



State Timber Corporation



ANNUAL REPORT
_____ . 2017 . _____



Ministry of Mahaweli Development and Environment



STATE TIMBER CORPORATION

ANNUAL REPORT 2017

TRUE LEADERSHIP FOR TIMBER MARKET

OUR ENVISIONED FUTURE

VISION

To be the nation's leader in providing most trusted and best quality timber and timber based products

MISSION

To Produce timber and timber based products for our customers through the knowledge and skills gained over the time and to contribute to the national and environmental demands of Sri Lanka



The State Timber Corporation is the absolute leader providing most trusted and best quality timber and timber based products in the country.

We always focus on sustainable development of the corporation and deliver products which are perfectly match with the choice of the customers. With 49 years experience and current structure of the Corporation will lead to the success of the corporation as well as development of the country.

CONTENT

Beginning & today	103
Financial highlights	104 - 105
Corporate information	106
Team of management	107 - 109
Chairman's review	112 - 114
Awards & accolades	115
General manager's review	116 - 117
Our functions and business values	118 - 119
Board of directors	120 - 121
Senior management team	122 - 123
Board of directors' review	126 - 130
Our reach	132 - 135
Audit and management committee report	136
Business Summary	137 - 139
Decade at a glance	142
Contribution to the national economy	143
Corporate social responsibility	146 - 147
Risk management	148 - 151
Report of the auditor general	154 - 171
Annual accounts	172 - 195
Glossary of financial terms	196

TODAY



The head office of State Timber Corporation is housed in "Sampathpaya", Battaramulla and which being the core of the Corporation with its sub divisions having been located islandwide. State Timber Corporation earns its revenues primarily through manufacture and sale of timber products. STC practices sustainable forest harvesting in line with the sustainable forestry program with Forest Department.

We endeavour to produce the highest quality timber products with the best possible service. For the past 49 years, State Timber Corporation has been on top of the industry in timber and timber based manufacturing. Over those years we've become the accepted benchmark for Top - Class products.

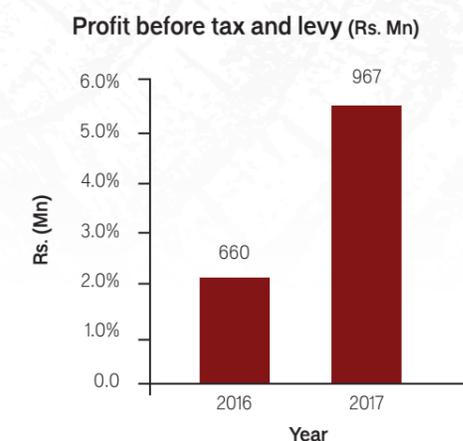
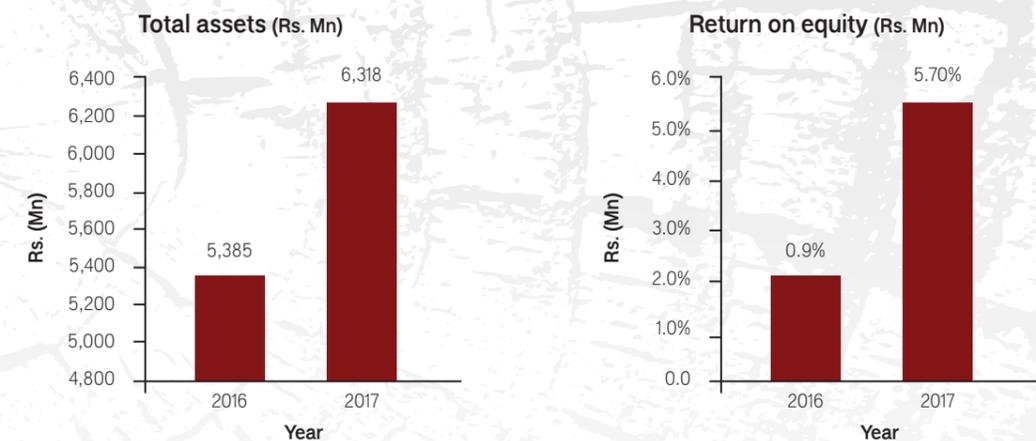
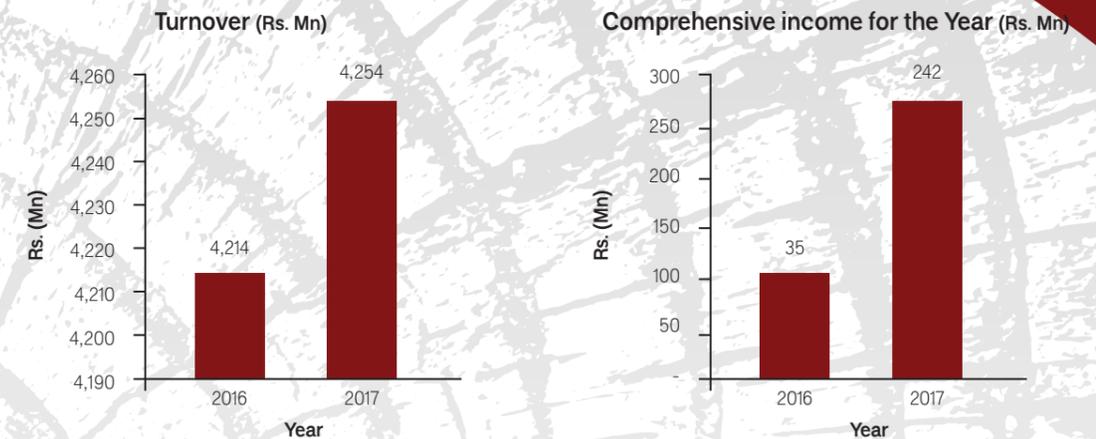
BEGINNING



The State Timber Corporation is a state owned business organization which was established in 1968. It was incorporated by Hon. Minister of Lands, Irrigation and Power under the provisions of State Industrial Corporation Act No. 49 of 1957 and thereafter by the Gazette Notifications No 14,879 of 07.11.1969, No. 178/10 of 5.2.1982, No. 1190/7 of 26.06.2001 and No. 1538/7 of 25.02.2008. The initial capital of the Corporation was Rs. 2.5 million.

FINANCIAL HIGHLIGHTS

For the year ended 31st December		2017	2016	Variance %
EARNINGS HIGHLIGHTS AND RATIOS				
Turnover	Rs. '000	4,253,774	4,213,956	1%
Profit before levy and tax	Rs. '000	966,804	659,732	47%
Levy paid to treasury	Rs. '000	100,000	175,000	-43%
Tax expenses	Rs. '000	301,063	398,053	-24%
Comprehensive income for the year	Rs. '000	242,328	35,276	587%
Return on equity [ROE]	%	5.7	0.9	548%
Return on assets [ROA]	%	3.8	0.7	486%
BALANCE SHEET HIGHLIGHTS AND RATIOS				
Total assets	Rs. '000	6,317,702	5,384,826	17%
Total equity	Rs. '000	4,230,694	3,988,297	6%
Total debts	Rs. '000	2,087,008	1,396,460	49%
Debt/ Equity	%	49	35	41%
Debt/ Total assets	%	33	26	27%
OTHER INFORMATION				
Total employees	No.	2,083	2,125	-2%
Revenue per employee	Rs. '000	2,042	1,983	3%
Profit per employee [before levy and tax]	Rs. '000	464	310	49%



CORPORATE INFORMATION - 2017

Corporate Information - 2017

His Excellency Hon. Maithripala Sirisena - Minister of Mahaweli Development and Environment
 Mr. D.M.A.L.P Jayaratne - Deputy Minister of Mahaweli Development and Environment
 Mr. Anura Dissanayake - Secretary, Ministry of Mahaweli Development and Environment

Board of Directors - 2017

Mr. P. Dissanayake - **Chairman** - State Timber Corporation
 Mr. H.Y.T. Pawarakumara - **Working Director** - State Timber Corporation
 Mr. D. Wijesiriwardane - **Director** - Treasury representative
 Mr. S.A.A. Sathurusinghe - **Director** - Conservator General of Forests
 Mr. M.V. Karunaratna - **Director**
 Mr. P. Pansalawatte - **Director**
 Mr. A.M.C. Perera - **Director**

Mr. H.P.S. Nawarathna - **General Manager** - State Timber Corporation

Audit & Management Committee

Mr. D. Wijesiriwardane - Chairman
 Mr. S.A.A. Sathurusinghe - Member
 Mr. M.V. Karunaratna - Member

Auditor

Auditor General
 Auditor General's Department
 306/72
 Polduwa Road,
 Battaramulla
 Sri Lanka.

Principal Banker

Bank of Ceylon

Financial Calander

January 1st to 31st December
 Telephone : #94112866600-5
 Facsimile : #94112866623
 Website : www.timco.lk

TEAM OF MANAGEMENT - 2017

General Manager (Acting)	H.P.S.Navarathna	M.Sc. (Forestry), PgD in Forestry for Rural Mgt. (Netherland), B.Sc.
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DEPUTY GENERAL MANAGERS

DGM (Res. Tra. & Dev.)	Dr.N.Ruwanpathirana	PhD (Forestry) M.Sc. (Forestry), B.Sc.
DGM (Internal Audit)	W.W.M.J.Coorey	FCA
DGM (Finance)	G.D.S.Kumarasinghe	MBA, B.Sc(Acct.Fin.Mgr), ACA, ACMA
DGM (Operation)	H.P.S.Navarathna	M.Sc (Forestry), PgDip in Forestry for Rural Mgt (Netherland), B.Sc.
DGM (Marketing)	G.Gunawansa	BA. (Sp), Dip in Forestry
DGM (Human Resources)	M.A.C.N.Samarasinghe	MPM, B.Sc (Business studies) Ad.Dip in Mgt. and Admin.

ASSISTANT GENERAL MANAGERS

AGM (Zonal)	M.C.Devendra	M.Sc.(Forestry), B.Sc.
Actg.AGM (Marketing)	W.B.Samantha	M.Sc.(Forestry), B.Sc., National Dip. in Teaching
Actg.AGM (Engineering and Production)	G.G.Thisara Gamage	B.Sc.

MANAGERS

Manager (Administration)	A.G.H.Kularathne	M.LRHRM, PgD.LRHRM, PQHRM, Dip.in Mgt, Dip. in Forestry, Dip.in English, AMCIPM, ACPM
Manager (Finance)	P.D.A.M.D. Wickramasinghe	Dip. (F.A)
Manager (Finance)	P.T.N.Bowatte	
Manager (Finance)	K.D.K.C.De Silva	
Manager (Finance)	H.G.R.Wijenayake	
Manager (Internal Auditor)	H.M.S.Madawa	B.Com (Sp)
Manager (Mechanical Engineer)	A.K.Lasitha Edmand	B.Sc.(Engineering)

Manager (Purch. & Ship.)	T.Aruna De Silva	
Manager (IT)	A.G.Maduwege	
Manager (Res. & Training)	C.K.Muthumala	M.Sc.(Forestry), B.Sc. (Agri) Hons.
Manager (Special Project)	A.N.W.A.Ananda	
Manager (Security)	Chaminda Weeraman	
Manager (Sleepers & T. Poles)	D.M.N.Pushpakumara Nilmini	B.Sc.

