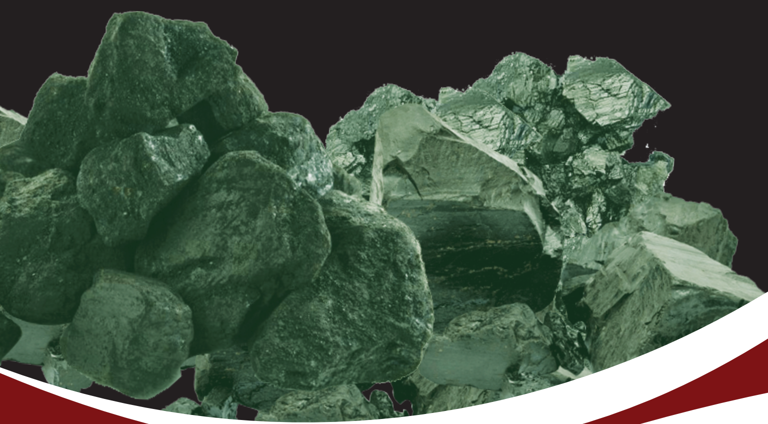
LANKA COAL
COMPANY(PVT)LTD

LANKA COAL COMPANY (PVT) LTD.

Subsidiary Company of Ceylon Electricity Board



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லங்காகோல் நிறுவனம் (பிரைவேட்) லிமிடெட்
Lanka Coal Company (Pvt) Ltd.

වාර්ෂික වාර්තාව
ஆண்ட றிக்கை
Annual Report
2017

ESTABLISHMENT

Lanka Coal Company (Pvt.) Limited (LCC) was established in the year 2008 on a decision taken by the Cabinet of Ministers in 2006 and registered under the Companies Act, No.7 of 2007.

VISION

Procurement of coal with required quality & quantity, efficiently and actively for coal fired thermal power plants in Sri Lanka to ensure uninterrupted power supply to Sri Lanka at minimum cost.

MISSION

Procurement of coal with required quality at a reasonable price for coal fired thermal power plants in Sri Lanka. Implementation of environmental friendly coal waste management systems by introducing new products utilizing coal ash. Introduction of coal to industrialists as an alternative source of energy for strengthening of their economy as well as the economy of the country.

Contents

Corporate Information

Name of the Company:	Lanka Coal Company (Pvt) Ltd
Company Registration No:	PV 62636
Legal Form:	A Private Company with limited liability registered under the Companies Act No 7 of 2007. The Company is a fully government owned business undertaking established by a decision of the Cabinet Ministers.
Registered Office:	No 51/3, Suranimala Place, Off Dutugemunu Street, Kohuwala, Dehiwala, Sri Lanka Telephone +9411 2824681/2 Fax +94112824689 Email consec@lankacoal.lk Website www.lankacoal.lk
Holding Company	Ceylon Electricity Board No 50, Sir Chittampalam A. Gardiner Mawatha, Colombo 2.
Company Secretaries	P.W. Corporate Secretarial (Pvt) Ltd No. 3/17, Kynsey Road, Colombo 8
Auditors	Auditor General National Audit Office 306/72, Polduwa Road, Battaramulla
Bankers	Peoples Bank - Corporate Branch Bank of Ceylon - Super Grade Branch – Hyde Park

Message from the Chairman and Managing Director

It is with great pleasure that I present the Annual Report of the Company for the year ended 2017. I took office in June 2017 and since then the Company has undergone transformation in many spheres from efficient and effective sourcing, setting good governance and also to strengthening the back office. Most of these accomplishments were made possible by the recruitment and deployment of professional staff. We finished a very successful season. The improvements in the operation are ample evidence of the outcome of the transitions over the last few months.

Lanka Coal Company (LCC) was incorporated in the year 2008 with the main objective being the sole importer and supplier of bituminous coal to Lakvijaya Coal Power Plant (LVCPP). LVCPP has a capacity 900 MW in terms of generation and is the largest contributor to the national grid. Therefore, it is imperative that LVCPP operates free of interruptions. Towards this end LCC as the sole supplier of the main raw material is under obligation to assure RIGHT quality and RIGHT quantity of coal is supplied at the RIGHT time and RIGHT price. LCC has been honoring this obligation diligently throughout year.

For the season 2016-17 the demand was 2,200,000 MTs and LCC was able to supply 2,209,983 MTs which accounted for demand satisfaction ratio of 100.6%.

I am happy to state that we constantly met the acceptable value range for each quality criteria thus avoiding any costs associated low product quality.

LCC has effected all deliveries on time by both efficient and effective coordination among all stakeholders. We say it is an efficient delivery due to cost efficiencies minimizing demurrage cost at the discharge port. We say effective delivery because of meeting the delivery dead-lines set by LVCPP consistently.

The company has long identified the need to penetrate the local market by extending coal supplies to private sector. LCC is promoting the idea of becoming the sole authorized importer of coal to the country. This is a pragmatic concept aligning with 'green economy' which was the theme of the 2018 budget. However, the agreement with CEB in its prevalent form was counter for generating either trading income or service/ fee income externally due to netting off of such income with overheads. There is, of course, encouraging words from both COPE and oversight committee for LCC to turn profits. The comments augur well for the company's strategy.

I take this opportunity to thank the Hon. Minister, Hon. State Minister and the Secretary for the confidence placed in me to be of service to Lanka Coal. The wisdom imparted by the Chairman and Management of CEB and fellow Directors on the Board was invaluable. I thank the Staff members at all levels for the completion of a succesfull season. I am also grateful to the shareholders, bankers, company secretaries and auditors for their support in numerous ways.

S. C. Laksumanage
Chairman/Managing Director

Performance Review

1. Introduction

LCC's mission is to supply coal with optimum standard at the right price for the generation of electrical power by Lakvijaya Coal Power Plant (LVPP), to manage effluence emitted by the combustion of coal, conversion of effluence to environmentally friendly innovative products and introducing them to the market, promoting coal to private sector as a source of heat power, strengthen the industrialists and thereby contribute to the development of the Country.

From an operational perspective LCC was established to import and supply bituminous coal to the Lakvijaya Coal Power Plant (LVPP). LCC is responsible for all the activities from the point of registration of suppliers, calling and closing tenders, logistics and delivery of coal to the jetty of LVPP. Another challenge faced by LCC in the procurement process is the need to deliver the total coal requirement of a season within seven months from October to April of the following year.

2. Principal activity

The activities performed by LCC can broadly be categorized under the following heads:

i) Supplier registrations, tender processing and awarding.

ii) Letter of credit opening, liaison with bankers, formalising banking facilities, treasury guarantee and documentation.

iii) Logistics, freighting and lightering services for transit of coal from load port to jetty.

iv) Liaison with buyer (LVPP), suppliers, terminal operators, SL customs, SL Navy, Ceylon Shipping Corporation etc. and coordinating diverse operations among stakeholders.

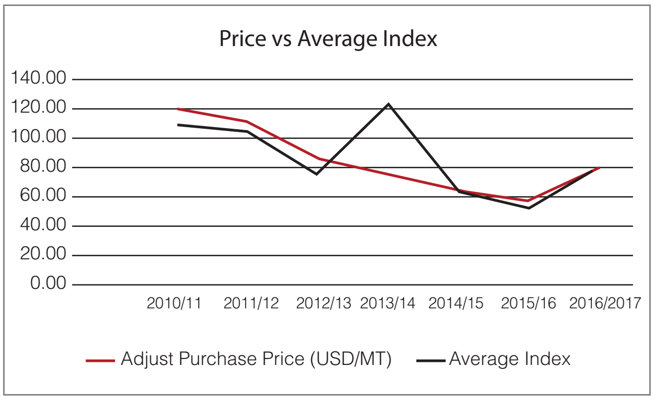
v) Issuance of letter of confirmation (LOC) and letter of acceptance (LOA) for the release of respectively 80% and 20% of invoice value by verifying the accuracy of quantity delivered and application of quality adjustment formula.

3. Pursuance of commercial objectives

During the early years of its incorporation LCC used to levy a per metric based price on the supply of coal to CEB. Therefore, the Company's performance was measurable. From 2014 CEB changed the pricing structure and LCC was offered a fee equivalent to net overhead costs of the Company as revenue. The net overhead was defined as gross overhead costs net of other income such as supplier registration fee, interest etc earned by LCC. With the implementation of net overhead based fee the pursuance of commercial focus was replaced by least cost instead. Certain bench marks have been in use since then to assure optimum cost in sourcing.

i) FOB

Sourcing of coal is done on FOB basis. The bench mark used to measure cost efficiency in sourcing is the Argus/ McClosky Price Index for South African 6000 kcal/kg NAR coal (API 4). A graphical comparison of the adjusted FOB price with the average index for each season is depicted below. The adjusted FOB price is the average of all the tenders subject to price adjustment for quality variations to CEB specifications. It is evident that in reason years the FOBT price has moved in tangent with the average index which is testimony of efficient purchasing by LCC.

