treasury.

1.1.1 COPE Meetings attended by the Department during the year 2012

No	Name of the Institute	Scheduled Date	Report
1	Lankaputra Development Bank	23.02.2012	√
2	Sri Lanka Cricket	24.05.2012	Cancelled
3	Sri Lanka Insurance Corporation	09.05.2012	√
4	Central Bank of Sri Lanka	06.07.2012	√
5	Sri Lanka Telecom PLC	21.06.2012	√
6	National Institute of Business Management	16.08.2012	√
7	Colombo Commercial Fertilizer Company Ltd.	05.07.2012	√
8	Sri Lanka Cashew Corporation	24.07.2012	√
9	State Mortgage & Investment Bank	17.07.2012	√
10	Associated Newspapers Of Ceylon Ltd.	12.10.2012	Not necessary
11	Janatha Estates Development Board	06.08.2012	√
12	Urban Development Authority	08.08.2012	√
13	Public Utilities Commission	09.08.2012	√
14	National Gem & Jewellary Authority	10.08.2012	√
15	People's Bank	10.08.2012	√
16	Sri Lanka Bureau of Foreign Employment	14.08.2012	√
17	Insurance Board of SL	12.11.2012	√
18	National Water Supply &Drainage Board	18.09.2012	√
19	Board of Investment of Sri Lanka	14.11.2012	√
20	Sri Jayawardenapura Hosp. Board	21.09.2012	√
21	Coconut Development Authority	01.10.2012	√
22	Selacine Rupavahini Institute	05.10.2012	√
23	State Printing Corporation	12.10.2012	√
24	Ayurvedic Drug Corporation	16.10.2012	√
25	Employees Trust Fund	24.10.2012	√
26	Sri Lanka Ports Authority	15.11.2012	√
27	SL Convention Bureau	16.11.2012	√
28	Ceylon Petroleum Corporation	16.11.2012	√
29	National Film Corporation	19.11.2012	√
30	Ceylon Shipping Corporation	20.11.2012	√
31	SL LR & DC	21.11.2012	√
32	State Pharmaceutical Manufacturing Corporation	05.12.2012	√
33	Bank Of Ceylon	22.11.2012	√
34	Mihin Lanka Ltd	26.11.2012	√
35	Development Lotteries Board	07.12.2012	√
36	Ceylon Fishery Harbour Corporation	29.11.2012	√
37	State Pharmaceutical Corporation	03.12.2012	√
38	SL Central Transport Board	04.12.2012	√
39	Paddy Marketing Board	05.12.2012	√
40	Kurunegala Plantaion Ltd.	06.12.2012	√
41	Janatha Estates Development Board	07.12.2012	√

Source: Department of Public Enterprises

1.2 Physical Performance

1.2.1 Dividend

Revenue received from State Owned Enterprises by way of Dividends and Levies increased by 12.1 percent to Rs. 27,549 million in 2012 from Rs. 24,562 million in 2011. Dividends and Levies accounted for almost 20 percent of non-tax revenue. As almost all State Businesses have considerable earning potentials. They together command a strong asset base of almost 43 percent of the GDP and are bigger than the market capitalization of all the listed companies in the Colombo Stock Exchange. However, the dividends earned by the government since 2000 from State Owned Business Enterprises remain sub-optimal and require much improvement.

Levy/ Dividend Income from SOBEs

	2002	2006	2007	2008	2009	2010	2011	2012
Levy	-	**1,316**	**1,434**	**1,279**	**4,471**	**4,524**	**10,379**	**13,562**
National Savings Bank	-	810	1,060	1,060	1,750	2,312	4,560	8,260
State Mortgage & Investments Bank	-	116	25	-	50	-	-	25
Regional Development Bank	-	46	50	40	144	55	-	500
State Timber Corporation	-	75	150	75	50	10	75	50
State Pharmaceuticals Manufacturing Corporation	-	25	30	40	30	85	59	20
Sri Lanka Ports Authority	-	115	65	-	-	-	-	-
National Insurance Trust Fund	-				2,250	2,000	3,495	4,200
Ceylon Electricity Board	-	-	-	-	-	-	2,000	-
Others*	-	129	54	64	197	62	190	507
Dividends	**435**	**3,585**	**4,014**	**2,966**	**4,219**	**6,867**	**14,183**	**13,987**
Bank of Ceylon	-	1,173	846	1,046	1,346	2,923	4,020	5,346
People's Bank	-	668	1,416	816	1,139	3,253	4,500	4,658
Sri Lanka Telecom Plc	300	670	893	893	893	223	536	759
De La Rue Lanka (Pvt) Ltd	20	-	100	100	38	-	68	42
Lanka Mineral Sands Ltd	-	98	50	34	60	35	500	1,700
Lanka Industrial Estates Ltd	11	20	62	31	31	31	31	47
Ceylon Petroleum Storage Terminal Ltd	-	-	438	-	-	-	-	-
Airport and Aviation Services Ltd	-	-	100	-	200	-	2,406	-
West Coast Power (Pvt) Ltd	-	-	-	-	392	-	-	-
Lanka Electricity Company Ltd	100	100	75	-		300	-	75
Plantation Companies**	-	-	-	-	30	-	212	179
Sri Lanka Insurance Corporation Ltd	-	-	-	-	-	-	1,750	1,001
Sri Lankan Airlines Ltd	-	788	-	-	-	-	-	-
Others *	4	68	34	46	90	102	160	180
Total	**435**	**4,901**	**5,448**	**4,245**	**8,690**	**11,391**	**24,562**	**27,549**

Sources: Department of Treasury Operations and Department of Public Enterprises

**Independent Television Network Ltd, National Lotteries Board, SL Rupavahini Corporation, State Pharmaceuticals Corp, SL Export Credit Insurance Corp, Lanka Phosphate Ltd, Lanka Leyland Ltd, Ceylon Agro Industries Ltd,*

Colombo Commercial Fertilizer Ltd, Paranthan Chemical Company ltd, RaknaArakshana Lanka Ltd, Lankaputhra Development Bank, National Development Bank.
***Chilaw, Kalubowitiyana, Elkaduwa, Kurunegala, Namunuluka, Kegalle, Agalawatte, Kotagala, Balangoda, Watawala, Horana, Elpitiya and Pussellawa Plantations*

During 2012, 42 SOBEs out of 74 enterprises paid Rs. 27,549 million towards dividends and levies against Rs. 24,562 million in 2011. However, this was largely due to high dividend transfers from State Banks and Insurance Companies which accounted for almost 80 percent of the total dividend income from SOBEs. Sri Lanka Telecom and Lanka Mineral Sands paid increased dividend in 2012 compared to 2011. However, the Government did not receive dividend income from large enterprises such as NWS & DB, SLPA and AASL due to their investments in capital expansions while CEB, CPC and the Sri Lankan Airlines incurred heavy losses.

The relatively smaller and medium sized SOBEs such as National Lotteries Board, State Pharmaceuticals Corporation, State Pharmaceuticals Manufacturing Corporation, Independent Television Network Ltd, Lanka Mineral Sands Ltd, Chilaw, and Kurunegala Plantations paid Rs. 2,435 million a satisfactory return in comparison to Rs. 734 million in 2011 underpinning their business expansion. Though there was no dividend payments by enterprises engaged in marketing and distribution, a steady improvement is seen in profitability in enterprises like *LakSathosa* and *Laksala*.