REGIONAL MANAGERS/ PROVINCIAL MANAGERS

Reg.Manager (Colombo)	H.P.S.Dissanayake	BA
Reg.Manager (Monaragala)	R.Wijethunga	B.Sc. (Agri) (Sp)
Reg Manager (Bandarawela)	P.K.Ajith Chandana	B.Sc.
Reg.Manager (Boossa)	M.D.C.Sampath	BA
Reg.Manager (Head Office)	W.Keerthiroy	
Reg.Manager (Ampara)	M.K.G.Wasantharaj	
Reg.Manager (Anuradhapura)	H.L.Nandana	B.Sc.
Reg.Manager (Kaldemulla)	U.S.M.Fernando	BA (Sp)
Reg.Manager (Head Office)	Y.B.M.Ameer	Dip. in Forestry
Reg.Manager (Rathnapura)	D.H.Rajapaksha	M.Sc.(Forestry), B.Sc
Reg.Manager (Nuwaraeliya)	H.B.Rajawaththa	B.A
Reg.Manager (Head Office)	U.P.H.Uluwaduge	B.Sc.
Reg.Manager (Kandy)	E.M.S.Ekanayaka	
Reg.Manager (Jaffna)	S.Skandaraja	
Reg.Manager (Kurunegala)	A.S.Wijesundara	
Reg.Manager (Matara)	W.I.Saranga	B.Sc (Hons)
Reg.Manager (Keppetipola)	A.B.M.Weerasinghe	BA

DEPUTY MANAGERS

Deputy Manager (Legal)	K.I.D.P.Kariyawasam	LLB.Attorney at Low
Deputy Manager (Designing & Quality Assurance)	E.M.M.Fernando	
System Analyst	W.H.A.Chandrakumara	B.Sc.

	J.M.M.B.Jayasundara	B.Sc.(Sp) Hons.
Deputy Manger (Human Resources)	K.A.Ananda Thilakasiri	
	H.P.Perera	
Deputy Manger (Finance)	U.S.Madawala	
	H.M.P.B.Herath	

DEPUTY REGIONAL MANAGERS

Dy.Regional Manager (Kaldemulla)	Sunil Jayarathne	
Dy.Regional Manager (Minneriya)	L.S.Jayasekara	
Dy.Regional Manager (Head Office)	D.A.Hendawitharana	
Dy.Regional Manager (Kandy)	R.C.Saman Kumara	
Dy.Regional Manager (Minneriya)	Duminda Nawarathne	BA
Dy.Regional Manager (Jaffna)	T.P.Ramesh	
Dy.Regional Manager (Rathnapura)	H.A.Gamini Alwis	
Dy.Regional Manager (Matale)	D.L.Abeynayaka	
Dy.Regional Manager (Monaragala)	S.C.Jayamanna	B.Sc



TEAK TREE

Tectona grandis is a highly prioritized tree which provides the most valuable hardwood in the tropical climatic zones. Teak trees can be seen in the forests and home gardens in South and South East Asia countries mainly in India, Pakistan, Bangladesh, Burma, Thailand, and Sri Lanka. It has been introduced to Sri Lanka from India. Three Teak species can be identified. 01-*Tectona grandis* (Normal Teak) 02 - *Tectona hamiltoniana* (endemic to Burma). 03-*Tectona philippinensis* (Endemic to Philippines). It has been reported that the Teak timber used for the construction of Salsette pansara in India more than 2000 years back is still in very good condition. During the period 1786-1825 for the building of ships in Europe Teak timber had been brought from Rangoon region in Burma. Hence the Burma Teak is given the title name as Rangoon Teak. Under the management of forest department of Sri Lanka, about 30,000 hectares of Teak plantations are available and apart from this Teak is being planted in home gardens in Dry and intermediate zones of Sri Lanka.

Source
Sri Lankan Timber Trees
Dr. N. Ruwanpathirana



“Today deforestation has become a major environmental issue. At a time when the increasing demand for timber products has led to the denuding of forest cover through illegal means, proper forest management is essential to ensure preservation of forest resources.”

Chairman's Review

It is with great pleasure that the Annual Report and the Audited Financial Statements of the State Timber Corporation (STC) for the year ending 31st December 2017 are presented to you. The STC has been playing the pioneering role for nearly five decades as the leader in the supply of most trusted and best quality timber and timber based products. It has an island wide operational network extending to 12 regional offices, 51 sale centers and over 200 forest working coupes to harvest timber from the forest plantations and 03 furniture manufacturing factories with impregnation and seasoning plants claiming the ownership for the largest timber producing net work of the nation. As in the previous year by facing many a challenge amidst various state policies and challenges we have proceeded on the path of development with several novel experiences in 2017. Even under this complicate background, we have been successful in achieving the designed outcome while further strengthening production, marketing and financial sectors of the institution with the application of modern technologies and suitable strategies in the production sector.

Sri Lanka's Real GDP growth has been decreased and remarked 3.1 percent in 2017 under restrictive state policies and adverse weather factors in comparison to the previous year growth of

4.5 percent. The contribution of agricultural, industrial and service sectors to the Gross Domestic Production has been recorded as 6.9%, 26.8% and 56.8% respectively while industrial and service sectors has recorded as 3.9% and 3.2% GDP growth respectively. However agricultural sector was hardly declined by 0.8% due to unfavorable weather conditions as in the previous year. On the other hand low progress of the global economy had a negative impact on the local economy. However we were able to accept the challenge and achieve an economic growth by controlling the inflation. By addressing the weak growth performance of the economy through the implementation of required growth supporting reforms will remain a priority. Accordingly the State Timber Corporation was in a position to successfully continue its business activities throughout the year.

Whereas understanding and balancing of economic, social, political and biological factors that affect forest management is critical and challenging, it is possible to maintain future supply of timber at satisfactory level. Unlike the demand for other goods, demand for timber is sensitively associated with the economy and the environment. Therefore the State Timber Corporation is facing challenges on its profitability

due to shortage of raw-material and the higher production cost. Today deforestation has become a major environmental issue. At a time when the increasing demand for timber products has led to the denuding of forest cover through illegal means, proper forest management is essential to ensure preservation of forest resources. Deforestation could be minimized through sustainable harvesting of timber. The harvesting of trees will only have long-term benefits to the society, if the potential for renewal of forest is successfully evaluated, implemented and achieved. However trees do not live forever. At certain point older mature trees will die and replace the same by younger forest growing trees. Our institution is responsible for converting mature forest planting released annually to us by the Forest Department into timber adhering to scientific methods and releasing the same for reforestation.

The State Timber Corporation has been able to contribute enormously for development of the industry and obtain excellent result through proper management of its activities. Accordingly it has been planned to introduce new technologies and the latest marketing strategies backed by wide range of capital investments with the objective of obtaining competitive advantages, manufacturing of quality timber products and further expansion of the stretch for consumer selection in the coming financial year.

Under these circumstances, the annual net turnover recorded for the year under review was Rs.4,254 million. This earning was well supported by the modern technological methods and new strategies introduced during the year. Operational profit of the year was increased to Rs.693 million from Rs.443 million in the past year while treasury levy and profit before tax in 2017 was Rs.967 when compared with Rs.660 million in 2016 which being a increment of 47% compared with the previous year. Profit after tax and treasury levy in 2016 was Rs.87 million. However, it was increased up to Rs.567 million in 2017. The State Timber Corporation had contributed Rs.2,055 million to the national economy in terms of stumpage, operating taxes and special levy paid to the Treasury. In 2017 STC was able to earn Rs.1.1 million in foreign exchange through the export of

treated sleepers. In addition, the Corporation has taken measures to import sawed timber to meet the ever increasing demand whereby it has been possible to protect the consumer from utilizing low quality timber available in the local market. Furthermore, the STC through acquisition of the latest technology and modern techniques was able to upgrade low quality and soft timber varieties whereby protecting much valued timber resources while ensuring the availability of potential market for timber products. In this manner, the Corporation has been able to pave the way for sustainable development by utilizing modern machinery and equipment, application of state- of- the -art technology, minimizing timber losses and introducing suitable methodologies to ensure the maximum utilization of timber.

It is our belief that the much valued asset of the corporation is the human resource. During 2017 we continued to invest in our staff in the form of training and professional development programme aimed at improving skills and competency of employees who are committed to serving our customers at the highest possible level while achieving targets of the Corporation. Our success at the National Business Excellence Award 2017 to win the Gold Award for the state sector best production division is testimony to our commitment.

In 2017 it was possible for us to achieve performance improvement through adoption of all-round controlling standard and entrepreneurship skills. In keeping with the concept of His Excellency the President, we also built our track record as a responsible corporate citizen by continuing “ThurujanaSisu Bank”, tree planting programme which has been implementing through a special unit established under the State Timber Corporation for this purpose. To mark World Environmental Day, selected schools in Matara, Monaragala, Bandarawela, Rathnapura and Nuwara Eliya districts were provided with agricultural equipment with the objective of motivating youth population to engage in agriculture. In parallel to this we were able to make arrangements in 2017 to create favorable school environment to attract school children towards cultivating local plants instead of foreign plants. In addition to that, plantation

of Ebony, Mee, and Kumbuk program carried out at Moragahakanda- Kaluganga project. Under the program of sustainable consumption of timber and timber products, 14 numbers of programs were conducted to aware the school teachers and distributed timber related leaflets among them. The Corporation was able to make active contribution for "WanaRopa" national tree planting campaign. Under this programme more than 50,000 plants were distributed among people and various institutions with the aim of promoting tree planting. series of lectures on environment, forest conservation & bio diversity were conducted to increase the interest of the younger generation on tree planting. The Corporation was in a position to complete several research undertakings during the year, new findings of which were made available to the society. We were able to make our highest possible contribution towards various programmes organized for environmental conservation and social welfare considering the same as a national mission. The State Timber Corporation was actively involved in making enormous contribution towards the success of modern development schemes and removing valuable plants from areas inundated due to the implementation of multipurpose irrigation schemes such as Uma Oya and Moragahakanda whereby contributing enormously to the National Economy. As a responsible citizen Furniture production program was conducted to train carpenters with low income level to eliminate poverty under the national program of 'Eliminating Poverty' and first session was completed in 2017.

On behalf of the Board of Directors, I am much grateful for the immense and support and co-operation extended to us by His Excellency the President Maithripala Sirisena, being the Hon. Minister of Mahaweli Development and Environment, Hon. Anuradha Jayarathna, Deputy Minister, staff of the Ministry including the Secretary, all staffs attached to the forest Department including the Conservator General of Forest and all other state officials in fulfilling this enormous task. I specially extended my sincere thanks to our General Manager and his staff on behalf of the Board for their commendable role played to enhance performance of the STC with their unstinted support, commitment and

dedication amidst numerous difficulties and challenges.

We expect 2018 to be challenging and decisive and necessary plans have been made to achieve anticipated development targets of the year. Therefore even amidst short-term challenges, we always remain committed to delivering a good return to our stakeholders with the highest possible dedication.



P. Dissanayake
Chairman, State Timber Corporation

"We were rewarded for various reasons because of our excellence in commitment and that will show our sustainability in all aspects"

State Timber Corporation won the Gold Award of the "MANUFACTURING - STATE SECTOR" at the National Business Excellence Awards - 2017 conducted by the National Chamber of Commerce of Sri Lanka (NCCSL) Which is the symbol of excellence for the 'best of the best' businesses in Sri Lanka.