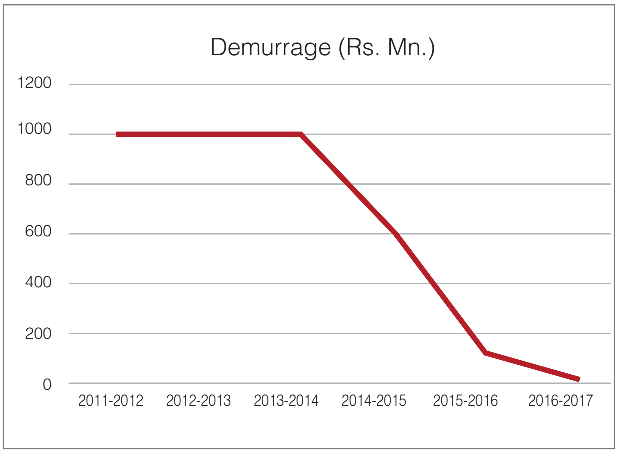


ii) Carriage inwards

All costs incurred in delivering coal from port of loading to the jetty at LVPP is another critical activity involving costs. Ceylon Shipping Corporation (CSCL) is the charter operator which, in addition to deploying its own vessels, is the intermediary with other shipping lines to nominate vessels for the scheduled laycan. In order contain freight costs LCC calls for CIF quotes but CSCL has the pre-emption right to match the rates and secure the freight and barging services. Therefore, it is a competitive process. The freight a lightering cost per MT remained unchanged at respectively US$ 11/50 and US$ 3/00 year on year.

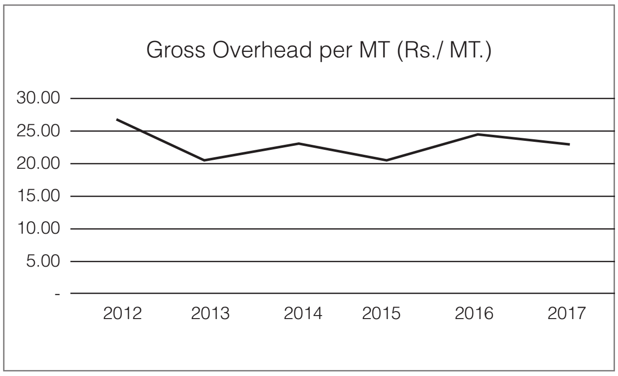
iii) Demurrage

The cost of demurrage was a substantial burden during early years of procurement adding to cost inefficiencies in the process. However, LCC was able to gradually contain the cost by strategically managing and coordinating the operation amongst those involved in the supply chain. The results are amply demonstrated in the following line diagram



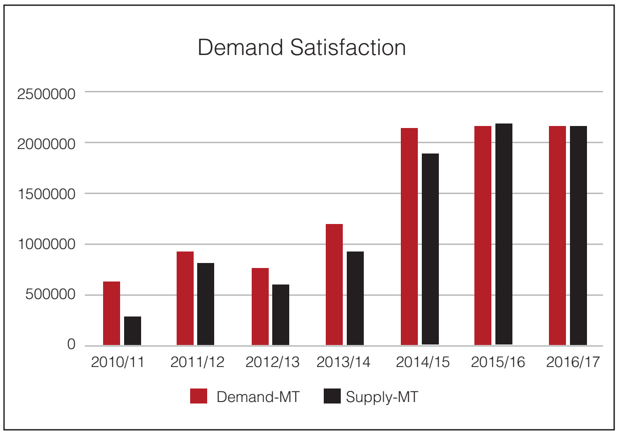
iv) Overheads

The cost efficiency as measured by net overhead cost per MT deteriorated for two years in between but overall it is a gradual decline. The cost efficiencies were mainly driven by increase in quantity demand which LCC was able to procure with a less than proportionate increase in overhead cost.



v) Demand satisfaction

It is evident from the following graphical representation that the LCC has fully satisfied the demand of LVPP in the last two years.



vi) Coal quality

The coal quality is measured on several dimensions such as gross calorific value (GCV), total moisture, ash content, volatile matter, sulphur content and hardgrove grindability index. CEB has secured the services of an internationally reputed testing and analysis agency to submit quality analysis reports of each shipment both at load and discharge ports.

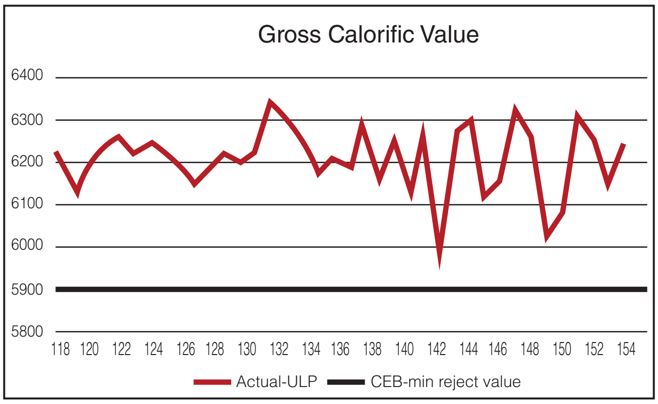
Tabulated below is the comparison and deviations of actual quality parameters vis-à-vis LCC reference values both at load and unload ports

Parameter	LCC ref value	Load port maximum	Load port minimum	Load port average	Deviation of average from reference Adverse (-)
GCV	6300	6375	6065	6249	-51
Ash content	11	15.85	11.14	14.004	-3.004
Total moisture	12	8.50	5.94	6.709	5.291
Volatile matter	31	28.45	22.6	24.472	2.528
Sulphur content	0.5	0.71	0.45	0.503	-0.003
HGI	50	58	51	54.73	4.73

Parameter	LCC ref value	unload port maximum	unload port minimum	unload port average	Deviation of average from reference
GCV	6300	6338	5995	6209	-91
Ash content	11	15.97	11.2	14.206	-3.206
Total moisture	12	7.51	5.97	6.623	5.377
Volatile matter	31	28.94	22.56	24.973	2.027
Sulphur content	0.5	0.87	0.41	0.504	-0.004
HGI	50	58	50	54.083	4.083

A review of the above tables would reveal that the deviations recorded in most of the specs in comparison to reference values are mostly favorable and even the adverse variances appear not material. The accomplishment or betterment of stringent quality standards augur well for the efficiency of the plant.

A graphical illustration of Gross Calorific Value (GCV) quality parameter of coal supplied vis-à-vis CEB reject value is given in the following chart:



Risk Management

i) Market risk

LCC is exposed to market risk of coal prices. However, we would define this exposure not as an open risk but a diminished risk exposure. Firstly all tenders, both spot and term, are awarded based on competitive bidding to the substantially compliant lowest bidder. Competitive bidding leads to competitive pricing driven by demand and supply. In the case of spot tenders the award price remains fixed for all deliveries under the tender. In the case of term tenders the delivery price is flexed by the movement in the Argus Coal Price Index between award month and Bill of Lading month. Apart from above, the quality price adjustment is introduced to assure price/ quality compatibility as per tender specifications. Therefore, LCC's risk exposure to coal prices is a diminished exposure.

ii) Credit risk

LCC's sole buyer is CEB and therefore, LCC is not exposed to credit risk. However, LCC is currently engrossed in debt recovery related litigations and business to business negotiations. Principally among recovery efforts are to collect the following debts which have been subject to prolonged litigation, arbitration and negotiations for some time now:

Ceylon Shipping Corporation (CSC)
Rs 539,192,079

The above sum has been outstanding since 2012 for the supply of coal to Taurian Iron and Steel Company Ltd., India with CSC mediating the supply as an intermediary. According to CSC the resolution of the dispute to recover the above sum was handled by a 4 member committee comprising a member each from the Treasury, CSC, CEB and LCC. The committee report was directed to the Cabinet Economic Management Committee for which a response is still awaited.

Liberty Commodities Ltd.,
USD 1,575,633

In 2015-16, Liberty Commodities was awarded the first spot tender being the substantially compliant lowest bidder. However, Liberty Commodities was found to have overdrawn on the letter of credit by manipulating the quality adjustment formulae and claiming bonus. The Company has instituted multi-prong actions for the recovery of the amount overdrawn by Liberty Commodities. These actions include:

i) The Company instituted action in the Commercial High Court of the Western Province for the recovery of amount overdrawn

ii) There is parallel Arbitral proceedings based on a referral of the matter from Commercial High Court

iii) An appeal filed by Liberty Commodities against the interim Arbitral award of USD 1,000,000 in favour of the Company

iv) Further, the Company also made a call on the Performance Bond issued by Liberty Commodities. However, Liberty Commodities instituted civil proceedings in Geneva against the Company. We nominated lawyers to present our case in Geneva through Attorney General's department. However, the court decided in favour of Liberty Commodities since the Performance Bond was limited only in respect of delivery shortfall and the Company has confirmed in writing that the quantity ordered was duly delivered and accepted.