1.2.2 Employment of SOBEs

The total employment strength in SOBEs in 2012 was 251,278 which is a marginal increase of around 1 percent over 2011. However, the average annual cost per employee increased in 2012 to Rs. 469,185 from Rs. 398,400 in 2011 due to the impact of wage increases in enterprises. SOBEs have recorded an increase of 17.7 percent in their average cost in 2012 over 2011, which is higher than the annual average increase in wages of 6.8 percent for a central government employee. This increase was largely due to the revision in salaries in terms of Collective Agreements at BoC, PB, CEB, NWS & DB and SLPA. The mandatory retirement age of all

SOE employees was extended to 60 years, other than for banks adopted restructuring plans in 1992.

1.2.3 Budget Support to SOBEs

SOBEs were supported through budgetary provisions inclusive of grants and loans amounting to Rs. 32.2billion, an increase of 16 percent over 2011 and government guarantees to selected enterprises such as CEB, CPC, Sri Lankan Airlines totaled to Rs. 321 billion enabling SOBEs to have access to funding from Bank sources. It is encouraging to note that the recurrent transfers has decreased by 12.4 percent to Rs. 4.3billion in 2012 from Rs.4.9l billion in 2011 as many of the SOBEs recorded an improvement in their revenue. Capital transfers increased by 18 percent to Rs. 27.9 billion in 2012 from Rs. 23.6 billion in 2011 and on lending increased to Rs. 37.5billion in support of the ongoing public investments. Total capital transfers and on lending accounts for almost 3.5 percent of the capital budget and 1.2 percent of the GDP in 2012.

2. Performances of SOBEs

2.1 Overview

Ten large state owned business enterprises which engage in the field of ports, aviation, water, electricity, petroleum, banking and insurance play a strategic role in the national economy. These enterprises account for 95 percent of the asset base of the currently operational 55 SOBEs. The Sri Lanka Ports Authority (SLPA), Airport and Aviation Services Limited (AASL), Sri Lankan Airlines (SLA), Ceylon Petroleum Corporation (CPC), Ceylon Electricity Board (CEB) and Water Supply and Drainage Board (NWS & DB) dominate non-financial sector state business enterprises while Bank of Ceylon (BoC), People's Bank (PB), National Savings Bank (NSB) and Sri Lanka Insurance Corporation (SLIC) dominate banking and insurance sector of state enterprises. Several enterprises such as *LakSathosa*, *Laksala*, Ceylon Fisheries Corporation, Ceylon Fertilizer Company Limited, MILCO, National Livestock Development Board (NLDB), Sri Lanka Transport Board (SLTB), etc, have gained relative importance in recent years under non-privatization policy stance of the government since 2005. In terms of serving low income household and SME scale producer needs in a competitive market environment, the provision of important services such as transport and fertilizer to underserved areas and enterprises commanding natural resources such as Lanka Phosphate Limited, Lanka Mineral Sands Limited with considerable potential to raise their strategic role, asset base and market competition in the national economy. These enterprises remain important though their turnover scale is not large yet. Most of the state owned business enterprises have shown improvement in terms of governance and business modeling following the recommendation of the Committee on Public Enterprises (COPE) and increased monitoring and supervision by the Treasury, though further improvements are necessary in enforcement of applicable regulations, systems and procedures as well as accountability by the Board of Directors and senior management. It is encouraging to note that several enterprises have adopted business re-engineering to strengthen their market positions and balance sheets through long term investments in income generation activities. However, some of these enterprises need capital infusion and stronger professional and managerial skills to exploit their full potential. The competence level and role played by Chairmen, the Board Directors and the key officials desire better professional standards.

The operations of about 55 SOBEs take place in a competitive market environment. Almost all of them compete with relatively strong domestic private enterprises and in some sectors with foreign firms. While sectors such as banks and insurance are regulated to ensure quality performance, institutional stability and fair competition in addition to state banks and SLIC to keep market competition. Many sectors such as agriculture, retail trade, media, transport, require the operations of state enterprises to ensure justifiable service delivery mechanism as market alone is not capable in serving lower income groups and difficult areas in the country. While many enterprises have shown improvements in their performance in a competitive environment some have lost their market share requiring substantial reforms. They need further commitments to gaining strong market share to play their justifiable role and trust on making SOBEs viable as opposed to ownership changes.

A number of small entities which operate well below their capacity or unlikely to serve a productive socio economic role and requires adopting re-structuring options including investments and revival plans, mergers and in certain cases liquidations as suggested by the COPE. They are listed in Table 2.18.

2.2 Energy

The thrust of the government's energy policy is to ensure energy security, through the development of clean and affordable energy sources over the medium and long term. In this context, the investments during 2005-2012 period amounting to Rs. 224.1 billion has expanded and upgraded the country's infrastructure on power generation, transmission and distribution. The total generation capacity of electricity, increased by almost 48 percent to 3,312 MW in 2012 from 2,231 MW in 2002. Key milestones in this respect were the commissioning of the low cost coal fired power generation plant with 300MW in Puttlam and the hydro power plant at Upper Kotmale with 125 MW to reduce the fuel based power generation. Work is in progress to add further 600 MW coal fired power generation capacity in Puttlam by early 2014.

The reduction in the system losses to around 11.7 percent in 2012 from 17.3 percent in 2002 and the expansion of electricity coverage to almost 93 percent of the households in 2012 from 65 percent in 2002 and to other industrial and general purpose users are steps in the right direction in improving the financial viability in the medium term and providing access to electricity for all. However, in the wake of a prolonged drought during the second and the third quarters of 2012 that weakened the hydro power generation capacity, demanded increased reliance on fuel based power plants when international oil prices was high. The operational losses of CEB increased to Rs.61 billion despite the tariff adjustments in February 2012 and the availability of fuel at subsidized prices which cost CPC Rs.54 billion in 2012.

The demand for petroleum products grew by 5 percent in 2012. Transport sector accounted for 56 percent of the total consumption of petroleum products while the electricity sector which accounted for 25 percent, recorded the highest growth in demand for petroleum products at 20 percent over 2011 due to the depletion of hydro power generation capacity to 20 percent. This resulted in the increase in the fuel imports at a time international oil prices remains high in the range of US$ 110/bbl costing US$ 4,919 million in 2012 in comparison to US$ 4,795 million in 2011.

The global oil prices which fluctuated in the range of US$ 95/bbl – US$ 125/bbl, Brent crude was imported at an average of US$ 114.73/bbl. The increase in demand for petroleum products coupled with the constraints faced at the refinery due to the restrictions on the import of Iranian oil, resulted in the CPC increasing its import of refined products to 3.95 million MT in 2012 from 3.50 million MT in 2011. Capacity utilization in the CPC refinery declined in 2012 by 33 percent in comparison to 2011. These factors contributed to the increase in the CPC's financial losses to Rs.89 billion (inclusive of Rs 54 billion for the supply of subsidized fuel to CEB) in 2012 despite the price increases in petroleum products in February 2012 and also in December 2012.

The demand for petroleum is projected to grow by at least 9 percent per annum in view of the continued expansion in the electricity which is expected to increase by 7 percent per annum and demand from the transport sector by 10 percent per annum during 2013-2015. The CPC's Refinery capacity of 25,000 bpd which was installed almost 40 years ago, met almost 50 percent of the demand for Petrol, 40 percent of the demand for Diesel, the entire demand for heavy fuel, Bitumen and Kerosene in 2005, managed to supply only 28 percent of Petrol, 18 percent of Diesel while part of the Bitumen, Heavy fuel and Kerosene demand was met from imports. The refinery output along with aging supportive infrastructure recorded a decline in its output to 1.5 million MT in 2012 from 2.0 million MT due to the lack of adequate investments into refinery over time have also contributed to the weakening efficiency in CPC operations.