2009 2010 2011

STC was won the "Gold Award" at the National Business Excellence Award consecutively in year 2009, 2010 and 2011 conducted by the National Chamber of Commerce



State Timber Corporation won the Gold Award of the "MANUFACTURING - STATE SECTOR" at the National Business Excellence Awards - 2016



State Timber Corporation received the Silver Award for the State Sector - Manufacturing at the National Business Excellence Awards 2014 presented by the National Chamber of Commerce.



2012



2013

State Timber Corporation received the Merit Awards for the State Sector - Manufacturing at the National Business Excellence Awards 2012 and 2013 presented by the National Chamber of Commerce.



- Green Maco Award 2008 - Sri Lanka Journalist Association
- Maco Award For Forestry & Environmental Education - 2010 -Sri Lanka Journalist Association
- Award for the most creative exhibition stall - 2009 at "Deyata Kirula" exhibition



Review of the General Manager

I am pleased to present you the Annual Report and the Audited Financial Statements of the State Timber Corporation for the financial year ended 31st December 2017. During the year we were able to record a higher performance coupled with many a victory amidst numerous challenges as in the previous years with 49 years experience on commercial operations.

We manufacture quality wood products and sell them to consumers at fair prices. It is to be noted that our regular consumers as well as new customers are extremely satisfied with our service. The State Timber Corporation continue to play crucial role in upswing of the wood production industry as a pioneer of providing wood and wood based products to the nation with the use of modern technology backed by islandwide operational network consisting of 12 regional offices, 51 sale centers, active workshops with over 200 forest working coupes to harvest timber from the forest plantations, 03 furniture manufacturing factories with impregnation and seasoning plants and 06 showrooms.

The State Timber Corporation has formulated its objectives and policies in 2017 aimed at achieving sustainable economic development in parallel to the national economic strategies and appropriate

“The annual net turnover was Rs.4,254 million in 2017 and STC was able to increase its annual net turnover compared with previous year. However in comparison to the previous year, profit before levy of the year has increased from Rs.660 million to Rs.967 million while contribution made to the national economy amounted to Rs.2,055 million.”

economic policies. The annual net turnover was Rs.4,254 million in 2017 and STC was able to increase its annual net turnover compared with previous year. However in comparison to the previous year, profit before levy of the year has increased from Rs.660 million to Rs.967 million while contribution made to the national economy amounted to Rs.2,055 million. After paying Rs. 100 million as special levy to the treasury after tax profit earning was amounted to Rs.566 million. However, as a result of the dedication of the management and the staff, we were able to record outstanding performance during the financial year 2017 by further strengthening our production standards. Our success at the National Business Excellence Award 2017 organized by the National Chamber of Commerce of Sri Lanka to win the Gold Award for the excellent performance of the year is testimony to the commitment of both the management and the staff.

In view of the prevailing attitudes on the economy and the environment almost all our operational activities are being put in place in an environmentally caring throughout 2017 we also built our strong track record as a responsible corporate citizen by continuing “Thurujana Sisu Bank” tree planting campaign with the objective of further enhancing interest of school children for

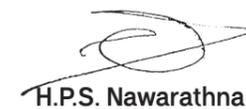
tree planting. Accordingly agricultural equipments were distributed among selected schools in Matara, Monaragala, Bandarawela, Rathnapura and Nuwara Eliya districts in 2017 in relation to mark world environmental day and a series of lectures were conducted to educate teachers on sustainable utilization of timber and timber products and distributed timber related leaflets among them. More than 50,000 of tree seedlings were distributed among schools, universities, many government agencies including three forces and individuals to promote tree planting under national tree planting program of “Wanaropa”.

As a fulfillment of social responsibility opportunities were provided to undergraduates to engage in research and training under various Divisions of the Corporation as well as under the program national of “Eliminating Poverty” conducted training for selected lower income young carpenters during the year and provided practical training for manufacturing furniture within our furniture factories. The STC has put in place a timber identifying and certification service based on consumer demand. In line with the vision of our Corporation, we were able to fulfill the national responsibility towards the nation by being the most trusted and best quality timber provider.

Special attention has been paid towards creating a flexible and sound working environment within the institution with the objective of enhancing the living standard of employees and improving their physical and mental abilities, so that they may engage in duties efficiently and effectively. Various programs were implemented throughout the year to achieve the desired objectives. Accordingly the general motivation of the workforce is high and we are focusing on product quality and efficiency through ensuring employee satisfaction with a view to bring the State Timber Corporation to the highest possible level. We have also fulfilled our responsibility by providing employment opportunities to 2,083 individuals towards successful continuation of the state policies of the government. Timely decisions taken towards solving problems arising with regard to the policy implementation of the institution is the other important secret behind the success of the

Corporation. We appreciate and much values the manner in which the management and the staff are co-operating with the Board of Directors amidst numerous challenges.

I must express my gratitude to the Chairman and members of the Board of Directors including the Working Director for their dedicative support to ensure viability of the Corporation. My sincere gratitude is also expressed to our valued customers who laid the very foundation towards successful forward much of the institution, being loyal to us as their leading supplier of timber and timber based products and we are always in readiness to serve them by offering unique products to the best of our ability. Finally my heartfelt thanks are due for His Excellency the President Hon. Malithripala Sirisena being the Hon. Minister of Mahaweli Development and Environment, his Deputy and the Secretary to the Ministry and Conservator General and his staff of the Forest Department for their unstinted support and Co-operation towards achieving our goals and objectives during the year 2017.



H.P.S. Nawarathna

General Manager - State Timber Corporation

OUR FUNCTIONS

Extraction of timber from forests, conversion of such timber into sawn timber and finished products, sale of logs, sawn timber and finished products, construction of forest roads required for the above purpose.

Acquisition, construction and operation of logging units, saw mills, impregnation and preservation plants, seasoning and drying kilns and other equipment and installations.

Operation of timber and firewood sales depots.

Manufacturing and marketing of by-products of timber.

Import of timber.

Afforestation, reforestation and scientific management of forests and forest plantations.

Agricultural productions.

Export of timber related finished and semi-finished products.

Purchase of timber from private lands.

Processing of forest related products.

Import of Cane.

Identification and certification of local and imported timber species through sample testing.

Conduct training programmes related to timber industry on related subjects and issue of certificates to successful candidates and under take environmental awareness programmes to contribution towards transformation in to environmental conscious society.

Strategic planning and investing resources so as to optimize the output from the lands and buildings owned by the Corporation.

OUR BUSINESS VALUES

- We recognize that our primary responsibility is to maintain our status as a strictly environmentally friendly and a commercially viable public sector institution;
- We are committed to complying with all statutory regulations related to scientific management of forests and extraction of timber to ensure a clean and healthy environment;
- We recognize that the primary reason for our existence is to create ethical-business relationships with our customers, whilst creating value for them and for all Sri Lankans;
- We will develop our employees to achieve highest productivity levels, through skill improvement, professional development and continuous education and training;
- We will place our customers at the centre of everything we do to provide an efficient and courteous service to them;
- We will assure highest standards of personal integrity at all levels of our operations and provision of services;
- We will adhere by spirit and letter of all statutory regulations and social norms with regard to the environment and forest resources to protect and promote them as the precious national heritage of our future generations.

BOARD OF DIRECTORS 2017



P. Dissanayake
Chairman - State Timber Corporation



H.Y.T. Pawarakumara
Working Director



D. Wijesiriwardena
Director



S.A.A Sathurusinghe
Conservator General of Forest



M.V. Karunarathna
Director



P. Pansalawatte
Director



A.M.C. Perera
Director

SENIOR

MANAGEMENT TEAM 2017



H.P.S. Navarathna
General Manager (Acting)
and Deputy General Manager (Operation)



Dr. N. Ruwanpathirana
Deputy General Manager
(Research, Training & Development)



W.W.M.J. Coorey
Deputy General Manager
(Internal Audit)



G.D.S. Kumarasinghe
Deputy General Manager
(Finance)



G. Gunawansa
Deputy General Manager
(Marketing)



M.A.C.N. Samarasinghe
Deputy General Manager
(Human Resource & Administration)



EBONY - KALUWARA

This species is found in limited South Indian zonal countries including Sri Lanka and the medium height tree grows up to the height of 20-25m in dry zone and intermediate zone climatic condition in Sri Lanka. It is indigenous to Sri Lanka. Under the *Diospyros* genera of ebony about 22 more species have been identified in Sri Lanka. Distinctive fact has to be mentioned that this species has been botanically identified in 1776 by Koenig in Sri Lanka, for the first time. It is stated that during the period when Sri Lanka. Large quantity of ebony timber has been cut and extracted from Sri Lankan forests and exported to foreign countries and it has been recorded in books that 2635 tons of ebony timber had been auctioned to foreigners in 1910. Due to this indiscriminate activities in the past and thereafter it has to be mentioned unpleasantly that this valuable species facing the wagger of extension now. New ebony has been named us limited/prohibited timber and the transport permits are being issued by forest department. The export of ebony logs and sawn timber also banned. According to the classification of State Timber Corporation ebony consist within supper luxury timber. One cubic meter of ebony timber (1m mid girth) cost about Rs. 123,228.00. According to the Red date book (the 2007 red list of threatened fauna and flora of Sri Lanka) published in the year 2007, this species has been mentioned as one of the timber species facing the dangers of extinction in Sri Lanka. Endangered-EN. Considering the importance of the species, the State Timber Corporation research units with the collaboration of office of the bio diversity secretary of ministry of environment have established a bio diversity garden to conserve the ebony trees, at this compound of Minneriya State Timber Corporation.

Source
Sri Lankan Timber Trees
Dr. N Ruwanpathirana



BOARD OF DIRECTORS' REVIEW FOR THE YEAR

BOARD OF DIRECTORS

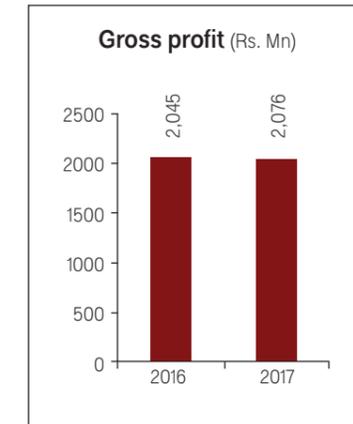
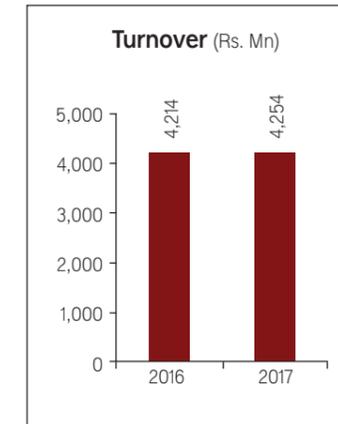
Mr. P. Dissanayake	Chairman – State Timber Corporation
Mr. H.Y.T. Pawarakumara	Working Director – State Timber Corporation
Mr. D. Wijesiriwardena	Director – Treasury representative
Mr. S.A.A. Sathurusinghe	Director – Conservator General of Forest
Mr. M.V. Karunarathna	Director
Mr. P. Pansalawatte	Director
Mr. A.M.C. Perera	Director

Year 2017, was one of an extremely challenging year to the corporation due to the changes in political and economical settings in the country. With a new vision of Board of Directors, STC carried out its business and performed in reasonable manner in the year under review compared to past few years. Revenue and the profitability indicators confirmed the existence and performance of the business due to the strategies implemented by the management of the Corporation.