Our Programme for the season 2018-2019

Lanka Coal Company (Pvt) Ltd (LCC) has a seasonal program for coal delivery due to high and low tides of the monsoonal behavior. Hence, LCC has only six months window period lying between two consecutive years starting mid-October to mid-April of following year.

Lanka Coal Company had a preliminary discussion with Lakvijaya power plant at Norochchole to develop the coal procurement plan to meet LVPP's demand requirement for the coming season 2018/2019, The coal demand for the coming season is 1.92 million + 10% MT, LCC has to develop a laycan to supply the demand within the delivery window. Accordingly, coal delivery plan for the coming season will be as follows:

The Tentative Procurement Schedule

Delivery plan for 2018/2019 from Term Tender

	MT
Term Tender quantity contracted	2,250,000
Quantity supplied in 2017/2018	1,199,000
Balance to be sourced in 2018/2019	1,051,000

Delivery plan for 2018/2019 from Short Term Tender

	MT
Required quantity for 2018/2019	1,920,000
Quantity to be sourced in TT	1,051,000
Quantity to be sourced in STT	869,000

The total number of shipments needed to supply the quantity demand for 2018/19 season.

Total quantity requirement	1.92 Mn MT
Parcel size for one shipment	60,000 MT
Total number of shipments	32 Shipments

Future Strategic Plan

The Company has focused its attention on the following with the guidance of the Board Directors and Ministry of Power & Renewable Energy

- Broad base the number of registered suppliers to increase competitiveness.
- Invite mine owners to submit bid thus avoiding intermediary cost in purchase price.
- To promote coal to private sector as a source of heat power, strengthen the industrialists and thereby contribute to the development of the Country
- Provide the services of lightering (barging) to LVPP jetty from the anchorage of the Puthalam Port with a view to make process sustainable.
- Promote 'green economy' foot print to counter the effects of emissions from combustion of coal.
- Extract new products such as carbon dioxide, oxygen as by-products of the coal combustion process
- Relentless pursuit to make '365 days delivery' a reality exiting from six month monsoon delivery window.

Board of Directors

Mr. S. C. Laksumanage
Chairman / Managing Director

Eng. Mr. A. K. Samarasinghe
Director
General Manager - CEB

Eng. D. Tilakasena (Mrs.)
Director
Addl. General Manager (Generation) CEB

Mr. M. I. Nazar (ceased with effect from 30th October 2018)
Director
Chairman / Managing Director One Stop Global (Pvt) Ltd.

Mr. S. M. D. N. Dharmapriya
Director
General Manager - Ceylon Shipping Corporation Ltd.

Capt. Athula Hewavitharana
Director
Managing Director - Sri Lanka Ports Authority

Ms. N. P. A. R. Jayawardane
Director
Director - Department of State Accounts

Mr. M.C.M. Rahamathulla
Director

Annual Report of the Board of Directors on the Affairs of the Company

The Board of Directors of Lanka Coal Company (Private) Limited has pleasure in presenting their Annual Report together with the Audited Financial Statements of the Company for the year ended 31st December 2017.

This Annual Report on the affairs of the Company contains the information required in terms of Section 168 of the Companies Act, No. 7 of 2007 and certain additional information.

Principal activities of the Company and review of performance during the year

The Company's principal activities, which remained unchanged during the year, were the business of importing and supplying standardized coal for the Lakvijaya Coal Power Plant at Norochcholai owned by Ceylon Electricity Board (CEB). Standardized coal means that the coal imported and supplied should conform to specific quality standards prescribed by the buyer CEB.

Financial Statements

The complete Financial Statements of the Company have been duly signed by Mr. M I Nazar and Mrs. N P A R Jayawardene, Directors on behalf of the Board.

Auditor's Report

The Report of the Auditors on the Financial Statements of the Company is attached with the Financial Statements.

Accounting Policies

The Financial Statements of the Company have been prepared in accordance with Sri Lanka Accounting Standards comprising SLFRS/LKAS and the accounting policies adopted thereof and are given on pages 26 to 32 under Note 3 of the Financial Statements.

Stated Capital

The total Stated Capital of the Company as at 31st December 2017 was Rs. 20,000,000 representing 2,000,000 ordinary shares.

Directors

The names of the Directors of the Company who held office as at 31.12.2017 are given below:

Mr. S C Laksumanage
Mr. A Hewavitharana
Mrs. N P A R Jayawardene
Mr. B R Madihahewa - resigned with effect from 10th May 2018
Mr. A K Samarasinghe
Mrs. D Tilakasena
Mr. M I Nazar - ceased with effect from 30th October 2018
*Mr. S M D N Dharmapriya – appointed w. e. f. 10th May 2018
* Mr. M C M Rahamathulla
- appointed w. e. f. 30th October 2018

Appointments during the year under review

* Mr. B R Madihahewa
- appointed w. e. f. 30th June 2017
* Mr. R Athukorala - appointed w. e. f. 6th June 2017
* Mr. M I Nazar - appointed w. e. f. 6th June 2017
* Capt. A Hewavitharana -
- appointed w. e. f. 1st June 2017
* D Tilakasena - appointed w. e. f. 23rd January 2017
* M G A Goonetilleke
- appointed w. e. f. 20th January 2017
* Mr. S C Laksumanage
- appointed w. e. f. 16th February 2017
* G D M De Silva Gunasekera
- appointed w. e. f. 1st February 2017

Annual Report of the Board of Directors on the Affairs of the Company

Resignations during the year under review

* Mr. D P G Pradeep - replaced by Mrs. N P A R Jayawardane w. e. f. 25th September 2017
* Mr. M K C Senanayake - replaced by Mr. D P G Pradeep w. e. f. 12th July 2017
* Mr. R Athukorala - resigned w. e. f. 29th June 2017
* M G A Goonetilleke - resigned w. e. f. 6th June 2017
* G S Dhanatunge - resigned w. e. f. 29th June 2017
* G D M De Silva Gunasekera - resigned w. e. f. 31st May 2017
* H M S L Wijeratne - resigned w. e. f.22nd May 2017
* Mr. W D A S Wijayapala - resigned w. e. f. 23rd January 2017
* S M Gunaratne - resigned w. e. f. 17th January 2017
* Mr. M I Nazar - resigned w. e. f. 16th January 2017

The Directors were not interested in any contract either directly or indirectly with the Company during the year. Related party transactions with the Company during the accounting period under review are given on page 38 in note 26 to the Financial Statements.

Directors' Remuneration

The Chairman/ Managing Director's remuneration is disclosed in Additional Note (C) on page 40 to the Financial Statements and the Directors fees are also set out in Additional Note (C) as above.

Donations

The Company did not make any donations during the year under review.

Property Plant and Equipment

Information relating to movement in property, plant and equipment are given in Note 09 to the Financial Statements.

Reserves

The total Company reserves as at 31st December 2017 amounted to Rs 50.5 million. The movement is shown on page 23 to the Financial Statements.

Employment

The number of persons employed by the Company as at 31st December 2017 was 22.

Commitment and Contingencies

Commitments and contingencies as at 31st December 2017 are given in Note 23 to the Financial Statements.

Auditors

The audit of the financial statements of Lanka Coal Company (Private) Limited for the year ended 31st December 2017 was carried out in pursuance of the provisions in Article 154 (1) of the 19th Amendment to the Constitution of the Democratic Socialist Republic of Sri Lanka by the Auditor General.

Messrs. Consultant Consortium, Chartered Accountants provided tax compliance services to the Company.

The Auditors do not have any interest in the Company other than that of Auditor.

Annual Report of the Board of Directors on the Affairs of the Company

Company	Name of Auditor/ Tax Advisor	Type of Payment	Amount Rs.
Lanka Coal Company (Private) Limited	Auditor General	Audit fees + reimbursable expenses (excluding tax)	Not notified
	Consultant Consortium Chartered Accountants	Income Tax computation and Return	45,000/00

The Auditor General will be appointed as the Auditor for the ensuing financial year in compliance with Article 154 of the 19th Amendment to the Constitution of the Democratic Socialist Republic of Sri Lanka.

This Annual Report is signed for and on behalf of the Board of Directors by the Chairman and a Director.

Chairman

Director

P W Corporate Secretarial (Pvt) Ltd
Secretaries

28th November 2018

Colombo

Governance

Reports by the Auditor General following both financial and operational audits contained adverse remarks. If we take the operations the tender procedure, lackadaisical management control over payments to suppliers, quality control/ quality price adjustment, frequent litigation by unsuccessful bidders questioning transparency etc were issues that the company was grappling with. Many of these concerns were highlighted in the audit reports. However, we are happy to state that the tender procedure was made transparent to a greater extent and hence there had not been any contentious issues pertaining to tender awards amongst competing bidders for the seasons. Further, we have duly responded to all audit reports promptly, implemented recommended measures to address shortcomings and we confirm that there are no outstanding audit reports as at date.