2.3 Water

The provision of safe drinking water and sanitation is a key development objective of the government. The National Water Supply & Drainage Board **(**NWS & DB) alone accounts for 35 percent of the safe drinking water coverage of the country and is expected to increase to 46 percent by 2016. By the end of 2012, the safe drinking water coverage island wide increased to 84 percent with an increase of 2 percent over 2011. It is expected to increase to 94 percent by 2016. The Community Based Organizations and local authorities provide 8 percent coverage while the balance 41 percent of the population consumes drinking water through other sources such as wells, hand pumps and tube wells, rain water and springs.

NWS & DB produced 526 million cubic meters (m^3) of drinking water in 2012, a 7 percent increase at 490 million m^3 over 2011**,** at a cost of Rs.8, 826 million, through 337 water supply schemes. Cost per 1 m^3 of water increased by 13 percent to Rs. 16.80 in 2012 from Rs. 14.86 in 2011. By the end of 2012, due to the large investments made into NWS & DB, water production capacity was increased by 185,791 m^3.

During 2012, NWS & DB distributed 368 million m^3 of water an increase of 8 percent at 342 million m^3 in comparison to 2011, through 1,587,663 water connections and bowsers. NWS & DB recorded revenue of Rs. 16.3 billion in 2012, an increase of 11 percent over 2011. Sale of water which constitutes of almost 85 percent of total revenue amounted to Rs.13.1 billion. In line with the government policy to ensure accessibility to safe drinking water, NWS & DB has been successful in increasing total water connections by 138,362 in 2012.

However, in 2012, 157 million m^3 of drinking water is reported as Non-Revenue Water (NRW) wasted continuously through leakages in the distribution system, which is 29.9 percent of the total production. The Board was able to marginally reduce the NRW to 29.9 percent in 2012 from 34 percent in 2008 in percentage terms. In terms of volume, the annual quantity of NRW has increased to 157 million m^3 in 2012 from 141 million m^3 in 2008. If the Board had been able to mitigate the NRW to at least 12 percent in line with the international benchmark, the Board would have been able to increase its water sales by 94 million m^3 which contributes nearly 10 percent of safe drinking water coverage of the country earning a net income of Rs.3.4 billion per annum.

In 2012, driven by the 25 percent salary hike which resulted in the total expenditure to increase by 37 percent over 2011, the Board incurred an accounting loss of Rs. 579 million against the previous year's accounting profit of Rs. 421 million. Maintenance of stocks at a cost of Rs.3, 898 million has had a negative impact on the liquidity position resulting in the Board not being able to meet the loan repayments to the Treasury whereby the unsettle to the Treasury increased to Rs.5,281 million at the end of 2012 in comparison to Rs. 3,704 million at the end of 2011.NWS & DB revised the tariffs in the latter part of 2012, by 33 percent so as to bridge the gap between the cost of water at the door step and the tariff per unit. Despite this increase in tariffs the domestic consumers consuming up to 25 units who account for almost 85 percent of the total domestic consumer base at 1.2 million are still being availed a subsidy of between Rs.9 to 30 per unit costing annually Rs.3,290 million.

During the 2012,368 million of water units (m^3) were consumed of which the Domestic sector accounted for 72 percent and the balance 28 percent by the industrial sector. However the domestic sector which contributed to 55 percent of the revenue at Rs.7,455 million while the industrial sector accounted for 45 percent of the revenue generated a profit of Rs. 1,688million.

The aggressive investment strategy adopted by the government not only to expand the water connections but also to arrest the NRW to 20 percent by 2016 will strengthen the balance sheet in the medium term when the Board will be able to generate surpluses from 2013. Leveraging on the strength of the balance sheet, the Board will be in a position to raise financing for its expansions in the future. It is also noted that the sustainability of the NWS&DB will depend largely on how successful it will be in managing its large project portfolio of about Rs. 106.4 billion and adjusting to high energy cost which accounting for one fourth of operating expenses.

At the end of 2012, NWS & DB's project portfolio consisted of 26 projects at various stages of the project cycle. During the period 2005-2012 the Board has been able to complete 36 major water projects increasing the annual water production capacity by 552,609 m^3.However, it is noted that a number of projects has been behind the schedule to complete works within the stipulated time period resulting in cost and time overruns, in some cases exceeding 100 percent of the original cost estimate and beyond the original time span. Delays in the procurement process is a main reason for cost escalations while weak feasibility studies undertaken at the project designing stage and poor project management have been identified as other reasons for cost overruns of water projects. In many cases, the government had to allocate significant amount of additional funds for projects due to cost overruns increasing the burden on the national budget.

It is noted that the Board has been holding on to stock items such as pipes, pipelines etc., that are both old and dilapidated tying up money in non-moving items giving rise to a tight liquidity.

Lack of a proper stock control system and cost accounting system resulted in the Board not being able to manage its resources optimally. Establishment of Enterprise Resource Planning (ERP) system covering with cost accounting aspects, investments aimed at reducing the NRW and better project management and an integrated procurement system will have a significant impact in the Board being able to function as a financially viable organization while being an efficient service provider.

2.4 Ports

The government policy framework places significant emphasis on development of port facilities to take the full locational advantage in positioning the country as a global maritime and international trading hub to raise country's exports. Towards this end, Sri Lanka Ports Authority (SLPA) has implemented several infrastructure projects including the expansion of Colombo port as a regional transshipment hub, the construction of Magam Ruhunupura Mahinda Rajapaksha (MRMR) port in Hambanthota initially as a service and industrial port and then to elevate to a multi-purpose trading hub, development of Galle port as a cruise shipping center and Trincomalee port as an eco-friendly, leisure and light commercial port. Oluvil and Kankasanthurei ports are being developed as regional commercial ports linking the coastal chain of Sri Lankan harbours. In keeping with the Government's public investment strategy, Rs. 74,650 million has been invested during the period 2005-2012. Through these projects, new MRMR port at Hambanthota and the expansion of the capacity of Colombo port through Colombo Port Expansion Project (CPEP) adding new three terminals have completed phase 1 stage of the infrastructure development enabling marketing of these facilities for commercial operations. Investments for CPEP were raised through Public-Private Partnerships under which the government developed the breakwater facility at a cost of US$ 400 million with a loan of US$ 300 million from the Asian Development Bank. Foreign direct investment on development of first terminal which is in progress at a cost of US$ 500 million is expected to commission in September 2013.

2.5 Commuter Transportation

Commuter transport accounts for nearly 60 percent of the total motorized passenger transport and serves as the only mean of transport for majority of the population. Bus transport accounts for nearly 55 percent provided by both state owned and privately operated busses, while Sri Lanka Railway accounts for the balance 5 percent.

Sri Lanka Transport Board (SLTB) with a fleet of 4,779 buses catered to almost 23 percent of the market while the balance is catered by the private sectors with the fleet of 19,699 buses. SLTB operates in 3,200 routes, venturing into new routes such as the Galle-Colombo; Southern Expressway, Polonnaruwa-Ampara highway and Embilipitiya-Katharagama highway in 2012. SLTB also provides its services to the rural areas and in uneconomical routes which are not attractive to the private sector operators.