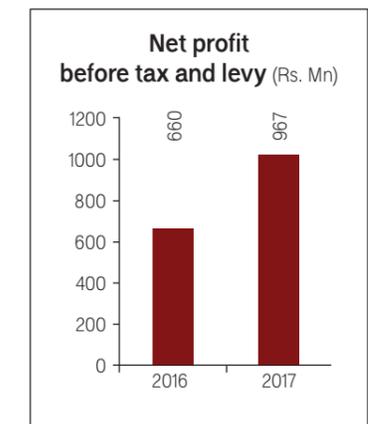
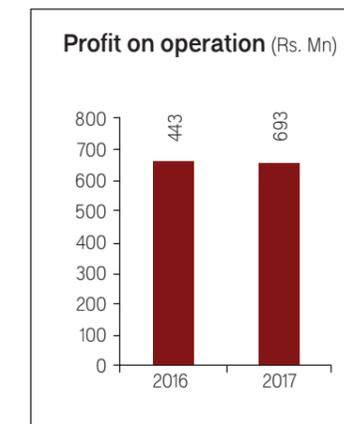
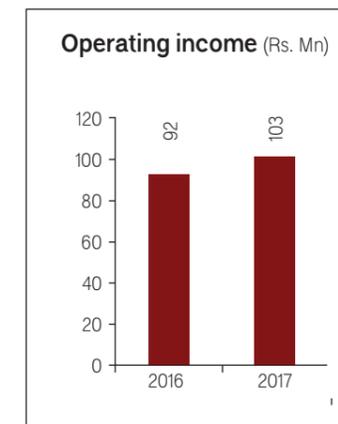
Major challenges faced by the STC was the growing market competition and substitutes available for natural resources in the market especially for timber. As solution to the scares timber, STC has expanded its business functions to import quality timber to Sri Lanka. However, unfortunately STC prices are somewhat high compared to prices in the other local importers. Although as a government entity STC can never import such a low quality products to the country in any condition. As results of that, still STC maintains its goodwill as a responsible entity by protecting good business ethics.

Performance	2017 Rs. Mn	2016 Rs. Mn
Turnover	4,254	4,214
Gross profit	2,076	2,045
Other operating income	103	92
Profit on operation	693	443
Non - operating income	274	216
Levy imposed by treasury	100	175
Net profit before tax and levy	967	660

As a result of that, the turnover of the Corporation during the year increased to Rs. 4,254 million, compared to Rs. 4,214 million in the previous year. The total turnover increased by 1% compared with the previous year. Gross Profit for the year was Rs. 2,076 million compared to 2,045 million in the previous year, and it was increase of 2%. Achievement of higher turnover compared with previous years, some policies of the government, economic conditions and climate changes directly influenced for the cost and performance of the Corporation.



Net profit before tax and levy for the year under review has been increased by Rs. 307million when compared with the previous year net profit before tax and levy of Rs.660 million. STC performs as a responsible entity without thinking only to earn high profits. STC believes that, it has responsibility to provide more employment opportunities to support the government to reduce high rate of unemployment in Sri Lanka. Therefore, STC has to bear high cost of employment in every year by giving 2,083 number of employment opportunities and STC had incurred Rs. 1,486 million as administration, selling and distribution expenses in addition to cost of sales for the year under review including Rs.1,580 million as total cost of employment. Administration, Selling and distribution expenses of the year 2017 achieved 12% decline compared with previous year.



In 2017 after deducting all the expenses, special levy paid to the treasury, income taxes and other comprehensive income net profit of the STC was Rs.242 million. It was Rs. 207million increase compared with previous year.

Return on assets and return on equity for 2017 are as follows,

	ROA	ROE
2017	3.8%	5.7%
2016	0.7%	0.9%

The Corporation's contribution to the Government Revenue for the period under review was Rs. 2,055 by contributing Rs. 100 million as treasury levy.

PRODUCTION

The corporation strongly believes that the maintenance of higher production level embracing an environmental friendly manner for the operation process is vital to the survival and to the profitability as well as to the wellbeing of the organizational internal and external component.

The corporation constantly improves its capacity to integrate environmental consideration into organizational strategies ensuring sustainably utilize natural resources to meet our present needs without compromising the ability of future generation to meet their own needs.

Given prominence to sustainable development initiatives, we continuously undertaking new technologies relate to operational structures, systems, work forces and production processes. Compliance with government rules and regulations, prepare coupe classification checklist, scientific timber extraction, systematic timber seasoning and preservation techniques, systematic establishment, installation and maintenance of all the machineries, sophisticated recruitment and development process are highly considered as strategies those support to achieve short and long terms objectives in a sustainable way. We are legitimately responsible for 'sustainable forest management'. Scientific timber extraction evaluate many factors before commence tree felling such as, physical and biological nature of the plantation, undergrowth of particular plantation, natural forest areas and intercultural growing to be remained, wind direction, slope of the land, nature of the soil, and water bodies etc. it highly affects to reduce environment deterioration and to reduce the carbon footprint. Furthermore, timber off cuts of a main production is again used for "Finger Jointing Boards" These are used for furniture production.

New threats and opportunities related to operational activities

The Corporation constantly faces diverse circumstances those can be seen as presenting varying levels of risk to the business, from minor inconveniences to potentially putting its very existence in jeopardy. Logging ban for clear felling of plantations in elevations more than 5000 feet, declining the extent of matured forest plantations of released from the Forest Department, attempting State Plantation companies to sale their timber in open market, availability of alternatives for timber-based product were recognized as threat coming from the external environment in the year 2017. We employed defensive strategies such as sharpen marketing and advertising activities, enhancement of the value of products, diversification of the product portfolio, maximization of timber utilization in order to minimize adverse effect of those threats.

In addition to that we intend to apply following strategies to gain competitive advantage over rivals in the industry.

- ♦ Purchasing of commercially valuable trees from State Plantation Corporation (SPC), Janatha Estate Development Board (JEDB) and Elkaduwa Plantation Limited
- ♦ Negotiation with Sri Lanka Railway Department for an agreement for timber extraction from their lands
- ♦ Market development for the project of Re-export treated sleepers after value addition
- ♦ Expansion of Establishment of Commercial Plantations in state lands
- ♦ Starting Iddapola -Padawalayaya teak removal project to harvest 64,000m³ production
- ♦ Further development of Scientific Timber Extraction method to maximize the harvest

Extraction of timber from state forests

The forest department has released forest plantation according to national forest management plan to extract timber such as Teak, Pinus, Eucalyptus, etc. The forest management areas released for extraction of trees in the year 2016 and 2017 are as follows.

Species	Clear Felling (Ha)		Thinning (Ha)	
	2017	2016	2017	2016
Teak	569.8	665.6	375.9	145.7
Eucalyptus	210.7	81.1	515.0	441.2
Pinus	160.2	175.5	-	-
Kaya	-	-	20.0	3.5
Akashiya	30.0	16.8	-	-

Conversion of logs into sawn timber

4,909m³ sawn timber has been produced by the saw mills and 2,997m³ has been sold out by the island wide STC depots during the year 2017 as against the 4,637m³ production of year 2016.

Treatment of transmission poles and sleepers

During the year under review 7,416 of sleepers, 20,186 of transmission poles and 33,424 of elephant poles treated in the STC treatment plants at Kaldemulla, Keppetipola and Boossa. Production of sleepers and transmission poles has significantly dropped during the year due to low demand of the Department of the Railway and Ceylon Electricity Board compared with past years.

Manufacturing of furniture

STC furniture plants at Ampara, Boossa and Kaldemulla have been produced Rs. 351.2 million worth furniture during the year 2017. Furniture worth Rs. 381.3 million (excluding taxes) has been sold during the year by the STC showrooms located at Rathmalana, Kandy, Rathnapura, Thalalla, Ampara, Boossa and Nugegoda. Sales income from furniture has been increased by 28% during the year compared with previous year.

Production, sales and revenue 2016-2017

	Production		Sales volume		Sales value (including taxes)	
	2017	2016	2017	2016	2017 (Rs.Mn)	2016 (Rs.Mn)
Logs (M ³)	146,094	156,987	131,518	134,486	3,653.7	3,229.9
Sawn Timber (M ³)	4,909	4,637	2,997	2,854	290.2	261.8
Sleepers (No.)	7,416	26,924	14,322	38,318	153.1	320.1
Trans. Poles (No.)	20,186	33,026	19,484	36,512	197.8	359.6
Elephant Poles (No.)	33,424	34,625	25,616	46,458	88.9	146.4
Round Poles (No.)	141,790	193,610	132,863	185,797	21.3	24.5
Fire Wood (M ³)	126,861	125,225	119,669	107,621	64.5	65.9
Fence Post (No.)	114,681	103,700	103,516	96,150	13.9	14.2

Review and monitoring targets with achievements

The management of the Corporation meets once in every month with all managers and chaired by chairman to discuss production performance, financial performance and sales of past months and take decisions to solve identified bottlenecks and problems. In addition, future plans and targets, opportunities, new ideas and changes are discussed by management and appropriate directives are given in achieving the targets and objectives of the Corporation and to realize the required cash flow with a view to running the Corporation as a financially viable organization.

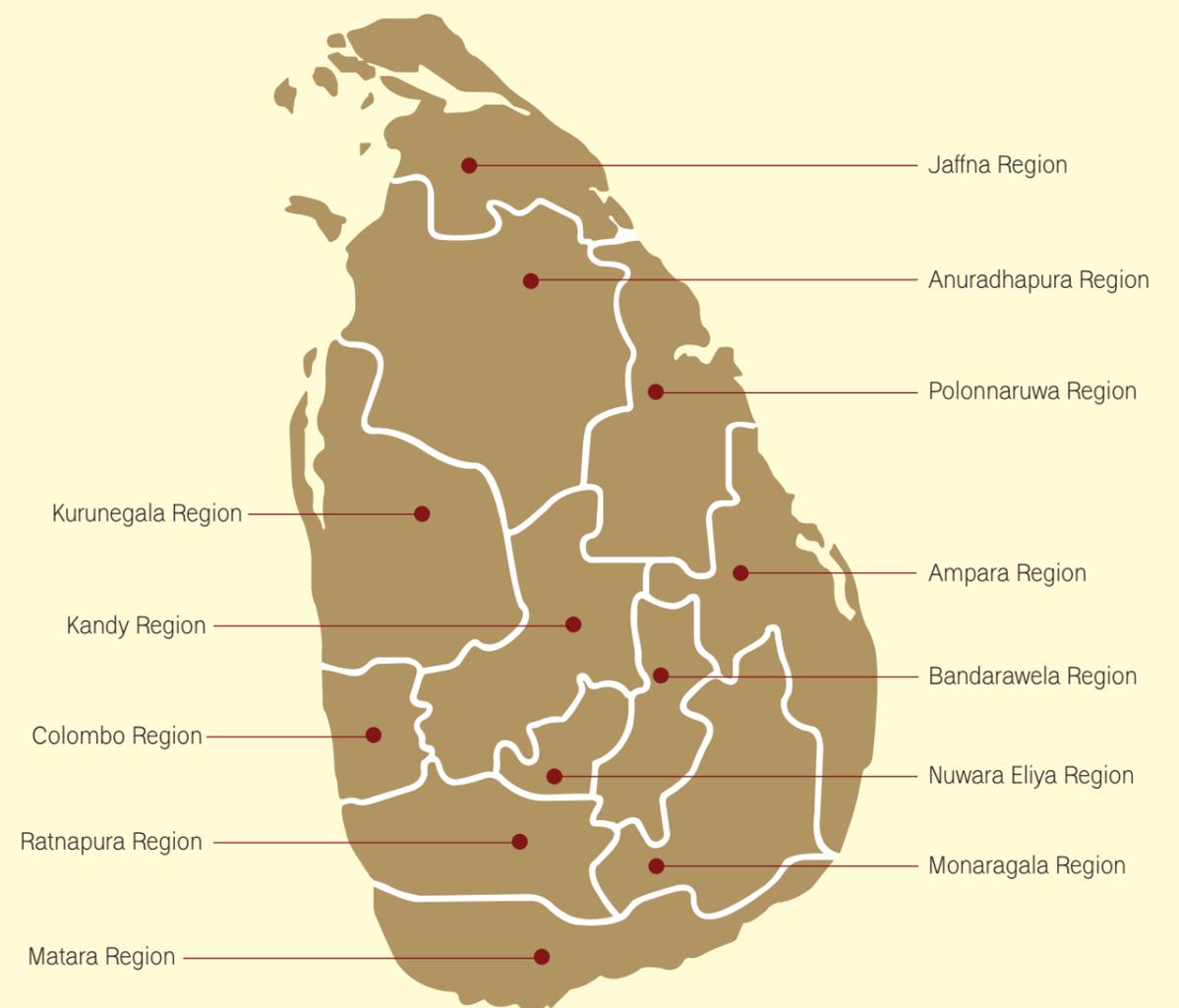
Signed on behalf of the Board of Directors