Conformance is an important aspect of governance. The management has paid particular attention to assure conformance with Statutes. Accordingly, the Company has paid taxes such as Income Tax, VAT, statutory payments such as EPF, ETF and duly filed returns for the year. There is on-going negotiations with the Inland Revenue Department to settle past outstanding income tax.

The Company actively participates in Audit and Management Committee (AMC) meeting of the line Ministry. We have responded to audit report, implemented recommendations to the extent as practical as possible.

The only draw back was that the AMC of the Company was not able to have the scheduled meetings for the first three quarters of the year 2017 due to the resignation of the Treasury member on the Board who was the ex-officio Chairperson of the Audit Committee. The new member took office in latter part of 2017 following which we endeavored to have the scheduled meeting per quarter and have had meetings until the end 3rd quarter of 2018.

මගේ අංකය
எனது இல.
My No. POE/E/LCC/01/2017/09

ඔබේ අංකය
உமது இல.
Your No.

දිනය
திகதி
Date 31 October 2018

To the Shareholders of the, Lanka Coal Company (Private) Limited

Report of the Auditor General on the Financial Statements of the Lanka Coal Company (Private) Limited for the year ended 31 December 2017.

The audit of financial statements of the Lanka Coal Company (Private) Limited ("the Company") for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

Board's Responsibility for the Financial Statements

The Board of Directors ("Board") is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board. as well as evaluating the overall presentation of the financial statements.

අංක 306/72, පොල්දූව පාර, බත්තරමුල්ල, ශ්‍රී ලංකාව இல. 306/72, பொல்துவ வீதி, பத்தரமுல்லை, இலங்கை. No. 306/72, Polduwa Road, Battaramulla, Sri Lanka.
+94 11 2 88 70 28 - 34 +94 11 2 88 72 23 ag@auditorgeneral.gov.lk www.auditorgeneral.gov.lk

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for Qualified Opinion

(a) Value Added Tax (VAT), Economic Service Charges (ESC) and Withholding Tax aggregating Rs.27,478,787 and Tax payable Rs.11,703,151 had been shown as receivables and payables respectively under Note 15 and 20 to the financial statements. In the meantime, abnormal debit balances of Rs.3,371,326 and Rs.12.758.801 had been shown as Nation Building Tax (NBT) and VAT respectively under the creditors in the financial statements. During the audit these balances could not be satisfactorily verified in audit due to non-availability of sufficient and appropriate audit evidence such as details of tax computation and tax returns etc. Further, the Company had not taken effective action to clear those balances by negotiating with the Department of Inland Revenue even up to the date of this report.

(b) As per the Note - 22 to the financial statements, the income tax liabilities as at the end of the reporting period was Rs. 65,474,540. However, it was shown as Rs.4,046,601 in the records of the Department of Inland Revenue. Hence, the income tax liability shown in the financial statement had been overstated by Rs.61,427,939.

(c) The Company is liable to pay ESC on the value of coal supplied to the Ceylon Electricity Board. However, the Company had failed to make a provision of Rs. 159,790,628 in this regard in the financial statements.

(d) According to the Value Added Tax (Amendment) Act, No.20 of 2016, the VAT exemption granted on “importation and supply of coal” had been removed with effect from 01 November 2016. Therefore, the Company is liable to pay VAT on importation and supply of coal. However, the Company had not been accounted the input VAT and output VAT amounting to Rs. 5,071,823,613 and Rs. 4,790,535,258 respectively. Further, disallowable VAT amount of Rs. 281,288,355 had not been treated as expense of the year under review. As a result, Cost of Sale had been understated by same amount. And also, disallowable VAT amount had not been invoiced by the Company to the Ceylon Electricity Board. Therefore, the revenue of the Company had been understated by Rs. 281,288,355 and tax liability thereon amounting to Rs. 42,193,253 had not been recorded.

(e) According to the detailed schedule submitted to audit, the Note -19 to the financial statements included an amount of Rs.478,179,795 as payable to Ceylon Electricity Board. However, as per the Note — 10 to the financial statements, the corresponding amount was as Rs. 539,192,079 from Ceylon Shipping Corporation Ltd with regard to short delivery of coal and other receivables. Hence, an un-reconciled difference of Rs.61,012,284 was observed between those two figures. However, the Company had failed to recover this receivable balance from Ceylon Shipping Corporation Ltd , even though five years has been passed from the transaction date. The recoverability of the above mentioned balance could not be ensured in audit and the entity has not recognized provision for above mentioned receivable balance, hence it is affect to the fair presentation of the financial statement.

Qualified Opinion

In my opinion, except for the effects of the matters described in Basis for Qualified Opinion paragraph, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2017 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

As required by Section 163 (2) of the Companies Act No.07 of 2007, I state the followings:

(a) The basis of opinion and scope and limitations of the audit are as stated above. (b) In my opinion :

Except for the effects of the matter described in basis for qualified opinion paragraph, I have obtained all the information and explanations that were required for the audit and as far as appears from my examination, proper accounting records have been kept by the Company,

The financial statements of the Company comply with the requirements of Section

151 of the Companies Act No. 07 of 2007.

Report to Parliament

My report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution will be tabled in due course.

H.M. Gamini Wijesinghe
Auditor General

Observations of Lanka Coal Company for the Auditor General's Report 2017

Auditor General,
National Audit Office,
306/72, Polduwa Road,
Battaramulla.

10.11.2018

Replies to the Auditor General's Report on the Financial Statements of Lanka Coal Company (Pvt) Ltd for the Year ended 31st December 2017.

Replies for the Auditor General's Report dated 31.10.2018 on the aforementioned matter are presented herein

Basis for Qualified Opinion

(a)

Valued Added Tax (VAT) Rs.27,478.787

This is an overpayment to Sri Lanka Customs which has arisen due to over valuation of a consignment for VAT purposes by the clearing agent. LCC have already filed a refund claim and has been following up constantly to collect the refund.

Tax Payable Rs.11,703,151

Department of Inland Revenue has confirmed that the tax payable is only 4,046,601. Therefore, the above payable is no longer required and was adjusted with the permission of the board in 2018.

NBT Rs.3 371 326

NBT paid had been accounted as a receivable. Since this amount is not recoverable, it was adjusted in 2018 with the permission of the board.

VAT Rs.12 758 801

Excess input VAT has been recorded as receivable. Inland Revenue Department by their letter dated 2018-06-14 intimated that excess input VAT shall not be refunded.

Accordingly, the amount was adjusted with the permission of the board in 2018.

(b) Income Tax liability Rs.65,474,540

Inland Revenue Department confirmed that the outstanding Income tax liability was only Rs.4,046,601. Therefore, the above payable is no longer required and was adjusted in 2018 accounts 2/8/2019

Observations of Lanka Coal Company for the Auditor General's Report 2017

(c) Provision for ESC

LCC has made full provision for ESC in the 2018 financial statements. LCC has submitted a claim to CEB on 2018-08-10 to receive funds to settle the liability and awaiting the release of funds for the said purpose.

(d) VAT

There is no excess irrecoverable input VAT since input VAT to Customs is reimbursed in full by CEB. LCC has created a VAT receivables/ payables control account in order to apply accounting treatment.

There is no excess input VAT in the books of LCC because input VAT we pay to custom is reimbursed by CEB since we do not add a margin in sale of coal.

Further, input VAT is not a cost and therefore, we do not add it to the cost of coal

As per the directives given by the Ministry during a meeting held on 28/6/2018 we add customs margin to the issuance of VAT invoice to CEB but deduct the same amount as cash discount.

By a letter addressed to the CGIR from FM-CEB even the addition of customs margin remains contested for which the final determination is yet unknown to us

(e) Receivable from Taurian Iron and Steel Company

According to CSC a committee has been appointed by the respective ministry in order to arrive at a negotiated settlement for the amount receivable. The committee report has been submitted to the cabinet as disclosed by CSC and a decision is awaited to resolve the matter.

This amount will remain as receivable until LCC is notified of the committee decision.

Chairman/Managing Director

Lanka Coal Company (Pvt) Ltd.