Waybill income which constitutes almost 90 percent of the total revenue increased by 20 percent from Rs. 15,175 million in 2011 to Rs. 18,209 million in 2012 in spite of the number of passengers using SLTB services declined by 1 percent in comparison to 2011. Thus the increase in the waybill income is attributed mainly to the increase in bus fares by 20 percent in February 2012. SLTB continued to operate in uneconomical routes, provide services to School and University/Technical College students' at concessionary rates of 90 percent and 70 percent respectively, for which the government has transferred Rs. 3,750 million through budgetary allocations in 2012.

Total expenditure increased to Rs. 30,137 million in 2012 from Rs. 24,126 million in 2011. The cost of fuel, the largest expenditure component of the SLTB increased by 46 percent to Rs. 11,406 million in 2012, in comparison to Rs. 7,797 million in 2011. The cost of emoluments increased to Rs. 13,224 million in 2012, from Rs. 10,167 million in 2011 due to increase in minimum salaries by 39 percent since March 2012 from Rs. 8,430 per employee in 2011 to Rs. 11,730 per employee in 2012. During the year number of employees of the SLTB decreased by 1 percent to 33,806 from 34,263 in 2011. Of the budgetary allocations of Rs. 820 million provided for the augmentation of the SLTB's bus fleet, Rs. 561 million was utilized while the balance could not be utilized due to lack of a proper plan. The Board has introduced 12 buses to the Southern Expressway from January 2012, while 267 new buses and 306 fully repaired busses were also added into its running fleet which at the end of 2012 stood at 4,779.

The Board was not in a position to pay statutory payments due to liquidity issues which resulted in incurring Rs. 1,700 million as surcharges. In line with a Cabinet Decision taken in 2012, SLTB is in the process of preparing a restructuring plan to achieve self-sustainability. SLTB has planned to replace its running fleet by 1,400 buses phased out over 2013-2015 period, at an investment of Rs. 4,840 million. However, since the SLTB does not have adequate reserves of its own, investments for expansion and augmentation will have to be worked out on a viable basis.

2.6 Aviation

Development of infrastructure and the business restructuring of the two airlines to facilitate the aviation sector have been a key priority of the government. Sri Lankan Airlines (SLA) and Mihin Lanka Ltd. (MLL) operate as two airlines and Airport and Aviation Services Limited (AASL) provide infrastructure and related services to the all airlines. During the period 2005-2012, domestic funds of Rs. 32,170 million has been channeled into this sector and a further Rs. 40,996 million has been planned during the period 2013-2015 for the infrastructure development. Two Airlines are expected to operate complementing in each other through their business restructuring and fleet expansion program.

As per the International Air Transport Association (IATA), Asia-Pacific passenger traffic is tipped to grow at a Compound Annual Growth Rate (CAGR) of 6.7 percent, while Asia-Pacific region will represent 33 percent of global passengers in 2016, up from 29 percent in 2011. IATA also has identified Sri Lanka's freight market growing at 8.7 percent CAGR ranking first in the five fastest growing international freight markets over the 2011-2016 period. As such it would appear that the investments that have been made into the aviation sector will yield positive impact in the medium term.

In the background of the global financial crisis in 2012 along with a sharp increases in fuel prices airline industry faces significant challenges. While SLA and Mihin Lanka are not exception to these challenges particularly with a significant erosion in profit margin, given the estimated growth in demand for Sri Lanka as a preferred tourist destination, growth in passenger and Air cargo operations, could reap restructuring plan of both airlines to concentrate on a strong presence in growing Asian markets while networking to Europe and Far East in conjunction with AASL the infrastructure development in two international Airports. The aviation industry is expected to be the catalyst in promoting the economy through Tourism, Exports, Trade and Aviation industry based services and improve commercial profitability of these entities.

2.7 Construction

State Engineering Corporation (SEC), Central Engineering Consultancy Bureau (CECB), and State Development & Construction Corporation (SD & CC) are the three state owned enterprises engaged in the construction industry. The construction industry constituted almost 8 percent of GDP in 2012 and grew by 22 percent over 2011. Globally the construction industry is tipped to grow by almost 10 percent per annum indicating that there is ample opportunities for construction enterprises to expand their operations locally as well as globally particularly in emerging markets. These three entities are engaged in almost 90 percent of the government contracts worth almost Rs. 21.5 billion. However, considering the turnover of the construction industry, these three enterprises account for about 0.7 percent.

Despite the infusion of US$ 108 million worth of modern machinery and equipment into these three enterprises, the performance of the SEC, CECB and SD & CC suffer from many deficiencies. Attempts of government entities to overcome procurement delays are compelled to engage these entities in government contracts, which in turn make these enterprises to undertaking works beyond their capacity, resulting in cost and time over runs.

The liquidity crunch faced by SEC, CECB and SD & CC has resulted in inadequate investments being made into modern machinery and equipment thereby weakening the capacities and the productivity of these entities. At the same time all three entities have been faced with difficulties attracting and retaining skilled professionals. This is mainly due to the expansion in both the domestic and international construction markets which has in turn resulted in an increase in the demand for professionals at significantly high salaries relative to those offered by state enterprises. The exploitation of full potential of these three state construction enterprises require restructuring of their business models, increased engagement in private sector construction activities, sub-contracting arrangements with private sector in public investment projects, greater incentive to attract professionals and commercial orientation in corporate management.

2.8 State Banks

The 8 state owned banks continued to expand their operations with a widening of their branch network to 1,580 branches by opening of 56 banking outlets and service delivery points throughout the country. 20 outlets were opened in the conflict affected districts. Reflecting better accessibility to financial services in the country, the state banks recorded a significant improvement in demographic penetration to about 11 branches and about 12 ATMs per 100,000 people in 2012 from 3 branches and 1 ATM per 100,000 people in 2005 while geographic penetration too increased, reaching 34 Branches and 36 ATMs per 1,000 square kilometers in 2012 from 9 branches and 0.5 ATMs per 1,000 square kilometers in 2005. Having recognized SMEs as one of the key drivers of growth in the economy, 37 special SME bank branches were setup in all districts in line with the budget proposal of 2012.

During 2012, revenues of the State Banks recorded a growth of 31 percent exceeding the industry growth of 22 percent. However, with the increase in the average interest rates during the year, the margins decreased to 8.8 percent in comparison to 10 percent in 2011. Banks experienced an increase in the interest expenditure by 54 percent to Rs. 158.6 billion in 2012 in comparison to Rs. 102.8 billion in 2011 due to higher interest offered to depositors and its lenders in mobilizing funds.

The 8 State Banks accounted for 50 percent of the total asset base of the industry and 52 percent of the total deposits of the industry in 2012. Total asset base of the State Banks recorded a growth of 23 percent in 2012 in comparison to 18 percent in 2011, ahead of the industry average growth of 20 percent in 2012 primarily because of the increased lending to state enterprises. The Bank of Ceylon, People's Bank and National Savings Bank account for almost 46 percent of the total assets in the sector amounting to Rs. 2,431 billion. Total capital funds employed by state banks amounted to Rs. 123 billion in 2012, a significant growth of a 17.6 percent over the year 2011. Capital funds of the banking sector recorded an increase of 18 percent in 2012.

Deposit base of the state banks continued to increase with the total deposit base at Rs. 1,888 billion by the end 2012, registering a year on year growth of 16 percent. However, the growth in deposits of state banks was below the industry average of 17 percent in 2012. Despite the imposition of a ceiling on credit growth, loans and advances have recorded a growth of 25.8 percent in 2012, as against the industry growth rate of 21 percent.