P. Dissanayake
Chairman,
State Timber Corporation



OUR REACH



Ampara Region



Batticaloa Depot

Padiyathalava Depot

Ampara Regional Office
Ampara depot
Ampara Saw Mill
Ampara Show Room



Colombo Region

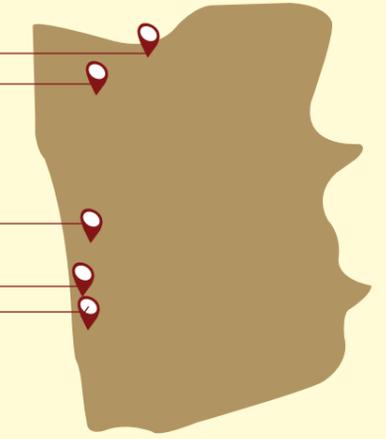


Mirigama Depot
Kadawatha Depot

Pannipitiya Depot

Kaldemulla New Depot
Kaldemulla Saw Mill
Ratmalana Depot
Ratmalana Show Room
Ratmalana Saw Mill
Colombo Regional Office

Egodauyana Depot
Moratumulla Depot
Willorawatta Depot



Anuradhapura Region



Vavuniya Depot

Medawachchiya Depot

Anuradhapura Regional Office
Anuradhapura Depot

Thalawa Depot



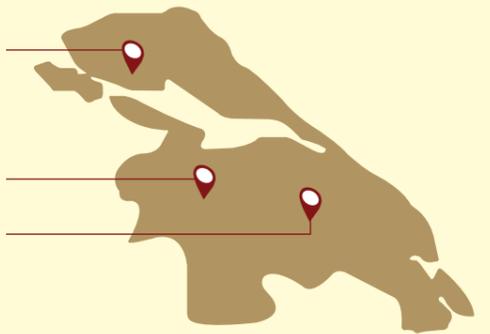
Jaffna Region



Jaffna Regional Office
Jaffna Depot

Nallur Depot

Kilinochchi Depot



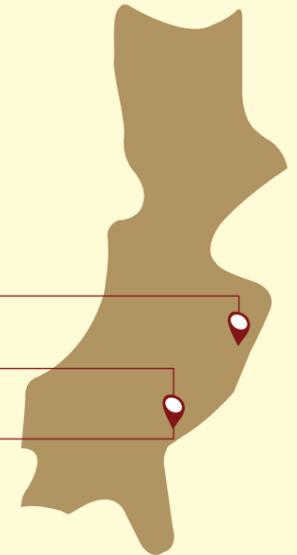
Bandarawela Region



Boralanda Depot

Bandarawela Regional Office

Bandarawela Saw Mill



Kandy Region

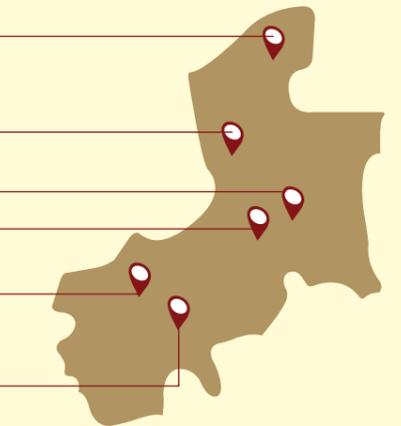


Dambuluoya Depot

Matale Depot

Pallekela Depot
Kanda Regional Office
Kandy Show Room
Nelundeniya Depot

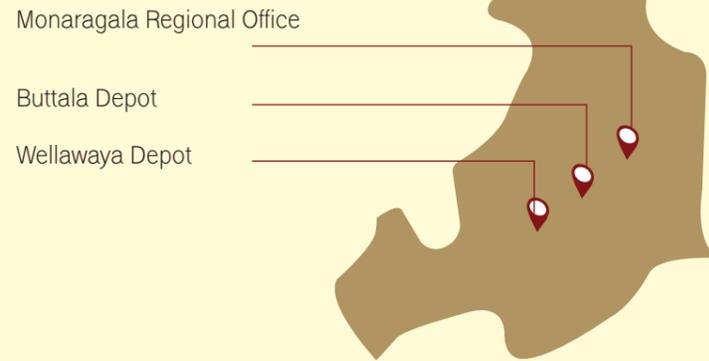
Ethgala Depot
Ethgala Saw Mill



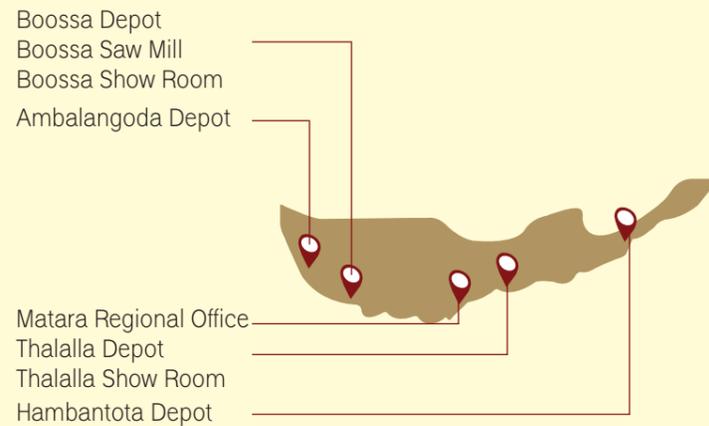
Kurunegala Region



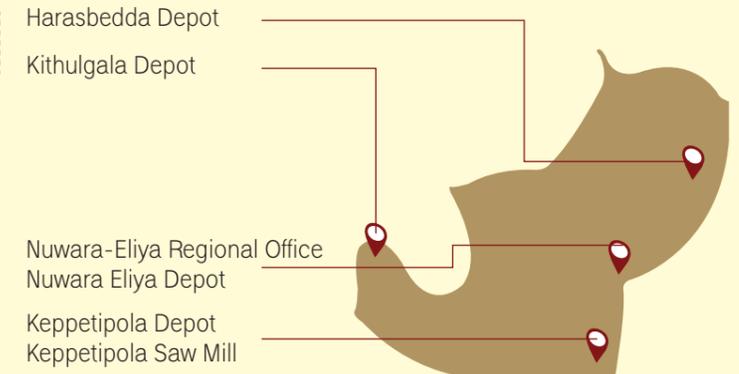
Monaragala Region



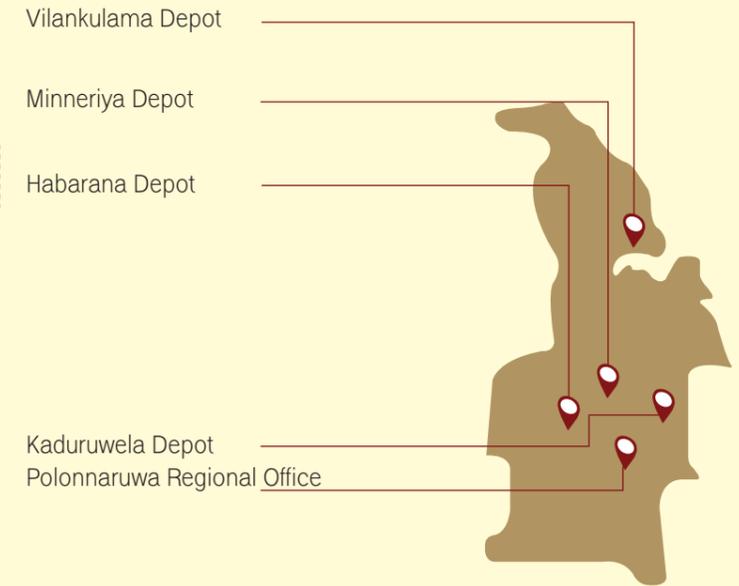
Matara Region



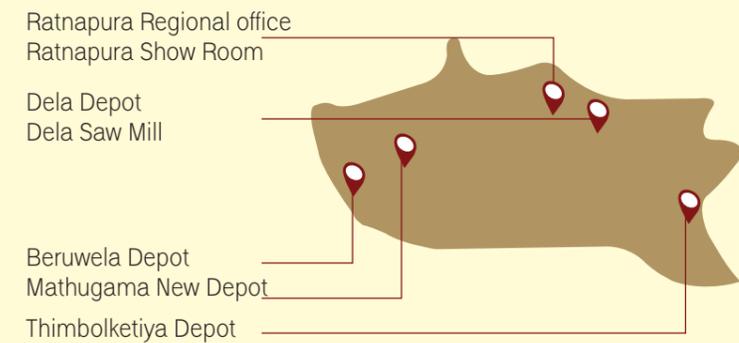
Nuwara Eliya Region



Polonnaruwa Region



Ratnapura Region





AUDIT AND MANAGEMENT COMMITTEE REPORT

Members of the Committee - 2017

Mr. D. Wijesiriwardane - Chairman
Mr. S.A.A. Sathurusinghe - Member
Mr. M.V. Karunaratne - Member

Role of the Committee

Audit Committee, which reports its findings to the Board of Directors, to ensure the integrity of the financial reporting and audit processes and the maintenance of sound internal controls and risk management system.

During the year under review AMC meetings were held once in three months. Following recommendations were made to the Board of Directors for their approval.

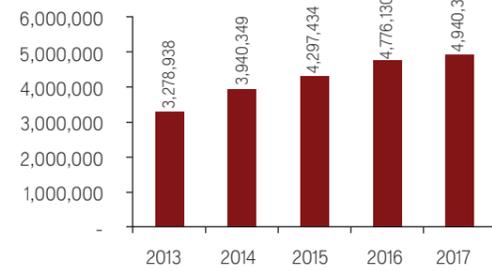
1. Monthly financial and physical performance
2. Annual accounts
3. Annual budget and revised budgets
4. Internal audit and Auditor General's audit queries and replies
5. Personnel and administration matters
6. Legal matters
7. Other matters such as staff loans, advances and awarded tenders etc.