Statement of Financial Position

	Notes	2017 Rs.	2016 Rs.
ASSETS			
Non-Current Assets			
Property, Plant & Equipment	(09)	4,209,157	3,050,976
Other Non-Current Assets	(10)	775,977,718	775,977,718
		780,186,876	779,028,694
Current Assets			
Debtors and Other Advances	(11)	3,846,703,841	172,933,590
Refundable Deposits	(12)	120,433	120,433
Financial Assets	(13)	80,000,000	15,139,726
Staff Loans	(14)	5,069,886	1,793,370
Tax Receivable	(15)	27,478,787	27,478,787
Cash at Bank & Cash in Hand	(16)	2,647,509	8,983,345
		3,962,020,456	226,449,250
Total Assets		4,742,207,332	1,005,477,945
EQUITY & LIABILITIES			
Stated Capital	(17)	20,000,000	20,000,000
Retained Earnings		50,526,319	50,526,319
		70,526,319	70,526,319
Non-Current Liabilities			
Retirement benefit Obligation	(18)	1,576,282	1,896,920
Other Non-Current Liabilities	(19)	714,965,434	-
		716,541,716	1,896,920
Current Liabilities			
Creditors	(20)	3,882,648,019	864,904,297
Accrued Expenses	(21)	7,016,737	2,675,868
Income Tax Payable	(22)	65,474,540	65,474,540
		3,955,139,296	933,054,706
Total Equity & Liabilities		4,742,207,332	1,005,477,945

These Financial Statements are prepared in compliance with the requirements of the Companies Act No.07 of 2007

B. A. A. Kumara - Accountant

B. Jayalath - Chief Financial Officer

The Board of Directors are responsible for the preparation and presentation of these Financial Statements. Approved and signed on behalf of the Board

M. I. Nazar - Director

N. P. A. R. Jayawardene Director

04.09.2018
Colombo

Statement of Financial Performance and other Comprehensive Income

	Notes	2017 Rs.	2016 Rs.
Revenue	(04)	31,953,254,249	27,576,236,324
Direct Expenses (Cost of Sale)	(05)	(31,909,923,832)	(27,532,178,190)
Gross Profit		43,330,417	44,058,134
Other Income	(06)	4,871,357	6,577,904
Administration Cost		(50,042,674)	(51,219,994)
Operating Profit		(1,840,900)	(583,956)
Finance Income	(07)	1,915,285	652,006
Finance Cost		(74,385)	(68,050)
Profit before Tax	(08)	-	-
Income Tax Expense		-	-
Profit for the year		-	-
Add : Other Comprehensive Income		-	-
Total Comprehensive Income		-	-

Statement of Changes in Equity and Reserves

	Share Capital Rs.	Retained Earnings Rs.	Total Rs.
Balance as at 01-01-2015	20,000,000	50,526,409	70,526,409
Prior year adjustments	-	-	-
Balance as at 01-01-2016	20,000,000	50,526,409	70,526,409
Profit for the year		(90)	(90)
Balance as at 31.12.2016	20,000,000	50,526,319	70,526,319
Balance as at 01-01-2017	20,000,000	50,526,319	70,526,319
Prior year adjustments	-	-	-
Balance as at 01-01-2017	20,000,000	50,526,319	70,526,319
Profit for the year	-	-	-
Balance as at 31.12.2017	20,000,000	50,526,319	70,526,319

Cash Flow Statement

	2017 Rs.	2016 Rs.
Cash Flows from/(Used in) Operating Activities		
Net Profit before Income Tax Expenses	-	-
Adjustments for,		
Depreciation	1,201,925	1,361,024
Gratuity Provision	593,070	429,136
Interest Income	(1,915,285)	(652,006)
Finance Cost	74,385	68,050
Operating Profit before Working Capital Changes	(45,905)	1,206,204
Working Capital Changes,		
(increase)/Decrease in pre payments	(3,673,770,252)	115,137,004
(Increase)/Decrease in deposits	-	(10,000)
(Increase/Decrease in Staff loan	(3,276,516)	(215,181)
(Increase)/Decrease in Advance Payments	-	(26,506,919)
Increase/(Decrease) in Creditors	3,732,709,155	(68,404,681)
Increase/(Decrease) in accrued expenses	4,340,869	1,098,166
Cash Generated from Operations	59,957,351	22,304,594
Less :		
Finance costs paid	(74,385)	(68,050)
Prior year adjustments	-	(90)
Gratuity Paid	(913,708)	-
Net Cash From/(Used in) Operating Activities	58,969,258	22,236,454
Cash Flows from Investing Activities		
Acquisition of Property, Plant & Equipment	(2,360,106)	(2,325,917)
Interest Income	1,915,285	652,006
Net Cash From/(Used in) Investing Activities	(444,821)	(1,673,911)
Net Increase/(Decrease) in Cash and Cash Equivalents	58,524,438	20,562,543
Cash and Cash Equivalents at the beginning of the year	24,123,071	3,560,528
Cash and Cash Equivalents at the end of the year	82,647,509	24,123,071
Analysis of Cash & Cash Equivalents		
Cash at Bank - Favourable	2,622,508	8,958,345
Cash in Hand	25,001	25,001
Cash at Bank - and In Hand	2,647,509	8,983,345
Short Term Investment	80,000,000	15,139,726
	82,647,509	24,123,071

Notes to the Financial Statements
Year ended 31st December 2017

01. REPORTING ENTITY

Lanka Coal Company Private Limited is a Company incorporated on 1st January, 2008 under the Companies Act No 7 of 2007 and domiciled in Sri Lanka. The Company is a 100% State owned entity and is a subsidiary of Ceylon Electricity Board which owns a 60% stake in the Company since incorporation. The registered office of the Company is located at the premises No.51/3, Dutugemunu Street, Dehiwala.

The Principal activity of the company is to supply the required quantity of high quality coal at the right price within the season for the Lakvijaya Coal Power Plant (LVPP) at Norochcholai. LCC has been honoring this obligation diligently throughout its existence. LCC carries out all the activities from the point of registration of suppliers to the point of delivering coal to the Jetty at the LVPP. The activities performed by LCC can be broadly categorized under the following heads:-

1. Supplier registration, tender processing and awarding
2. Letter of Credit opening, liaison with bankers, formalizing banking facilities and documentation
3. Logistics, freighting and lightering services
4. Liaison with Buyer (LVPP), suppliers, Terminal operators, SL customs, SL Navy, Ceylon Shipping Corporation etc and coordinating diverse operations among stakeholders.

The average number of employees of the company as at the end of the year was 22.

The Financial Statements for the year ended 31st December, 2017 were authorized to be issued by the Board of Directors on 04th September 2018.

Notes to the Financial Statements on pages 25 to 41 form an integral part of the Financial Statements.

2. BASIS OF PREPARATION

2.1. Statement of Compliance

The financial statements of the company have been prepared and presented in accordance with Sri Lanka Accounting Standards (SLFRSs and LKASs) laid down by the Institute of Chartered Accountants of Sri Lanka and in compliance with the requirement of the Companies Act and provide an appropriate disclosures as required.

Significant Accounting Policies followed during the year are given in Note 3.1 to 3.15. The applicable SLFRSs and LKASs are available at www.casrilanka.com

The Preparation of the Financial Statements and disclosures made therein conform to presentations previously followed except in the case of income statement in which changes necessitated by the adoption of the new revenue recognition policy as described in note 3,9.1 have been incorporated.

2.2. Basis of Measurement

The Financial Statement have been prepared on an accrual basis and under the historical cost convention unless stated otherwise.

2.3. Responsibility for Financial Statements

The Board of Directors of the Company is responsible for the preparation and presentation of the financial statements of the company as per the provision of the companies Act No 7 of 2007 and Sri Lanka Accounting Standards.

2.4 Use of Estimates, Judgments and Assumption

The preparation of Financial Statements in conformity with SLFRS/LKAS requires management to make judgments, estimates and assumption that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses and the disclosure of contingent liabilities at the reporting date. Actual results may differ from those estimates and judgmental decisions.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

2.5. Functional and Presentation Currency

The Financial Statement are presented in Sri Lanka Rupees, which is the company's functional and presentation currency.

2.6 Accounting Policies, changes and Comparative Information

The Accounting Policies applied by the company are, unless otherwise stated, consistent with those used in the previous year except in the case of Revenue and cost of sales recognition, the accounting treatment of which is detailed in Note 3.9.1. Previous year's figures and phrases have been rearranged, wherever necessary, to conform to the current year's presentation.

2.7. Events Occurring After the Balance Sheet Date

All material post Balance Sheet events have been considered and appropriate adjustment or disclosures have been made in the respective Notes to the financial statements.

03. SIGNIFICANT ACCOUNTING POLICIES

3.1. Assets and Bases of their Valuation

Assets classified as current assets in the balance sheet are cash and those assets which are expected to be realized in cash during the normal operating cycle of the company's business or within one year from the Balance Sheet date, whichever is shorter. Assets other than current assets are those, which the Company intends to hold beyond a period of one year from the Statement of financial position date.

3.2. Property, Plant & Equipment

Property, Plant & Equipment is stated at cost less accumulated depreciation and any accumulated impairment in value. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable cost of bringing the assets to working condition for its intended use.

The cost of self-constructed assets includes the cost of material, direct labor, and any other cost directly attributable to bring the assets to the working condition for its intended use. This also includes cost of dismantling and removing the items and restoring in the site on which they are located.

If an asset's carrying amount is increased as a result of a revaluation, the increase shall be credited directly to equity under the heading of revaluation reserve.However, the decrease shall be debited directly to equity under the heading of revaluation reserve to the extent of any credit balance existing in the revaluation reserve in respect of that asset.