The high interest rate regime that prevailed in 2012 proved to be challenging to the banking operations. Total non-performing loans of state banks amounting to Rs. 55.3 billion reflected an increase of 28 percent or Rs. 12.2 billion. The non-performing loan ratio increased to 4.1 percent in 2012 from 4.0 percent in 2011, and was above the 3.6 percent of the industry average of non-performing loan ratio in 2012.

The three year collective agreements in State Banks for 2012-14 contributed to an increase in its personnel costs by 23 percent or Rs. 6.5 billion to Rs. 34.4 billion in 2012 in comparison to 2011. Similar risks are seen from the reliance on the lending to state enterprises for earnings. With pawning accounting for almost Rs. 460 billion or 29 percent of the total loan portfolio of the State Banks, the decrease in the average international gold prices in 2012 by 3.6 percent is also a concern as if not strategically managed the Banks will incur significant impairment in carrying value. The relatively high exposure on housing and trading are also areas need close monitoring and business planning.

2.9 Insurance

The Insurance sector in the country which is regulated by the Insurance Board of Sri Lanka operates with 22 players of whom 16 are local companies while six others are foreign based entities. The state presence in the insurance sector is seen through Sri Lanka Insurance Corporation (SLIC), National Insurance Trust Fund (NITF), Agriculture and Agrarian Insurance Board (AAIB) and the Sri Lanka Export Credit Insurance Corporation (SLECIC).

The SLIC accounting for a market share of 24 percent in general insurance and retaining a market share of 19 percent in the life insurance business in 2012 plays a vital role in insurance market. The NITF operates as the general reinsurer to the insurance industry while managing the public officer's insurance fund the Agrahara Insurance Scheme. The Sri Lankan insurance industry has recorded significant growth in general insurance business with Gross Written Premium (GWP) increasing to Rs. 53,297 million in 2012 from Rs. 35,101 million in 2009. Both SLIC and NITF have recorded growths in the GWP of 27.6 percent from 2009 to 2012 which is higher than the industry average for the same period. The SLECIC with an annual turnover of Rs. 174 million provides export insurance to small number of exporters.

Government securities have been the most preferred investments of the insurance industry, reflected by the SLIC's investment portfolio which has invested Rs. 30 billion or 38.4 percent of total investment in government securities. NITF too has followed suit with Rs. 4.3 billion invested in government securities.

State sector employees who constitute of almost 1.0 million of the total labour force of 8.5 million are privy to enjoy non-contributory pensions and contributory Agrahara Insurance Scheme and in house medical schemes. Despite the existence of free health services coupled with extensive government funded welfare schemes the low life insurance penetration in the country offers significant space for growth in the medium term. Similarly with the improved macroeconomic outlook along with the steady growth in disposable income, general insurance for motor vehicle, fire and other forms of insurance too has the potential to grow.

2.10 Lotteries

National Lotteries Board (NLB) and Development Lotteries Board (DLB) are the players in lotteries market which offer passive and instant lotteries to the market. NLB's product portfolio at the end of 2012 consists of 7 passive lotteries and 2 instant lotteries while DLB has a portfolio of 6 passive lotteries and 3 instant lotteries. At the end of 2012, NLB had a market share of 25 percent while DLB holding the balance 45 percent. Both these entities compete with each other engaging in aggressive advertising and marketing campaigns. During 2012, DLB and NLB incurred Rs. 1,112 million on advertising and marketing an increase of 35 percent or Rs. 290 million in comparison to 2011. Advertising and marketing, account for almost 55 percent of their total expenditure.

Total assets of the industry recorded a growth of 5 percent from Rs. 4,578 million in 2011 to Rs. 4,813 million in 2012. Total revenue of the industry has recorded a growth of 23 percent or Rs. 3,820 million to Rs. 20,452 million in 2012 in comparison to 2011. NLB and DLB have sold 916 million tickets and declared prizes amounting to Rs. 10,682 million compared to Rs. 8,978 million in 2011. During the year 2012, NLB contributed Rs. 2,276 million to the consolidated fund which is an increase of 69 percent over 2011, while DLB has increased their contribution to the President Fund by 18 percent or Rs. 253 million to Rs. 1,648 million. With per capita income projected to grow, NLB and DLB need to introduce products that meet the changing income and the demographics. Usage of technology internet, SMS etc, will facilitate both DLB and NLB to penetrate the market more effectively.

2.11 Livestock

There is a market shift in livestock industry in recent years with the government emphasis on the encouragement of livestock activities in the country to phase out imports of around US$ 400 per annum, MILCO (Pvt) Limited and National Livestock Development Board (NLDB) the two SOBEs in the sector increased its milk production by 15 million liters to 72 million liters in 2012. The private sector comprises of a few multinational companies primarily engaged in the import of milk powder and local enterprises comprising large three companies, SMEs and small dairy farmers of about 400,000.

In line with the policy of achieving self-sufficiency in milk production during 2012, the government commenced the import of 2,000 cows at a cost of Rs. 624 million over the medium term to increase the milk production and promote dairy industry among SMEs and small farmers through increased production in milk and associated products.

As has been the case, NLDB and MILCO continue to engage in the production of dairy products competing with each other. With the dairy industry dominated by small and medium sized entrepreneurs, there is an increasing demand in terms of the transfer of knowledge to improve processes and addressing issues such as unhygienic and uneconomical practices, losses specially due to storage issues, market linkages, etc for which the NLDB is well-endowed with the necessary resources. This will make the expansion of NLDB and MILCO in the competitive market environment.

2.12 Plantation

In the plantation sector, the Government operates the remaining enterprises after privatization of plantation industries prior to 2004 which include fully owned Janatha Estate Development Board (JEDB), Sri Lanka State Plantation Corporation (SLSPC), Chilaw (CPL), Kurunegala (KPL), Elkaduwa (EPL) Plantation Companies' and Kalubowitiyana Tea Factory Ltd. (KTFL).

The JEDB, SLSPC and EPL having acreage of 11,695 ha, 11,757 ha and 4,083 ha respectively are engaged in growing Tea and Rubber. The Coconut Development Board, Coconut Research Institute and Chilaw and Kurunegala Plantation Companies manage 9,303 ha of land on which coconuts and other minor crops are cultivated.

During 2012, tea production by JEDB, SLSPC, EPL and KTFL amounted to 8.6 million Kg, a 3.5 percent increase over 2011 and accounted for 2.5 percent of the total tea production of the country. This is despite the total land held by these Companies' accounting for almost 11.5

percent of the total land used for production of tea in the country. The yields at 337 kg/ha at the JEDB, SLSPC, EPL and KTFL's is almost 76 percent less than the average yield in the country of 1,400 kg/ha indicating a substantial underutilized capacity by these enterprises.

JEDB, SLSPC and Kurunegala Plantation Ltd. (KPL) together produced 450,000 Kg of rubber, a decrease of 15 percent over 2011 and accounted for only 0.3 percent of the total Rubber production of the country. This is despite the total land held by these Companies accounting for almost 0.74 percent of the total land used for rubber production of the country. The yield at 463 kg/ha at the JEDB, SLSPC and KPL is almost 71 percent less than the average yield in the country of 1,607 kg/ha requiring complete restructuring of these enterprises.