D. Wijesiriwardane
Chairman - AMC

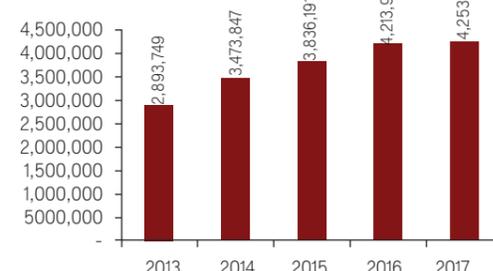
BUSINESS SUMMARY

Income growth trend analysis

Turnover- including taxes (Rs.000)

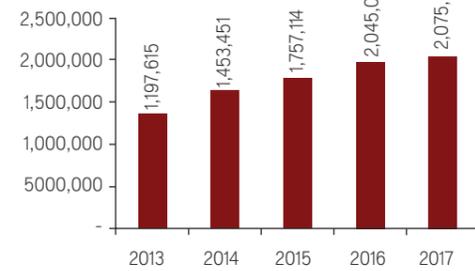


Turnover - excluding taxes (Rs.000)

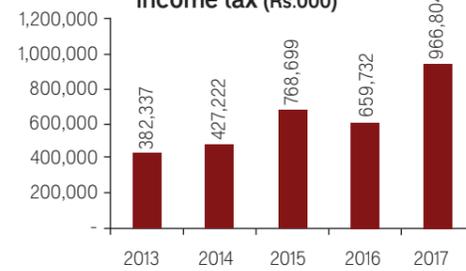


Profit growth trend analysis

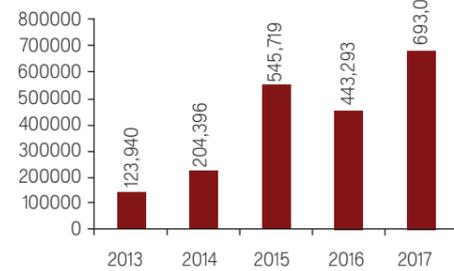
Gross profit (Rs.000)



Profit before treasury levy and income tax (Rs.000)

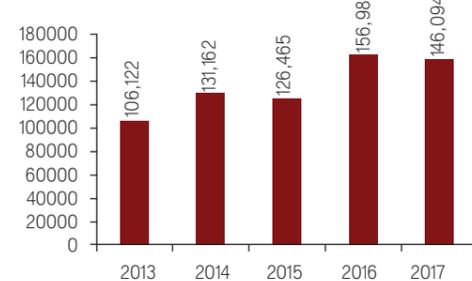


Operational profit (Rs.000)

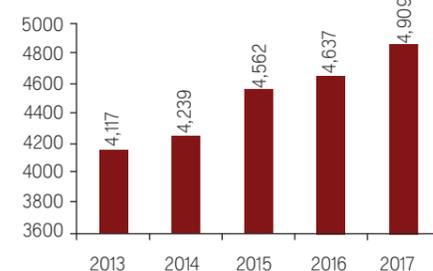


Production growth trend analysis

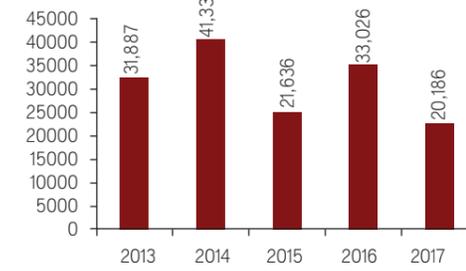
Production of logs (M³)



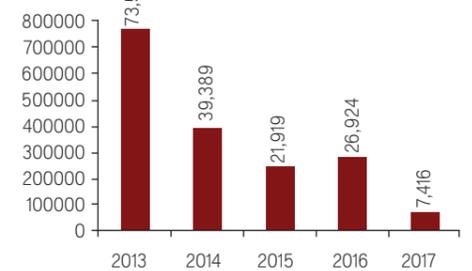
Production of sawn timber (M³)



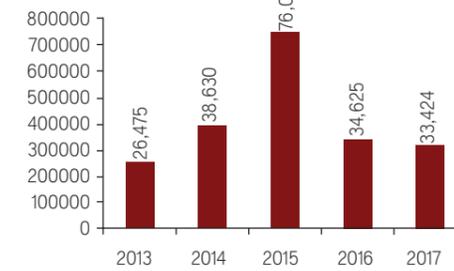
Production of transmission poles (Nos.)



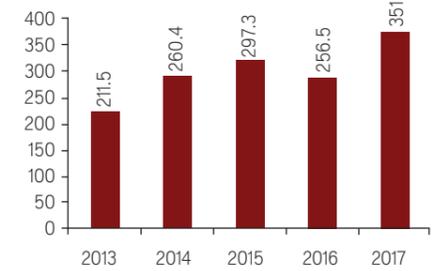
Production of sleepers (Nos.)



Production of elephant poles (Nos.)

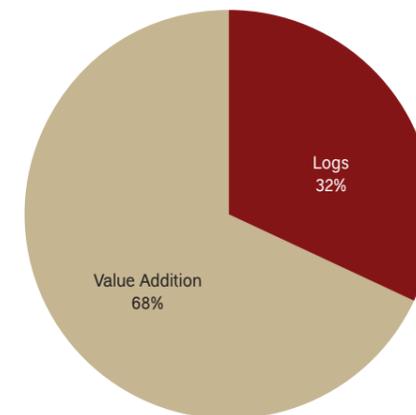


Production of furniture (Rs.mn)

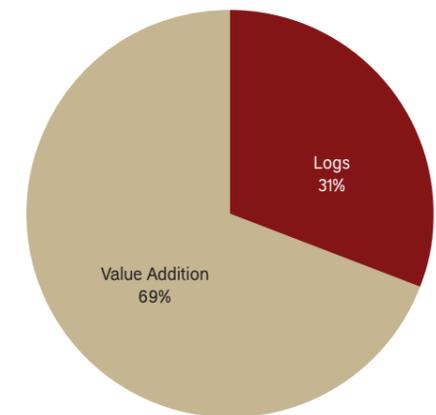


Value addition

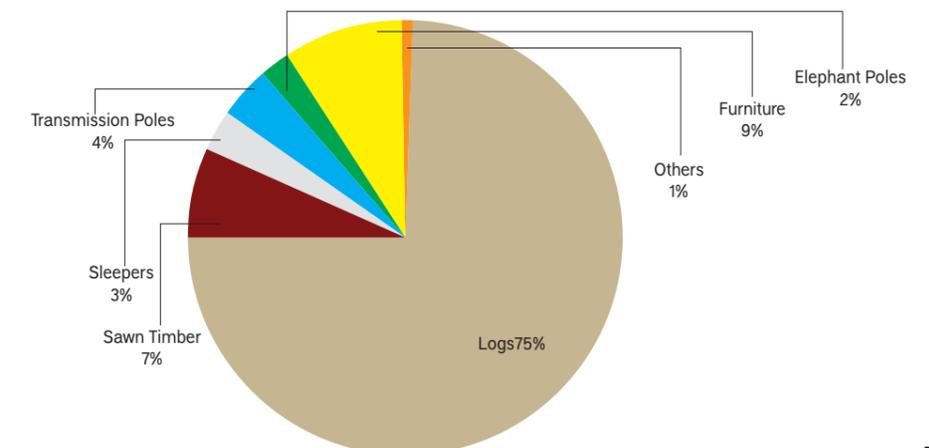
2015



2016



2017





MAHOGANI

Swietenia mahogani is Known as west Indian Mahogani and bears narrow leaves. It is extensively found in the North region of Sri Lanka. It has been introduced to Sri Lanka from tropical climatic countries like America. There are 3 species under the genera swietenia. (s.macropylla, s.humilis) South Florida, America, Cuba amd Jameica are the motherland of Swietenia .Mahogani (narrow leave mahogani) The national flower of Dominics republican is the flower of narrow leaved mahogani. This semi evergreen tree reaching a height of 30-35m had been traded at international level about 400 years ago.It has been introduced to India during the year 1795. External appearance of timber, easily working, stable nature, of timber and valuable finish are the leading qualities of this species.

Source
Sri Lankan Timber Trees
Dr. N Ruwanpathirana

DECADE AT A GLANCE

[Absolute Values]	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total revenue for the year	Rs. '000	2,986,925	3,445,141	3,616,164	3,103,744	3,563,390	3,213,644	3,756,482	4,132,052	4,630,718
Gross profit for the year	Rs. '000	1,210,845	1,351,695	1,365,285	1,237,640	1,546,107	1,197,615	1,453,451	1,757,115	2,045,090
Net profit before levy and tax	Rs. '000	647,039	810,612	877,623	603,499	801,681	382,337	427,222	768,699	966,804
Total cost of employment	Rs. '000	852,879	898,652	901,910	953,498	1,065,052	1,117,036	1,254,516	1,449,746	1,789,572
Capital expenditure for the year	Rs. '000	141,327	112,909	237,332	180,546	162,509	332,870	115,132	244,929	113,675
Non current assets as at end of the year	Rs. '000	1,523,553	1,793,467	1,801,988	1,739,893	1,479,880	1,658,535	1,654,908	1,743,580	1,732,640
Current assets as at end of the year	Rs. '000	1,407,022	2,079,543	2,341,020	2,177,892	2,929,185	3,153,777	4,004,860	4,115,259	3,652,116
Current liabilities as at end of the year	Rs. '000	455,460	1,028,979	1,034,258	497,229	804,102	1,050,258	1,591,991	1,480,966	897,087
Non current liabilities as at end of the year	Rs. '000	362,399	364,553	399,057	399,953	409,030	384,831	484,649	424,854	499,373
Equity as at end of the year	Rs. '000	2,112,716	2,479,478	2,709,694	3,020,602	3,195,933	3,377,223	3,583,129	3,953,019	4,230,694
Contribution to the consolidated fund	Rs. '000	75,000	50,000	413,490	75,000	600,000	50,000	25,000	50,000	175,000
No. of employees as at end of the year	Nos.	2,499	2,457	2,346	2,267	2,187	2,139	2,186	2,145	2,125
Investment of surplus fund as at end of the year	Rs. '000	777,101	858,717	605,235	764,328	298,546	338,010	360,227	382,550	405,727

Key performance indicators

Net profit before levy & tax to equity	%	30.63	32.69	32.39	19.98	25.08	11.32	11.92	19.45	16.54
Net profit before levy & tax to total assets	%	22.08	20.93	21.18	15.40	18.18	7.94	7.55	13.12	12.25
Current ratio	Times	3.09	2.02	2.26	4.38	3.64	3.00	2.52	2.78	4.07
Total cost of employment per employee	Rs. '000	341.29	365.75	384.45	420.60	486.99	522.22	573.89	675.87	842.15
Equity : Asset ratio	Times	0.72	0.64	0.65	0.77	0.72	0.70	0.63	0.67	0.74
Return on assets	%	9.62	9.26	5.32	7.68	3.73	3.78	3.64	6.31	0.66
Total revenue growth	%	17.99	15.34	4.96	(14.17)	14.81	(9.81)	16.89	10.00	9.44



CONTRIBUTION TO THE NATIONAL ECONOMY

State Timber Corporation operates in timber industry as a business leader who looks for ideas and places effect in fostering economic growth and development. State Timber Corporation plays a vital role not only in the development of timber industrial sector of the country but also in the development of other sectors. In 2017, the State Timber Corporation contributed Rs 2,055 million to the national economy as stumpage, operating taxes, income tax and special levy.