The carrying values of property plant & equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

3.3. Subsequent Expenditure

The cost of replacing part of an item of property, plant & equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the company and its cost can be measured reliably. The carrying amount of those parts that are replaced is de-recognized in accordance with the de-recognition policy given below. The cost of day-to-day servicing of property, plant & equipment are recognized in profit or loss as incurred.

3.4. De-recognitions and Depreciations

De-recognition

Items of property, plant & equipment are derecognized upon replacement, disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset is included in the Income Statement in the year the asset is derecognized.

Depreciation

Depreciation is calculated on a straight-line basis over the estimated useful lives of each part of an item of property, plant & equipment. Assets held under finance leases are depreciated over the shorter of the lease term and the useful lives of equivalent owned assets. Freehold land is not depreciated. Assets held under leasehold improvement are depreciated over the period of 2 years as per the lease rent agreement

Depreciation of an asset begins when it is available for use and ceases at the earlier of the dates on which the asset is classified as held for sale or is derecognized.

Provision for depreciation is calculated by using a straight-line method on the cost or valuation of all property, plant and equipment, other than freehold land, in order to write off such amounts over the estimated useful economic life of such assets.

The estimated useful lives of assets are as follows:

Assets	Year
Furniture & Fittings	5
Equipment	4
Motor Vehicle	4
Computer Equipment	4
Leasehold Improvement	2

The useful life and residual value of assets are reviewed, and adjusted if required, at the end of each financial year.

3.5. Finance Lease

Property, plant & equipment on finance leases, which effectively transfer to the Company substantially all the risk and benefits incidental to ownership of the leased items, are classified as leased items, are classified as leasehold assets under the property, plant and equipment and stated at an amount equal to the lower of their value and the present value of minimum lease payment at the inception of the lease, less the accumulated depreciation. Depreciation is made over the Period Company is expected to benefit from the use of the leased assets.

3.6. Borrowing Costs

Borrowing cost are recognized as an expense in the period in which they are incurred except those that are directly attributable to the acquisition, construction or production of a qualifying asset that takes a substantial period of time to get ready for its intended use or sale, where it is capitalized as a part of the cost that asset.

3.7. Financial instruments

As required by Sri Lanka Accounting Standard – LKAS 39 Financial Instruments Recognition and Measurement, cash & short-term deposits, trade & other receivables, trade & other payables, refundable rental and other deposit and amounts due to related companies are recognized as financial instruments.

Financial Assets

a) Initial recognition and measurement

Financial assets are recognized when, and only when, the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets within the scope of LKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investment, Available-for-sale financial assets, as appropriate and determine the classification of its financial assets at initial recognition

All financial assets are recognized initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The financial assets include cash and short-term deposits, trade and other receivables, Loans and other receivables.

The loans granted to employees at concessionary rates under uniformly applicable scheme are stated at amortized cost using effective interest rate (EIR) The resultant loss in respect of the capital outstanding as at 31/12/2017 is charged to the income statement of the year.

b) Subsequent measurement

1. Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities when the company has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or cost that are an integral part of the EIR. The EIR amortization is included in finance income in the income statement.

2. Loans and receivables

Loans and receivable are non-derivative financial assets with fixed or determinable payment that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method (EIR), less premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the income statement. The losses arising from impairment are recognized in the statement of Comprehensive Income.

The company has assessed receivables collectively for impairment and had determined that no provision is necessary for impairment of certain individually significant receivables. The reason being that the receivables are backed by a corresponding payable and in the event of a default there is an opportunity of a set-off. This means there is no exposure at default requiring any charge for impairment.

Further, receivables mainly include items which are expected to realize in the normal operating cycle and within twelve (12) months after the reporting period and hence categorized as current assets. Those balances which are expected to realize after 12 months are categorized as non-current.

Financial Liabilities

a) Initial recognition and measurement

Financial Liabilities within the scope of LKAS-39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives as appropriate and determine the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.'

The financial liabilities include trade and other payable, bank overdrafts, loans and borrowings.

b) Subsequent Measurement

Loans and Borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the income statement when the liabilities are de-recognized as well as though the effective interest rate method (EIR) amortization process.

3.8. Employee Benefits

3.8.1. Defined Benefit Plans – Retirement Gratuity

A defined benefit plan is a post – employees benefit plan other than a defined contribution plan.

The liability recognized in the balance sheet in respect of the defined benefit plan is based on the provisions of the Gratuity Act to provide for the requisite financial obligations upon retirement of an employee. However, the provisioning starts at the completion of first year in service. The benefit plan is internally funded and the company has set aside funds in a savings account to meet the obligations as and when they arise.

As provided in paragraph 60 of LKAS-19, estimates and computational short cuts provide a reasonable approximation of detailed computations allocated in the standard.

(a) Defined Contribution Plan – Employees' Provident Fund & Employees' Trust Fund

All Employees who are eligible for Provident Fund Contribution and Trust Fund Contributions are covered by relevant contribution funds in line with respective statutes and regulations. Contribution plans are recognized as an expense in the Statement of comprehensive Income.

3.8.2. Provisions, Contingent Assets and Contingent Liabilities

Provisions are made for all obligations existing as at the reporting date when it is probable that such an obligation will result in an outflow of resources and a reliable estimate can be made of the quantum of the outflow.

All contingent liabilities are disclosed as a note to the financial statements unless the outflow of resources is remote.

Contingent assets are disclosed, where inflow of economics benefit is probable.

3.9. Income Statement

3.9.1. Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefit will Flow to the company and the revenue and associated cost incurred or to be incurred can be reliably measured, Revenue is measured at the fair value of the consideration received or receivable revenue is generally accounted for on accrual basis and following specific criteria are used for recognition of revenue.

(a) Rendering of services

Revenue from rending of service is recognized in the accounting period in which the services are rendered of performed.

(b) Interest Income

Interest income is recognized on an accrual basis from the date of deposit to the reporting date.

3.9.2. In accordance with the agreement entered into between CEB and LCC the revenue recognition was changed to be that of a buyer and seller with effect from January 2017. It is considered that the title for goods is passed to the buyer upon delivery of coal to the jetty and accordingly invoiced to the buyer. This policy is compatible with the policy adopted by buyer (CEB).

However, since we collect VAT in advance VAT return is completed based on VAT receipt date. There is a possibility of an invoice being recognized for VAT and revenue in two different quarters. In order to maintain consistency the comparative figures for 2016 were also changed to be in conformity with new revenue recognition policy.

Accordingly, all deliveries are priced at total cost incurred in delivering coal to the Jetty of the plant. In other words, coal price per MT is set on par with direct costs. Additionally, there will be invoicing for net overhead costs.

3.10. Expenditure Recognition

All expenditure incurred in the running of the business and in maintaining the property, plant & equipment in a state of efficiency has been charged to revenue in arriving at the profit for the year. Expenditure incurred for the purpose of acquiring and extending or improving assets of a permanent nature by means of which to carry on the business or for the purpose of increasing the earning capacity of the business has been treated as capital expenditure.

For the purpose of presentation of the income statement, the “function of expenses” method has been adopted, on the basis that it presents fairly the elements of the company’s performance.

3.11. Finance Cost

Finance costs comprise of all interest and other costs incurred in connection with borrowings and are recognized as an expenses in the period in which they are incurred, unless they are incurred in respects of qualifying assets in which case it is capitalized.

3.12. Earnings per Share

No EPS calculation as per the new agreement with Ceylon Electricity Board. Price charge, would be equal to the net overhead cost.

3.13. Income Tax Expenses

Income tax expenses comprises current tax. Income tax expenses is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, when it is recognized in equity.

Since the adoption of the pricing model on par with direct and indirect costs the tax impact is not material and hence no provision has been made for deferred tax.

3.14. Current Tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date and any adjustment to tax payable in respect of previous years.

The provisions for income tax is based on the elements of income and expenditure as reported in the Financial Statement and computed in accordance with the provisions of the Inland Revenue Act, 10 of 2006 and subsequent amendments thereto.

3.15. Cash Flow Statement

The Cash Flow Statement has been prepared using 'indirect method'. Interests paid are classified as operating cash flows while dividends paid are classified as financing cash flows. Interests and dividends received are classified as investing cash flows for the purpose of presentation of Cash Flow Statement.

For the purpose of Cash Flow Statement, cash & cash equivalents consists of cash at bank and in hand and short term deposits net of outstanding bank overdrafts.