Chilaw and Kurunegala Plantation Companies, Coconut Cultivation Board and the Coconut Research Institute manage 9,303 ha of land or 2.3 percent of the total land extent for coconut cultivation, produced 44.7 million coconuts (Nuts) which is a 6.7 percent increase over 2011 and accounted for 1.5 percent of the total coconut production of the country. It is noted that state entities such as JEDB, SLSPC and EPL lag behind in terms of productivity in comparison to the entire sector in the country. This could be attributed to both structural issues such as inadequate investments in land use, replanting, fertilizer application, new machinery and technology coupled with excessively high labour force yet lacking core staff and failure to arrest deterioration in internal control systems and procedures.

The fixed day's wage structure that is prevalent in the plantation sector as opposed to a productivity linked wage structure has had a negative impact on JEDB, SLSPC and EPL which are also faced with low yields, which in turn reflected in the continuous losses incurred by these entities. The State owned plantation entities are faced with the challenge of meeting the increasing wage bills, in the background of continuous lack of productivity and inadequate replanting, infusion of technology and management inefficiencies. This has resulted in these entities not been able to meet even the statutory payments on time. JEDB, SLSPC and EPL which have less fertile lands due to prolonged negligence and lack of investments require a significant capital infusion of at least Rs. 2 billion over the medium term. However, the lack of own funds coupled with inadequate freedom to restructure weak balance sheets have made it difficult for these entities to improve their productivity through replanting, infusion of fertilizer etc, giving rise to a vicious cycle in these businesses.

Newly formed Lanka Sugar Company to take over the assets vested in the government to revive sugar plantation and associated industry is expected to expand its cultivation programme covering 12,000 small holders, modernize factories and become fully commercial company from 2012. The company is expected to take over Kanthale and Hingurana sugar cultivations and processing activities as well in order to consolidate its business operations.

2.13 Health

State Pharmaceutical Corporation (SPC) and State Pharmaceutical Manufacturing Corporation (SPMC), the two SOBEs are entrusted with the provision of high quality drugs to the Department of Health Services (DHS). SPC operates as the procurement arm of the Department of Health Services while SPMC manufactures 60 drugs varieties. Sri Lanka Ayurvedic Drugs Corporation is engaged in the research and manufacturing of Ayurvedic products and services. Sri Jayewardenepura Hospital (SJH) is the only fee levying government owned hospital which offers a comprehensive range of clinical and Para-clinical services in the country. SJH also plays a vital role as a teaching hospital, in training medical students of Sri Jayewardenepura University and nurses.

2.14 Media

Sri Lanka Broadcasting Corporation (SLBC), Sri Lanka Rupavahini Corporation (SLRC) and Independent Television Network Limited (ITN) continue to play an important role in the media industry of the country with a market share of almost 32 percent. In line with the government policy on catering all communities in the country, state media entities which compete with privately own 18 television and 39 radio stations expanded their operations by introducing new channels in all three languages. SLRC and ITN managed to expand their operations capturing new revenue streams. However, SLBC continues to be supported through the national budget.

The relatively stronger financial position of both ITN and SLRC has encouraged an investment programme to upgrade equipment and facilities within the next three years.

During the year Telecommunication Regulatory Commission of Sri Lanka (TRCSL) reallocated frequencies to FM radio networks so as to ensure listeners with better clarity, from any part of the country.

2.15 Marketing and Distribution

Several state enterprises are engaged in trading activities. Among them *LakSathosa* plays an important role particularly keeping the market competition at the lower end of the market ensuring regular supplies at affordable prices, while *Laksala* has projected the country's handicraft industry among the growing tourist population as well as attracting local craft industry to expand its products with secured market arrangements. Both enterprises command strong market share capital of influencing the market trend as well as to expand with strong profit margins and welfare service to both consumers as well as small producers. The closer linkages with local production supply chain will also improve value addition and support to SME growth in place of imports.

The Fishery Harbour Corporation is engaged in the provision of infrastructure to fishermen through fishery harbor facilities and required services to over 4,000 vessels, while Fisheries Corporation is engaged in the procurement of fish and supply to the market playing a price stabilization role. The State Printing Corporation engages in the printing of school text books accounting for 25 percent of the market and competes with the private sector.

In the context of agriculture sector importance in government policy, Ceylon Fertilizer Company (CFC) and the Colombo Commercial Fertilizer company (CCFC) play a significant role in the supply and distribution of fertilizer to the small holder agriculture. Total cost of fertilizer imports to the country amounts to Rs. 39,859 million. Total fertilizer imports decreased to 640,000 MT in 2012 from 801,000 MT in 2011 due to the drought and stock accumulation from 2011. During 2012, CFC and CCFC together accounted for 79 percent or 505,000MT of the total fertilizer imports in 2012 while the balance 409,000 MT was imported by the private sector. In 2012, while the SOBE imports have increased by 29 percent or 113,000 MT while the private sector imports at 135,000 MT in 2012 in a decrease of 67 percent from 409,000 MT in 2011.

2.16 Non Renewable Resources

The state enterprises command the state business presence in the nonrenewable resources sector in the country with explicit policy strategy towards non privatization of State Enterprises and assets. The liberation of conflict affected areas and the policy towards increase in value addition to primary raw materials and encouraging global demand for mineral resources, the three enterprises operating in mineral resources not only possesses significant business scope but also has a strategic role to play in the country's development though the operations in fertilizer and graphite manufacturing activities have not come up to the scale of operations in terms of their potential.

2.17 Profitability of State Owned Enterprises

Rs. Mn

	Enterprise	Profit/(Loss)			Business Turnover 2012	Budgetary Support-2012	
		2005	2011	2012		Recurrent	Capital
1	Bank of Ceylon	3,120	16,485	19,794	110,138	-	-
2	People's Bank	4,035	15,600	15,249	94,633	-	-
3	National Savings Bank	3,457	9,255	6,189	53,483	-	-
4	State Mortgage & Investment Bank	415	689	436	3,012	-	-
5	Housing Development & Finance Corporation	162	321	73	2,689	-	-
6	Lankaputhra Development Bank Ltd*	-	124	232	588	-	-
7	Pradeshiya Sanwardana Bank	658	1,875	1,492	9,645	-	-
8	Sri Lanka Savings Bank Ltd*	-	494	594	885	-	-
9	Employee Trust Fund Board		10,950	12,446	12,920	-	-
10	Sri Lanka Insurance Corporation	1,215	2,132	2,905	25,286	-	-
11	National Insurance Trust Fund*	-	2,315	2,107	2,262	-	-
12	Ceylon Electricity Board	(6,852)	(19,266)	(61,163)	170,652	-	-
13	Ceylon Petroleum Corporation	9,839	(94,508)	(89,658)	515,704	-	-
14	Sri Lanka Ports Authority	13,239	329	5,303	37,343	-	-