Five years summary is as follows,

	2013 (Rs.)	2014 (Rs.)	2015 (Rs.)	2016 (Rs.)	2017 (Rs.)
Stumpage	706,779,429	743,675,772	891,797,062	1,660,491,515	1,050,000,000
VAT/NBT/ESC/ WHT	387,928,678	424,740,460	418,055,273	548,197,399	687,443,947
Income Tax	131,882,763	202,347,603	234,000,000	538,767,780	217,089,232
Special Levy	50,000,000	25,000,000	50,000,000	175,000,000	100,000,000
TOTAL	1,276,590,870	1,395,763,835	1,593,852,335	2,922,456,694	2,054,533,179

The major roles play by the STC in the economic development of an economy is specified in below.

STC provides direct and indirect employment opportunities and plays an vital role in reducing the problem of unemployment in the country which helps economic development of the nation. STC established regional offices to remove regional discrepancies for the development of rural areas in less developed and backward areas. The establishment of business in these areas provides large number of public benefits. STC explores new opportunities and encourages effective resource utilization of capital and skill, brings new products, services, methods and develops markets for growth of the economy.

Increase in the standard of living of the people is a core feature of economic development of the country. STC enables the people to supply better quality goods at a reasonable price and adopting latest innovations to the production to provide wide range of product and services for the benefit of the society as well as environment. We always retain goodwill as responsible entity on conservation and effective and efficient utilization of forest resources for needs of the present, without compromising the ability of future generations to meet their own needs.



JACK TREE

Artocarpus heterophyllus is a very useful tree to Sri Lanka and native to India and Malaysia. It is introduced to Sri Lanka from India. Within 4-8 years period fruits can be obtained. Jak fruit (*Artocarpus heterophyllus*) is declared as national fruit in Bangladesh and by this a due respect has been given to this tree. Among the available fruits in the world obtain .. trees, it has been reported that the Jak fruit is the largest. (length 90 cm diameter 50cm weight 36kg.) However in Brazil, due to the profuse dispersal of this species in forest parks, it is named as a species of invasion. In Sri Lanka, permit has to be taken to tell jak tree under the food protection ordinance . in Jak two varieties can be identified namely 'Wela' and 'Waraka'

Source
Sri Lankan Timber Trees
Dr. N Ruwanpathirana



CORPORATE SOCIAL RESPONSIBILITY

The State Timber Corporation's goal is to foster good relationships with the environment within which its businesses operate, and manage responsibly. Business entities always think profitability and growth of their businesses and now most of the businesses take responsibility for the social and environmental impacts of their business operations. The STC's activities represents how its values, corporate culture and operations are basically knotted and connected to social, economic and environment concerns. STC participates in environmental friendly activities to ensure that all processes, products, and manufacturing activities adequately address current environmental concerns while maintaining a profit. CSR contributes to sustainable development by delivering economic, social and environmental benefits for all stakeholders and this will lead to sustainable development of the Corporation. Sustainability secures people's quality of life within the means of nature in a way that is fair and equitable to all humanity, other species and to future generations. During the year under review State Timber Corporation has carried out following programs as responsible entity.

Environment and Society

State Timber Corporation aims at contributing to the development of a sustainable society as a responsible business venture. Contributing to society refers to our commitment to ensure that some sort of environmental benefit or improvement is delivered to people who use our timber products. Social responsibility as "good business people" while tackling daily challenges when competing in the timber industry. STC takes steps to increase public interest in the protection of environment seriously, and makes proactive contributions to sustainable growth of society. In the process of the development of the business, we are committed to promoting sound environmental practices within our business, through the establishment of policies and practices that enable us to conduct our operations in a sustainable and environmentally sound manner and committed to the implementation of pro-active sustainable activities such as the environmental preservation with full consciousness of the importance of its Corporate Social Responsibilities.

Society may be defined as a community, a nation, or a broad grouping of people with common traditions, values, institutions, and collective activities and interests. Corporation played a significant role in providing substantial support for society such as civic and cultural programs, youth activities, student and social activities. We promote good relationships with all communities of which we are a part and enhance their quality of life and opportunities while respecting people's culture, ways of life and heritage.

Programs conducted during the year

- ♦ Active contribution to "Wanaropa" national tree planting program which was conducted under the program of "Punurudaya"
 - ♦ 52,735 tree seedlings were distributed among various institutions such as schools, universities, government agencies, 3 forces and individuals.
- ♦ Several programs were conducted to celebrate world environmental day.
 - ♦ Distributed agricultural equipment sets among selected schools under "Thurujana Sisu Bank" program in Matara, Monaragala, Bandarawela, Rathnapura, Nuwara Eliya districts.
 - ♦ Distributed essential items for people who live in flood affected area at Kalutara district.
 - ♦ Distributed 50 number of tree guards
 - ♦ Supply wooden name boards for National Institute of Plantation Management.
 - ♦ Plantation program of Ebony, Mee, and Kumbuk at Moragahakanda- Kaluganga.
- ♦ Awareness programs of sustainable consumption of timber and timber based products
 - ♦ 14 programs were conducted to aware school teachers on sustainable utilization of timber and timber related products and distributed about 500 timber related valued leaflets among them.
 - ♦ Three days workshops including 42 lectures were conducted to aware teachers.
- ♦ Six television programs name "Dhaaraa" in Rupavahini and "Anagathayata idak" in Derana and one radio program of "Kelin paara" in Rajarata Sevaya were conducted to enhance knowledge of timber and timber related topics as well as to inform functions of State Timber Corporation towards sustainable development.
- ♦ Completed comprehensive report for green building concept with guidelines and the certifying forms and related documents for the green building certification.
- ♦ Participated in the event of "Sri Lanka Next" program, which was conducted by the Ministry of Mahaweli Development and Environment at BMICH.
- ♦ Published research articles, newspaper and magazine articles related to the timber and wood industry which were written by the STC employees. Topics of the research articles were given below.
 - ♦ Finger joint timber products for effective utilization of natural resources
 - ♦ Properties of finger jointed timber of softwood timber species in Sri Lanka.
 - ♦ Application of non class timber in construction industry
 - ♦ Utilization of waste timber in construction industry.
- ♦ STC has issued certificates for timber related tests and 180 reports were issued according to the requests of the customers.
- ♦ Training facilities provided through Timber Technology Training Institute (TTTI) to motivate employees of the STC and 188 employees trained in 2017 and incurred Rs. 1,092,990 during the year.
- ♦ With the objective of improving living standard of low income level families by eliminating poverty, there was conducted furniture production training program to train young carpenters of low income level in 2017. As for the first session 35 number of carpenters were completed their training under this program.



RISK MANAGEMENT

State Timber Corporation has given due consideration to risk management process to measure, or assess risk and then develop strategies to manage the risk. Risk management process under two forms such as financial and business risks regularly review to minimize or completely eliminate before harming to any business activity.

Risk management system



Risk exposure	Objectives	Initiatives
Financial risk management		
1. Liquidity and cash management	To maintain robust liquidity position	Impose a proper debt collection policy, ensure controls are executing and regularly follow up debtors. Cash flow forecasting and maintaining adequate cash and cash equivalent balance. All the major funding facilities are handled by Head office. Placement of proper authorization levels and review each year in order to control expenditures.
2. Interest rate risk	To minimize adverse effect of interest volatility	Negotiating with banks to obtain the best possible interest rate for Corporation's investments. Negotiating and taking supplier credit to mitigate the high cost and to avoid adverse fluctuations in local interest rates.
3. Currency risk	To minimize exposure to fluctuations in foreign currency rates for imports and exports	Closely monitor the fluctuations and plan imports and exports accordingly.
Business risk management		
1. Credit risk	To minimize risk associated with debtors defaults.	Corporation maintains a comprehensive policy to adequately review and provide for doubtful debts. Mainly Sales are done on cash basis and credit sales are done according to government policies. All the receivables and payables are closely assessed. Allowing credit sales for government institutions and can settle through Treasury transfer. Following an assessment procedure to ensure credit worthiness of customers and implementing customer based specific credit policies. Regularly monitor the debt collection.
2. Asset risk	To minimize losses caused by assets especially from machine breakdowns and damages from fire, employees or theft.	Obtaining comprehensive insurance covers for buildings, vehicles and plant and machinery. Carrying out planned preventive and maintenance programs.
3. Internal controls	To maintain a sound system of internal controls to safeguard Corporation's assets and to identify failures within the process and to take prompt action to mitigate the risk.	Carrying out continuous internal audits at scheduled times in appropriate manners by internal audit department. Maintaining a proper control system mainly on payment procedures, selection of suppliers, and recruitment process as a state owned business organization. All the financial activities should be carried out in accordance with the finance act.

4. Human resource	To reduce labor turnover.	Maintaining healthy and cordial relationship with employees at all levels.
	To ensure smooth flow of operations without interruptions.	Providing various other benefits. Eg: Shoe allowance
	To ensure adaptability through training and adopting best practices and attracting and retaining high quality employees.	Providing specific and general training and development covering all levels of employees wherever necessary. Recruitment process is carried out in accordance with a specific procedure as this is a state owned business enterprise.
5. Technological and quality related risk	To work with current technological developments and quality standards to avoid obsolesces.	Developing a long term plan to replace existing machines with technologically advanced machines.
	To minimize production of stocks that do not meet the standards.	Obtaining certifications from relevant authorities and ensuring that products comply with most of the local and international standards. Carrying out research and development activities for technological advancement. Necessary laboratory facilities are provided within the organization to assure the quality of timber products. Conducting internal and external audits
6. Inventory management risk	To reduce stock out situations and accumulation of slow moving stocks	Planning monthly production based on budgets and sales forecasts at production planning meetings held on monthly.
	To minimize the losses on obsolete stocks.	Carrying out sales promotions to reduce slow moving stocks. E.g. "Prasada Abhiman" , Avurudu and Christmas promotion
	To minimize inventory holding cost.	Adopting various quality standards at different stages to verify the quality and ensuring this until the product is delivered Reviewing periodically and providing adequately for slow moving stocks. Off cuts use for manufacturing finger joint products, boilers and as firewood.
7. Risk of competition	To avoid losses of market share due to import of low quality timber products	To ensure that prevailing quality standards are met.
	To increase sales of main products of STC such as logs, sawn timber, sleepers, transmission poles, elephant poles etc.	Strengthening STC brand through various paper advertisement and promotional campaigns.

		Bringing new concepts to develop existing products and carry out market research for innovate new products to attract more customers.
8. Legal and regulatory risk	To minimize possible losses arising from non-compliance with statutory and regulatory requirements.	Complying with the requirements of statutory and regulatory bodies.
	To minimize or take counter measures to reduce the impact arising from changes on regulatory issues.	Obtaining advices from the Directors, related officers etc.
	To develop robust, effective and flexible structures to successfully face the changes in legal environment.	Monitoring of legal policy trends.
9. Investment in capital	To reduce the risk of loss in investments.	Investments in assets are properly planned and made on timely basis as per capital budget. Reducing the idle assets to the maximum possible level. Adopting a strict capital expenditure procedure based on level of investment as this is a state owned business enterprise.
10. Environmental risk	To minimize adverse impact of operations on the environment	Complying with the standards set by the relevant authorities and ensuring the compliance.
	Adherence to Corporation's environmental policy.	Promoting people to plant trees.