		2017 Rs.	2016 Rs.
(04)	REVENUE		
	Turnover	31,909,923,832	27,532,178,190
	Reimbursement of Expenses by CEB	43,330,417	44,058,134
		31,953,254,249	27,576,236,324
04.1	Calculation of Net Overhead Cost		
	Administrative Expenses	(50,042,674)	(51,219,994)
	Finance Cost	(74,385)	(68,050)
	Registration Income	4,871,357	6,577,904
	Finance Income	1,915,285	652,006
	Net Overhead for the period (12 Months)	**(43,330,417)**	(44,058,134)
(05)	COST OF SALE		
	FOB Value	27,029,294,659	22,423,090,367
	Freight	3,852,978,969	3,823,826,109
	Lightering	917,712,229	1,150,218,116
	Shipping & Other Charges	109,937,975	135,043,598
		31,909,923,832	27,532,178,190
(06)	OTHER INCOME		
	Registration Income	4,871,357	6,577,904
		4,871,357	6,577,904
(07)	FINANCE INCOME		
	Interest Income	1,915,285	652,006
		1,915,285	652,006
(08)	PROFIT BEFORE TAX		
	Profit before tax is stated after charging all expenses including the following ;		
	Staff Salaries	14,240,709	13,230,077
	EPF	1,988,919	2,010,862
	ETF	497,230	502,716
	Provision for Gratuity	593,070	429,136
	Directors fees	490,000	470,000
	Depreciations	1,201,925	1,361,024
	Audit Fee	-	-
		19,011,853	18,003,815
	Number of shares outstanding during the year	2,000,000	2,000,000

(09) PROPERTY, PLANT & EQUIPMENT

Cost	Balance as at 01.01.2017 Rs.	Additions Rs.	Disposals/ Transfers Rs.	Balance as at 31.12.2017 Rs.
Furniture & Fittings	1,213,726	734,110		1,947,836
Computers	1,960,400	1,312,017		3,272,417
Equipment	1,636,610	313,980		1,950,590
Leasehold Improvement	1,514,582	-		1,514,582
Network system	86,925	-		86,925
Motor Vehicles	6,261,816	-		6,261,816
Generator	845,000	-		845,000
Container Accommodation	6,744,085	-	-	6,744,085
	20,263,144	**2,360,106**	**-**	**22,623,250**

Depreciation	Balance as at 01.01.2017 Rs.	Additions Rs.	Disposals/ Transfers Rs.	Balance as at 31.12.2017 Rs.
Furniture & Fittings	787,665	124,044		911,709
Computers	1,440,551	320,030		1,760,582
Equipment	753,994	276,587		1,030,581
Leasehold Improvements	1,354,416	160,166		1,514,582
Network system	68,586	18,340		86,925
Motor Vehicles	6,010,058	133,758		6,143,816
Generator	52,813	169,000		221,813
Container Accommodation	6,744,085	-		6,744,085
	17,212,168	**1,201,925**	**-**	**18,414,092**

Net Book Values	Balance as at 31.12.2016 Rs.	Balance as at 31.12.2017 Rs.
Furniture & Fittings	426,061	1,036,126
Computers	519,849	1,511,835
Equipment	882,616	920,009
Leasehold Improvements	160,166	-
Network system	18,340	-
Motor Vehicles	251,757	118,000
Generator	792,188	623,188
Container Accommodation	-	-
Total Carrying amount	**3,050,976**	**4,209,157**

		2017 Rs.	2016 Rs.
(10)	OTHER NON-CURRENT ASSETS		
	Liberty Commodities Ltd	236,785,640	236,785,640
	CSCL(TISCL) *Note	539,192,079	539,192,079
		775,977,718	775,977,718

* This is the amount receivable from Taurian Iron and Steel company Pvt Ltd for the coal supplied through CSCL.The amount once received will have to be paid to CEB and the corresponding payable is reflected in Note 19 Creditors. The difference between the accounts is explained by price escalation as per agreement.

		2017 Rs.	2016 Rs.
(11)	DEBTORS & OTHER ADVANCES		
	Old Insurance Receivable from CSC LTD upto 154 Ship	50,479,875	-
	New Insurance Receivable from CSC LTD from 155 Ship	7,168,263	-
	Management fee	28,505,392	-
	Discharge Port Demurrages	9,591,902	-
	House Rent	1,160,250	1,287,000
	Advance for Deaf Coal Shipment	-	(4,032,664)
	Trade Debtors (CEB) for Thermal Coal Shipments	3,106,316,264	172,861,297
	Advance Payment for 167 - 13 Ship	236,210,415	-
	Advance Payment for 168 - 14 Ship	248,169,727	-
	Advance Payment for 169 - 15 Ship	101,747,732	-
	Trade Debtors (CEB) - Steam Coal	25,920,460	(25,984,424)
	Noble Resources International Pte Ltd.	1,115,987	1,115,987
	Misc. Debtors	18,075,802	15,444,620
	Taxes to be borne by CEB	12,241,774	12,241,774
		3,846,703,841	172,933,590
(12)	REFUNDABLE DEPOSITS		
	Other Deposits	70,433	70,433
	Deposit through CSCL	50,000	50,000
		120,433	120,433
(13)	FINANCIAL ASSETS		
	Investment in REPOs- Peoples Bank	80,000,000	15,139,726
		80,000,000	15,139,726
(14)	STAFF LOAN		
	Distress Loan	5,039,886	1,775,370
	Festival advance	30,000	18,000
		5,069,886	1,793,370
(15)	TAX RECEIVABLE		
	Withholding Tax	77,718	77,718
	Vat Receivable	26,506,919	26,506,919
	Economic Service Charges	894,150	894,150
		27,478,787	27,478,787

		2017 Rs.	2016 Rs.
(16)	CASH IN HAND AND CASH AT BANK		
	Bank of Ceylon A/C/No.7952807	1,234,569	1,234,569
	Bank of Ceylon S/A No 9225340	21,414	20,575
	People's Bank-Corporate Branch A/C No.	1,080,576	7,417,250
	People's Bank Savings Account	285,950	285,950
	Petty Cash	25,001	25,001
		2,647,509	**8,983,345**
(17)	STATED CAPITAL		
	Ordinary Shares	20,000,000	20,000,000
		20,000,000	**20,000,000**
(18)	RETIREMENT BENEFIT OBLIGATION		
	Balance at the Beginning of the year	1,896,920	1,467,784
	Provision for the year	593,070	429,136
	Payment made during the year	(913,708)	-
	Balance at end of the year	**1,576,282**	**1,896,920**
(19)	OTHER NON-CURRENT LIABILITIES		
	Advance payable to CEB (Liberty & Taurian)	714,965,434	-
(20)	CREDITORS		
	Coal Supplier	2,768,415,099	-
	CEB Expenditure advances	483,215,174	579,716,315
	Ceylon Shipping Corporation Ltd - 2017	369,682,620	-
	Discharge Port Demurrages- CSC	9,591,902	-
	Sri Lanka Insurance PLC	7,168,263	-
	Ceylon Shipping Corporation Ltd - Old	178,884,469	-
	SGS	1,798,491	-
	Trade Creditors	100,083,750	284,370,106
	Wages Payable	16,681	(53,277)
	Tax Payable	11,703,151	11,703,151
	NBT Payable	(3,371,326)	(3,371,326)
	VAT payable	(12,758,801)	(12,758,801)
	Shipment Control	(31,781,455)	-
	Misc. Creditors	-	5,298,130
		3,882,648,019	**864,904,297**

		2017 Rs.	2016 Rs.
(21)	ACCRUED EXPENSES		
	Foreign Travelling Expenses	1,053,180	-
	EPF/ETF Payable	405,267	283,253
	Legal, Audit and professional fees	2,000,000	-
	Payment for Un availed Sick Leave	1,117,642	1,146,094
	Salary - Executive	-	375
	Salary - Other Staff	-	3,062
	Bonus	2,419,778	986,451
	Others	20,869	256,633
		7,016,737	2,675,868

(22)	INCOME TAX PAYABLE		
	Balance at the beginning of the year	65,474,540	65,474,540
	Provision for the year	-	-
	Payments made during the year	-	-
	Setting off against WHT	-	-
	Balance at the end of the year	65,474,540	**65,474,540**

No tax has been provided in the financial statement of Lanka Coal Company Pvt Ltd.

(23) COMMITMENT & CONTINGENCIES

The Company has not provided for following items in the books of the Company being either full or part of the invoices issued by Ceylon Shipping Corporation for reasons given.

Nature of Expense	LKR.	Reason
(1) FREIGHT CHARGES	1,911,970	Dead Freight Charges - confirmation awaited from suppliers
	3,934,730	Freight of Deaf Coal (Ship No 01) - confirmation awaited
(2) LIGHTERING CHARGES	54,286,219	VAT on Lightering ruled 0% by IR
(3) BUNKER ADJUSTMENT CHARGES	2,569,505	Base Bunker price billed at 11/MT but LCC taken 10.75/MT (asagreement)
(4) DEMURRAGE CHARGES	95,421,684	With the understanding of CSC these charges are settled upon collection
(5) CLEARING,FORWARDING & DISBURSEMENT	32,764,050	Freight chargers of disputed shipment - Ship no 19 (Taurian)
	8,536,720	Overcharged Load Port Demurrage - Nobel Resources
	1,528,890	Overcharged Freight adjustment & others
	200,953,767	

(24) EVENTS OFFERING AFTER REPORTING DATE

There have been no material events occuring after the reporting datethat require adjustments to or disclosure in the financial statements.