15	National Water Supply & Drainage Board	(22)	421	(579)	16,294	-	29,590
16	Airport and Aviation Services (Sri Lanka) Ltd	670	3,421	4,826	11,431	-	-
17	Sri Lankan Airlines Ltd	834	(28,526)	(29,972)	117,186	-	14,286
18	Mihin Lanka Ltd**	-	(1,967)	(2,866)	7,452	-	507
19	Sri Lanka Transport Board	(1,119)	(3,690)	(4,653)	20,165	5,516	579
20	State Engineering Corporation	(42)	211	247	8,407	-	-
21	Central Engineering Construction Bureau	45	427	471	9,604	-	-
22	State Development & Construction Corporation	21	43	73	3,570	-	-
23	Milco (Pvt) (Ltd)	85	111	(215)	5,430	-	37
24	National Livestock Development Board	(12)	250	28	1,219	-	-
25	Ceylon Fisheries Corporation	(34)	(69)	(42)	2,133	-	-
26	Ceylon Fishery Habour Corporation	(66)	(302)	(277)	442	109	96
27	State Pharmaceuticals Manufacturing Co.	15	245	116	1,414	-	-
28	Sri Lanka Ayurvedic Drugs Corporation	6	63	54	415	-	-
29	State Pharmaceuticals Corporation	431	418	468	20,215	-	-
30	Sri Jayawardenapura General Hospital	(185)	(28)	(121)	1,855	843	71
31	Independent Television Network	39	678	739	2,378	-	-
32	Sri Lanka Rupavahini Corporation	228	173	52	2,026	-	67
33	Sri Lanka Broadcasting Corporation	(98)	(78)	(54)	1,051	134	65
34	Ceylon Fertilizer Company Ltd	48	144	102	2,849	-	-
35	Colombo Commercial Fertilizer Company Ltd	10	161	403	1,224	-	-
36	State Timber Corporation	408	603	828	3,562	-	-
37	STC General Trading Co, Ltd	(112)	62	105	2,379	400	-
38	Building Materials Corporation Ltd	(37)	48	(7)	727	-	-
39	Co-operative Wholesale Establishment	(165)	2	43	416	-	-
40	Lanka Sathosa Limited	(4)	79	47	20,661	-	-
41	Development Lotteries Board	1,218	1,901	2,193	8,240	-	-
42	National Lotteries Board	269	396	566	12,212	-	-
43	Lanka Mineral Sands Ltd	420	1,107	1,373	2,229	-	-
44	Lanka Phosphate Ltd	39	202	113	449	-	-
45	State Printing Corporation	21	134	141	1,235	-	-
46	Sri Lanka Export Credit Insurance Corporation	86	113	163	287	-	-
47	Agriculture & Agrarian Insurance Board	(98)	(3,692)	(4,841)	400	135	-
48	Sri Lanka State Plantations Corporation	(84)	(52)	(119)	575	-	-
49	Kurunegala Plantations Ltd.	20	225	186	550	-	-
50	Chilaw Plantations Ltd.	55	97	86	473	-	-
51	Kalubovitiyana Tea Factory Ltd	25	31	91	637	-	-
52	Janatha Estates Development Board	(135)	(258)	(252)	926	-	-
53	Sri Lanka Cashew Corporation	(1)	20	44	150	59	28
54	Sri Lanka Handycraft Board (Laksala)	1	50	73	511	-	-

55	Kahatagaha Graphite Lanka Limited	4	54	58	157	-	-

Source: State Owned Enterprises, Department of Public Enterprises

Established in 2006 Established in 2007*

2.18 Enterprises under Restructuring

Enterprise	Core Activities	Performance/ Issues	Total Expenditure in 2012 Rs.Mn	Total Revenue in 2012 Rs.Mn
Lanka Salusala Ltd	Not engaged in commercial operations	Restructuring plan is being prepared focusing on creating market linkages for the local handloom industry focusing on the tourism sector	217	194
Co-operative Wholesale Establishment (CWE)	CWE currently engages in rice mill development, farm shop project, logistic services and packaging services	Even though core-business revenue increased by41 percent, CWE has generated a core-business loss of Rs. 246 million in 2012 mainly due to increase in overhead expenses. CWE has to settle Rs.4.4 billion of Corporate Bonds in 2016.	373	127
The State Trading (Co-Operative Wholesale) Company Ltd.	Not engaged in commercial operations	The line ministry has initiated a restructuring process	-	-
Janatha Fertilizer Enterprises Limited (JFEL)	Under liquidation	Cabinet approval has been granted on 18th July 2012 to transfer all stores and head office building of JFEL to UDA. Liquidation is in progress.	253	30
Sri Lanka Rubber Manufacturing and Export Corporation (SLRMEC)	Not engaged in commercial operations	Leased out two factories to a private investor for 30 year period. The line Ministry is in the process of finding a suitable investor to lease the remaining factory.	-	-
Ceylon Ceramics Corporation	Produce Roofing tiles, Floor tiles and wire - cut bricks	Production has been increased due to the utilization of the factory premises to produce bricks for the Ranaviru Seya by Armed forces, recording a profit of Rs. 6 million in 2012.	104	110

Hingurana Sugar Industries Ltd. (HSIL)	Under liquidation	HSIL which was under the purview of Ministry of State Resources and Enterprises Development has been transferred to the newly established Ministry of Sugar Industries Development for revival.	11	12
Kanthale Sugar Industries Ltd (KSIL)	Operations were suspended since 1993 and now under restructuring	KSIL which was under the purview of Ministry of State Resources and Enterprises Development has been transferred to the newly established Ministry of Sugar Industries Development for revival.	15	-
Lanka Fabrics Ltd (LFL)	Under liquidation	A liquidator has been appointed in terms of the Cabinet decision.	-	-
BCC Lanka Limited	Manufacturing coconut oil and soap related products	35 percent of its total income depends on rental income from assets. Due to the implementation of a Voluntary Retirement Scheme (VRS), BCC was able to record a net profit of Rs. 8 million in 2011 and Rs. 32 million in 2012. A factory modernization programme has been introduced for 2012-2015 period.	70	102
Manthai Salt Limited	Manufacturing normal salt, crushed salt and iodized salt.	Low yields resulted in the closing of the operations of the Chemmanisaltern. MSL at present produces raw salt out of which 60 percent is sold as bulk at low profit margins MSL should differentiate its products and leverage on their brand names.	39	50
Cey Nor Foundation Limited	Manufacturing trawlers, boats, fishing vessels, and marine fishing equipment	Has a30 percent of market share in the fishing boat manufacturing industry and 40 percent in the fish net manufacturing industry by end of 2012. Revenue decreased by 36 percent in 2012 to Rs. 206 million while, total expenditure of the company declined by 47 percent in 2012. Accordingly losses reduced to Rs.7 million in 2012 from Rs.16 million in 2011.	213	206
North Sea Limited	Manufacturing and supplies fishing gear and provides support services to the fishermen.	Has manufactured around 480 MT of fish nets per annum or 10 percent of the market share. Revenue increased to Rs.172 million in 2012 and expenditure also increased to Rs. 255 million from Rs. 50 million. Accordingly, losses increased to Rs. 83 million from Rs. 1 million in 2011, resulting in a severe liquidity issues. Exposure to banks increased from Rs. 3 million in 2011 to Rs.20 million in 2012.	255	172

Lanka Leyland (Private) Limited	Holds 42 percent of the shares in Lanka Ashok Leyland Limited	Lanka Leyland Limited (LLL) was founded in 1968 as a limited liability company fully owned by GOSL. In 1983 LLL entered into a collaboration agreement with the Ashok Leyland India Ltd (ALIL) to form a joint venture Lanka Ashok Leyland Limited (LALL) to assemble and manufacture motor vehicles including buses, trucks and components in Sri Lanka. LLL holds 42 percent of the shares of the joint venture LALL. LLL's contribution to equity has been in the form of land and building situated at Panagoda. The dividend income received from the joint venture amounted to Rs.81 million. Since LLL does not conduct any operational activities, it has been advised to liquidate or wind up the company and transfer its shares to the Treasury, whereby the dividend income will not be needed to maintain LLL.	5	86
Lanka Cement Company	Imports and sells Cement in the local market.	Cabinet decision was taken to amalgamate Sri Lanka Cement Corporation (SLCC) withLanka Cement Limited (LCL. SLCC and LCL jointly plan resuming bagging operations at Kankesanthurai factory.	120	79
Sri Lanka Cement Corporation			86	340
Paranthan Chemicals Company Ltd	engaged in the importing and refilling of imported chemicals	During 2012 PCCL sold 2,025 MT of Chlorine, 88 MT of Caustic Soda and 17 MT of hydrochloric acid. PCCL has importing and selling mainly Chlorine and related products.	198	232
National Paper Company Limited	manufacture and sell paper, paper boards and all types of products made from pulp and paper	The NPCL still operates the Valachchenai Paper Mill despite incurring losses. However in terms of the Restructuring Program, a Competent Authority was appointed in 2012 As such the Valachchenai Paper Mill is to undergo a renovation process at a cost of Rs. 100 million phased out over 2012-2013, facilitating the machines to operate at full capacity. In 2012 NPCL was able to export 120,000 MT of waste paper at Rs. 26 per Kg to South East Asia.	181	109
Lakdiva Engineering Company (Private)	engaged in building and repairing bus bodies	Revenue from repairs of buses declined by 21 percent to Rs. 23 million in 2012/13 from Rs. 29 million in 2011/12 due to the decrease in the number of buses repaired to 52 in 2012 in	29	23

Limited		comparison to 71 in 2011 is mainly due to the non-availability of skilled technical staff and lack of modern machinery. In 2012/13 LECL incurred a loss of Rs. 27 million compared to 2011/12. The budgetary support amounted to Rs. 21 million provided in 2011/12, as the entity continues to incur losses. With the LECL not having the capacity to meet the demand of the Sri Lanka Transport Board (SLTB), repairing of buses are undertaken by the SLTB itself. Hence, the Committee on Public Enterprises (COPE) has observed that the LECL operations need to be rationalized to avoid duplication with that of SLTB.		

3. Staff Strength of the Department

During the year 2012 Department of Public Enterprises was able to cater its activities and responsibilities with the strength of 63 employees, out of them 21 were staff officers.

3.1 Staff Officer's Profile 2012

Mrs. D.M.A.Harasgama	Director General
Mr.A.K.Senevirathna	Additional Director General
Mr.T.V.Weerasena	Director
Mr.R.M.A.Rathnayake	Director
Mr.P.A.S.Athula Kumara	Director
Ms.VisakaAmarasekara	Deputy Director
Mrs.A.Batagoda	Deputy Director
Mrs.W.G.Chandrika	Deputy Director
Mr.R.M.Wijesinghe Banda	Deputy Director
Mrs.J.P.P.Liyanage	Deputy Director
Mrs.K.V.C.Dilrukshi	Assistant Director
Mrs.S.K.M.K.DeAlwis	Assistant Director
Mrs.L.G.S.Dushyanthi	Assistant Director
Mrs.S.M.Rajapaksha	Assistant Director
Mr.R.A.L.U.Kumara	Assistant Director
Mrs. G.M.I.U. Bandara	Assistant Director
Mr.K.S.P.Rupasingha	Assistant Director
Mrs.D.G.N.Kumari	Assistant Director
Mr.K.S.M.De Silva	Assistant Director
W.K.D. Danstan	Assistant Director
A.R.Wickramasinghe	Assistant Director
K.Manike	Administrative Officer

Most of the staff members hold degrees in the fields of Business Administration, Accountancy, Economics, Marketing, Public Administration etc. while possessing masters and diplomas in various disciplines. Four staff officers are Associate Members of the Institute of Charted Accountants of Sri Lanka while many of other staff officers at final stage.

3.2 Staff Officers left the Department during 2012

Name	Designation
Mr.S.R.Attygalle	Director General
Mrs.D. Senanayake	Additional Director General
Mr. V.M. Ameen	Director
Mrs.Anoma Nandani	Director
Mr.U.Vijitha Perera -	Asst. Director
Mr.D.P.Perera	Administrative Officer

3.3 Transfers during 2012

Designation	**Number**	
	to PED	**from PED**
DG	01	01
ADG	01	01
Director	01	03
Assistant Director	03	-
AO	-01	01
Development Assistant	--	-
Research Assistant	--	01
Management Assistant	07	07
Driver	06	07
K.K.S	05	02

3.4 Cadre Profile - 2012

Designation	**Approved Cadre**	**Existing Cadre**	**Vacant**	**Excess**
Director General	01	01	-	-
Additional Director General	02	01	01	-
Director	06	03	03	-
Deputy Director/Assistant Director	13	16	-	03
Development Assistant	11	04	02	-
Financial Analyst	03	03	-	-
Administrative Officer	01	01	07	-
Management Assistant	21	16	05	-
Receptionist	01	01	-	-
Data Entry operator	02	-	02	-
Driver	08	07	01	-
K.K.S.	06	10	-	04
Total	75	63	19	07

3.5 Staff Training provided during 2012

	Title of the training	No. Of participants	Duration
Local	Workshop on Research Methodology & Data Analysis	04 AD/DD/FA	02 days
	Computerized Integrated Government Accounting System (CIGAS)	02 AD/MA	06 days
	Public Utility Pricing Policies, Issues, Options & Best Practices	04 DD/AD	01 day
	Training Program on Salary Conversions	01 MA	01 day
	Training Program on Basic Computer Skills	01 MA	05 days
	Diploma in Public Procurement & Contract Administration	01 ADG	03 months
	Seminar on Effective International Auditing	02 DD/AD	01 day
	Training Program on Tax Implication on payment & Revenue Collections'	01 MA	01 day
	Practical Training	07 DA	04 days
	Sri lank a Finance Reporting Standards	01 D	01 day
	Seminar Series on Sri Lanka Accounting Standard	01 D	03 days
	Masters of Sociology	01 DA	01 Year
Foreign	Insurance Regulation & Supervision Programme - Malta	01 AD	05 days
	Public - Private Partnerships (PPP) - Developing Institutions for Efficient PPP Programs- Switzerland	01 AD	04 days
	SIDAS International Training Programme on Public Service Management - China	01 DD	05 days
	Economic Policies for Financial Stability - Singapore	01 DD	12 days

Source: Department of Public Enterprises

4. Financial Management

4.1 Budgetary Allocation and Actual Expenditure

Rs. 000

	Actual Expenditure		**Net Budgetary Provision**	
	2011	**2012**	**2011**	**2012**
Recurrent				
Personal Emolument	25,335	26,343	26,400	26,490
Other Recurrent	15,519	17,862	16,364	21,885
Total	**40,854**	**44,205**	**42,764**	**48,375**
Capital				
Rehabilitation & Improvement				
2001 Building & Structure	-	0	-	1,500
2002 Plant, Machinery& Equipment	347	-	500	-
Acquisition				
2102 Furniture & Office Equipment	86	1,942	100	2,100
Capacity Building				
2401 Training & Capacity Building	851	389	900	1,000
Total	**1,284**	**2,331**	**1,500**	**4,600**

Source: Department of Public Enterprises

4.2Public Officers' Advance Account - 2012

	Limits Authorized	**Actual 31.12.2012**
Maximum Limit of Expenditure	4,000,000.00	1,913,495.00
Minimum Limit of Receipts	1,500,000.00	1,965,026.68
Maximum Limit of Debit Balance	18,000,000.00	11,525,529.63

Source: Department of Public Enterprises

The Annual Appropriation Account and the Annual Reconciliation Statement in respect of Advances to Public Officer's Accounts for the year 2012 have been audited by the Auditor General.