(25) SUMMARY OF LEGAL CASES

Case No	Petitioner	Respondent	Carrying amount at the beginning- Dr/ (Cr)- Rs	Carrying amount at the end- Dr/ (Cr)- Rs
SC/HC/LA35/ 2016	Lanka Coal Co Pvt Ltd.,	Liberty Commodities Ltd	236,785,640	236,785,640
CHC/159/2016/MR	Lanka Coal Co Pvt Ltd.,	Liberty Commodities Ltd	236,785,640	236,785,640
Arbitration	Lanka Coal Co Pvt Ltd.,	Liberty Commodities Ltd	236,785,640	236,785,640
SCFR/349/16	Mr Subash jayawardana	Lanka Coal Co Pvt Ltd.,	Nil	Nil

(26) TRANSACTIONS WITH RELATED COMPANIES

Company Name	Relationship	Transaction	2017	2016
CEB	Holding Company	Expense reimbursement	43.33 million	44 million
Ceylon Shipping Corp Ltd.,	Shareholder	Freight charges	3,852.98 million	3823 million
Ceylon Shipping Corp Ltd.,	Shareholder	Lightering charges	917.71 million	1019 million

Detailed Income Statements
Up To 31St December 2017

	Add. Notes	2017 Rs.	2016 Rs.
Revenue	(A)	31,953,254,249	27,576,236,324
Direct expenses (Cost of Sale)		(31,909,923,832)	(27,532,178,190)
Gross Profit		43,330,417	44,058,134
Other Income	(B)	4,871,357	6,577,904
Administration Expenses	(C)	(50,042,674)	(51,219,994)
Operating Profit		(1,840,900)	(583,956)
Finance Income	(D)	1,915,285	652,006
Finance Cost	(E)	(74,385)	(68,050)
Profit before Tax		-	-
Income Tax Expense Profit for the year		-	-

Additional Notes to the Financial Statements
For The Year Ended 31St December 2017

		Add Notes	2017 Rs.	2016 Rs.
(A)	REVENUE			
	Turnover		31,909,923,832	27,532,178,190
	Reimbursement of Expenses by CEB		43,330,417	44,058,134
			31,953,254,249	**27,576,236,324**
(A.1)	Calculation of Net Overhead Cost			
	Administrative Expenses		(50,042,674)	(51,219,994)
	Finance Cost		(74,385)	(68,050)
	Registration Income		4,871,357	6,577,904
	Finance Income		1,915,285	652,006
	Net Overhead for the period (12 Months)		**(43,330,417)**	**(44,058,134)**
(B)	REGISTRATION INCOME			
	Registration Income		4,871,357	6,577,904
			4,871,357	**6,577,904**
(C)	ADMINISTRATIVE EXPENSES			
	Directors fees		490,000	470,000
	Managing Directors Salary		2,141,412	3,472,560
	Salaries- Executives		9,427,945	10,115,306
	Salaries- Other staff		4,812,765	3,114,771
	Overtime		1,897,822	1,763,881
	Holiday Pay		136,458	73,034
	Bonus		2,491,226	1,028,074
	Payment for un-availed sick leave		1,117,642	1,146,094
	Employees Provident Fund		1,988,919	2,010,862
	Employees Trust Fund		497,230	502,716
	Staff Medical Scheme		1,144,193	1,014,176
	Interest Cost of Staff Loan		804,107	-
	Employees' Welfare		461,076	580,033
	Gratuity Provision		593,070	429,136
	Rent		1,764,750	1,736,000
	Business Tax - MMC		-	20,000
	Electricity		509,014	459,752

Additional Notes to the Financial Statements
For The Year Ended 31St December 2017

	Add Notes	2017 Rs.	2016 Rs.
Water		41,486	109,527
Telephone		765,143	422,680
Postage & Courier services		28,045	16,633
Books, News Papers and Periodicals		94,477	128,103
Stationery		597,917	453,700
Website, Internet & Email		182,508	138,669
Motor vehicle running expenses		1,516,877	2,311,924
Motor vehicle Hiring expenses		2,251,879	4,331,001
Repairs to motor vehicles		617,325	502,736
Miscellaneous Items		687,356	-
Repairs to office equipment		28,618	59,153
Staff Travelling		78,345	255,418
Overseas Travelling - Staff		1,877,802	-
Advertising expenses		-	682,018
Tender Expenditure		4,929,087	603,740
Office maintenance		982,963	661,378
Professional fees		2,796,006	8,138,790
Security Service		635,200	636,500
Entertainment		359,537	54,330
Stamp duty		3,000	3,000
Depreciation		1,201,925	1,361,024
Audit fees		-	-
Insurance		89,551	2,413,277
		50,042,674	51,219,994

(D)	FINANCE INCOME		
	Interest on REPO's	1,798,850	518,603
	Interest on Savings Account	838	808
	Interest on Staff Loans	115,597	132,595
		1,915,285	652,006

(E)	FINANCE COST		
	Bank charges	74,385	68,050
	Lease Interest		
		74,385	68,050

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Lanka Coal Company (Private) Limited will be held at the Registered Office at No.51/3, Suranimala Place, Off-Dutugemunu Street, Kohuwala, Dehiwala, on Wednesday, 19th December 2018 at 3.00 p.m. for the following purpose:

1. To receive and consider the Annual Report of the Board of Directors on the affairs of the Company and the Statements of Accounts for the year ended 31st December 2017 with the Report of the Auditors thereon.

2. To appoint The Auditor General as the Auditor for the ensuing financial year in compliance with Article 154 of the 19th Amendment to the Constitution.

3. To authorize the Directors to determine donations for the year ending 31st December 2018 and up to the date of the next Annual General Meeting.

By order of the Board
LANKA COAL COMPANY (PRIVATE) LIMITED
P W CORPORATE SECRETARIAL

Director / Secretaries

5th December 2018
Colombo

Notes:

1. A Shareholder entitled to attend vote at the meeting is entitled to appoint a proxy to attend and vote on behalf of hom/her.

2. A proxy need not be a Shareholders of the Company.

3. The Form of Proxy is enclosed for this purpose.

4. The Completed Form of Proxy must be deposited at the Redistered Office of the Company at No.51/3, Suranimala Palace, Off-Dutugemunu Street, Kohuwala, Dehiwala, not less than twenty four (24) hours, before the time appointed for the meeting.

Form of Proxy

I/We .... of ....
.... being a shareholder of LANKA COAL COMPANY (PRIVATE) LIMITED
hereby appoint Mr./ Ms .... of .... (or failing him)

Mr. S C Laksumanage	or failing him*
Mr. A Hewavitharana	or failing him*
Mrs. N P A R Jayawardena	or failing him*
Mr. A K Samarasinghe	or failing him*
Mrs. D Tilakasena	or failing him*
Mr. S M D N Dharmapiya	or failing him*
Mr. M C M Rahamathulla	

as our proxy to represent and speak and vote for us and our behalf at the Annual General Meeting of the Company to be held on Wednesday, 19th December 2018 at 3.00 p.m. and at any adjournment thereof and every poll which may be taken in consequence of the aforesaid meeting.

We, the Undersigned, hereby authorize my/our proxy to speak and vote for us and on our behalf in accordance with the preference as indicated below

	FOR	Against
1. To appoint The Auditor General as the Auditor for the ensuing financial year in compliance with Article 154 of the 19th Amendment to the Constitution.		
2. To authorize the Directors to determine donations for the year ending 31st December 2018 and up to the date of the next Annual General Meeting.		

In witness our hands this .... day of .... Two Thousand and Eighteen.

....
Signature of Shareholder/s

Notes : 1. A proxy need not be a shareholder of the company.
2. Insructions as to completion appear overleaf.

Form of Proxy

INSTRUCTIONS FOR COMPLETION

1. Kindly perfects the Form of Proxy by filling in legibly your full name address and other relevant information and signing in the space provided and filling in the date of signature.

2. The completed Form of Proxy must be deposited at the Registered Office of the Company at No. 51/3, Suranimala Place, Off-Dutugemunu Street, Kohuwala, Dehiwala, not less than twenty four (24) hours, before the time appointed for the meeting.

3. If you wish to appoint a person other than the chairman or a Director of the Company as your Proxy, Please insert the revevant details in the space provided (above the names of the Board of Directors) on the Proxy Form.

4. Of the Form of Proxy is signed by an Attorney, the relative power of Attorney should accoumpany the Form of Proxy for registration if such Power of Attorney has not already been registered with the company.

5. If the appointer is a company / incorporated body this Form must be executed in accordance with the Articles of Association / Statute.

LANKACOAL
COMPANY(PVT)LTD

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