ARJUN TREE

Terminalia arjuna tree is native to Sri Lanka. Terminalia genera consists of about 100 species and Terminalia arjuna has spreaded and at many region of India and adjoining to rivers in dry zone of Sri Lanka. It is a large beautiful tree with ever green, nature. The trunk is buttressed and the branches spreaded out and cover extensive area. Each and every part of this tree is useful ayurvedic and ancient native medicines. Specially used as medicine for several diseases including heart problems and urinary problems and thus valued much. Another speciality is the availability of 25% tannin in the bark of the trunk. Due to the present of the calcium in the leaves , the soil under the tree shows high value of calcium content.

Source
Sri Lankan Timber Trees
Dr. N Ruwanpathirana

REPORT OF THE AUDITOR GENERAL

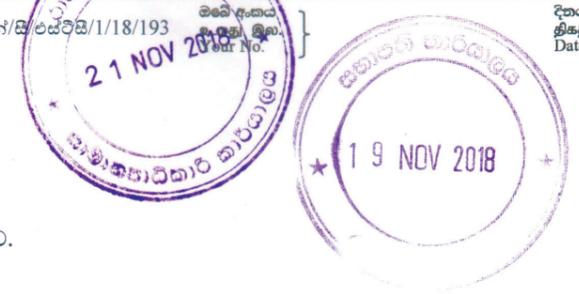
Report of the Auditor General on the financial statements of the State Timber Corporation for the year ended 31 December 2017 in terms of section 14(2) (c) of the Finance Act. 38 of 1971



ජාතික විගණන කාර්යාලය
தேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE



මගේ අංකය / எனது இல. } My No. } 21 NOV 2018 } 2018 නොවැම්බර් 15 දින }
 අයිටීඑන්/இ/அ/பி/1/18/193 } 21 NOV 2018 }
 මගේ අංකය / எனது இல. } My No. } 19 NOV 2018 }
 දිනය / திகதி / Date } 2018 නොවැම්බර් 15 දින }



සභාපති,
 රාජ්‍ය දැව සංස්ථාව.

රාජ්‍ය දැව සංස්ථාවේ 2017 දෙසැම්බර් 31 දිනෙන් අවසන් වර්ෂය සඳහා වූ මූල්‍ය ප්‍රකාශන පිළිබඳව 1971 අංක 38 දරන මුදල් පනතේ 14(2)(සී) වගන්තිය ප්‍රකාර විගණකාධිපති වාර්තාව

මාගේ සමාක හා 2018 සැප්තැම්බර් 18 දිනැති ලිපියට යොමුවේ.

02. ඉහත සඳහන් ලිපිය සමඟ එවන ලද මාගේ වාර්තාවේ දෙමළ හා ඉංග්‍රීසි අනුවාදය මේ සමඟ එවා ඇත.


 ඊ.ඒ.සී ආනන්ද
 නියෝජ්‍ය විගණකාධිපති
 විගණකාධිපති වෙනුවට

- පිටපත් -
1. ලේකම්, මහවැලි සංවර්ධන හා පරිසර අමාත්‍යාංශය
 2. ලේකම්, මුදල් හා ආර්ථික කටයුතු අමාත්‍යාංශය





මගේ අංකය
எனது இல.
My No.

IEN/C/STC/1/18/193

ඔබේ අංකය
உமது இல.
Your No.

දිනය
திகதி
Date

18 September 2018

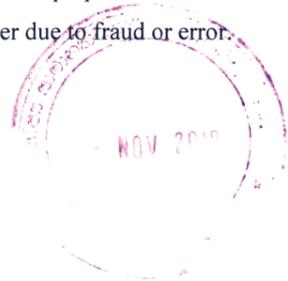
The Chairman,
State Timber Corporation

Report of the Auditor General on the Financial Statements of the State Timber Corporation for the year ended 31 December 2017 in terms of Section 14(2) (c) of the Finance Act, No. 38 of 1971.

The audit of financial statements of the State Timber Corporation 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 cash flow statement 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 read in conjunction with Section 13(1) of the Finance Act, No. 38 of 1971 and Section 29 of the State Industrial Corporations Act, No.49 of 1957. My comments and observations, which I consider should be published with the Annual Report of the Corporation in terms of Section 14(2)(c) of the Finance Act, appear in this report.

1.2 Management's Responsibility for the Financial Statements

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



1.3 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 consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000 – 1810). 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 judgement, including the assessment of risks of material misstatements of the financial statements, whether due to fraud or error. In making those risks assessments, the auditor considers internal control relevant to the Corporation'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 Corporation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No.38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the Audit.

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

1.4 Basic for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial statements

2.1 Qualified Opinion

In my opinion, except for the effect of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the State Timber Corporation as at 31 December 2017 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2. Comments on Financial Statements

2.1 Sri Lanka Accounting Standard - 16

Even though, assets costing Rs.227,566,848 fully depreciated had been further utilized as useful life of non-current assets had not been reviewed annually in terms of paragraph 51 of the standard. Accordingly, action had not been taken to revise the estimated error in terms of Sri Lanka Accounting Standard 8 and shown the correct carrying value in the financial statements.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) Economic Service charge of Rs.5,630,297 payable for the year under review had not been brought to accounts.
- (b) The value of sawing blades amounting to Rs.915,178 purchased in the year 2015 had been shown under capital work-in-progress instead of being accounted as recurrent expenditure.
- (c) Expenditure of Rs.834,124 incurred for the re-arrangement of iron racks fixed in kaldemulla Attimaduwa had been brought to accounts under work-in-progress, instead of being adjusted to the statement of profit and loss.

2.2.3 Unreconciled Control Accounts

A balance of Rs.75,458,361 as sundry creditors in the Head Office as at 31 December 2016 had been brought forward in the year under review and payments had been made through the creditors account for expenditure not included in the year under review or in the year 2016 as creditors. Furthermore, payments had not been made during the year under review for certain creditors balances included in the creditors schedule of the Head Office presented as at 31 December 2016 and those balances had not been included in the creditors schedule as at 31 December of the year under review. Accordingly, the correctness of the creditors balance of Rs.130,272,172 as at 31 December of the year under review had been problematic.

2.2.4 Unexplained Differences

The following observations are made.

- (a) According to the financial statements, Nation Building Tax and the Value Added Tax payable balance amounted to Rs.50,386,639 whereas such balance according to the relevant tax returns amounted to Rs.52,558,485 and as such a difference of Rs.2,171,846 was observed.
- (b) A total difference of Rs.1,450,440 was observed between the balances as per financial statements in 4 items of accounts, namely, Employees Trust Fund, Employees Provident Fund, Employees Trust Fund payable and Employees Provident Fund payable accounts and the balances as per the schedule.

2.2.5 Lack of Evidence for audit

A sum of Rs.39,531,327 shown in the sundry creditors account of the Head Office as at 31 December of the year under review as provisions for the payments to be made to the Department of Conservation of Forest being brought forward since several years having being fluctuated and the detailed schedule relating to that balance was not made available to audit.

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) A sum of Rs.11,873,954 receivable from a private company since the year 1983 and balances of Rs.11,003,176 receivable from government and semi-government entities lapsed for more than 5 years had been included in the Trade and other receivable balance as at 31 December of the year under review and action had not been to recover same even during the year under review.
- (b) Building rent amounting to Rs.19,980,000 receivable from the Department of Conservation of Forest since the year 2015 had not been recovered even by the end of the year under review.
- (c) Salaries and wages totalling Rs.1,226,970 payable to the employees of the Regional Offices of the Corporation as at 31 December of the year under review had not been paid even by June 2018.

2.3 Non-compliance with laws, rules, regulations and management decision

The following non-compliances with laws, rules, regulations and management decisions were observed.

Reference to Laws, Rules etc.

Non-compliance

- | | | |
|--|--|--|
| (a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka. | (i) Financial Regulation 371 and Public Finance Circular No.03/2015 of 14 July 2015. | Ad-hoc sub-impressts elapsed for more than 4 years totalling Rs.11,491,279 given for the work sites of the Corporation had not been settled even up to May 2018. |
|--|--|--|

(ii) Financial Regulation 571

Action had not been taken to settle or to take into revenue in terms of Financial Regulation 571(2) in respect of deposits amounting to Rs.133,800 lapsed for more than 2 years. Security deposit of Rs.840,000 lapsed for periods 2 to 5 years and Gangnail deposits of Rs.1,258,635 older than one year.

- (b) Establishments Code of the Democratic Socialist Republic of Sri Lanka.

Sub-section 1.2 of section XXXII

Even though, an Administrative Officer attached to the Kaldemulla Mechanical Division had engaged full time in political affairs while he was in service, action had not been taken in terms of the Establishments Code. Action had also been taken to pay a sum of Rs.1,260,364, being adjusted the salary increments for the period 2004 to 2017.

- (c) Procurement Guidelines 2007 on the selection and employment of consultancy services.

Without following the provisions of the guidelines, a sum of Rs.5,230,774 had been paid to the consultancy services entities in respect of obtaining consultancy services for 17 construction contracts valued at Rs.257,263,277 during the period 2013 to 2017.

3. Financial Review

3.1 Financial Result

According to the financial statements presented, the operation of the Corporation had resulted in a surplus of Rs.565,741,554 for the year under review as compared with the surplus of Rs.86,678,961 for the preceding year thus, an improvement of financial results by Rs.479,062,593 in the year as compared with the preceding year was observed. Increase of sales income by Rs.39,818,582 and decrease of selling and distribution expenses, Administrative Expenses and taxes paid to the Treasury by Rs.84,406,064, Rs.122,145,217 and Rs.75,000,000 respectively had attributed to this increase.

In the analysis of financial results of the year under review and the preceding 4 years, the financial results had continuously increased from 2013 to 2015 and it had deteriorated in the year 2016 and improved again in the year under review. However, after being adjusted employees remunerations, depreciation and tax for the year to the financial results, the contribution had improved continuously from 2014 to the year under review and it had improved by 5 per cent in the year under review as compared with that of the preceding year.

3.2 Analytical Financial Review

The following observations are made.

- (a) Even though, the gross profit ratio of the Corporation had been a high value of 49 per cent, the net profit ratio had dropped as compared with the gross profit, as income tax, administrative expenses, selling and distribution expenses, salaries and wages in addition to cost of production had increased continuously as compared with the previous years.

- (b) The current ratio and the quick assets ratio in the year had been a low value as compared with the previous year and the quick assets ratio had indicated a low value than the current ratio. It indicated that the money had largely tied up with the stock of the Corporation.

4. Operating Review

4.1 Performance

4.1.1 Operations and Review

The following observations are made.

- (a) The Corporation had not taken action to fulfil the objectives such as import of agricultural products and wicker and export of timber related finished goods and semi-finished goods out of the principal objectives of the Corporation and timber by products had also not been manufactured and sold as expected. The export of timber sleepers had dropped by 70 per cent in the year under review as compared with that of the previous year.
- (b) According to the Corporate Plan prepared by the Corporation for the period 2016-2020, such programmes as the introduction of timber harvesting contract management systems and project management systems, taking action to prevent timber wastage, preparation of programmes for the establishment of procedures to ascertain statistics on trees through correct methodology, allocation of Rs.2 million each annually for the development of professional skills and of the logging contractors and provide facilities therefor and the allocation of Rs.10 million each for the purchase of modern plant and equipment for the harvesting process had not been executed up to now.

- (c) Even though, the overall sales income of the year under review had increased by 01 per cent as compared with the previous year, sales income of private timber logs, sales income of sleepers in private and government lands, sales of imported sleepers, sales income of electricity and telephone fence pillars etc. had decreased by ranging from 30 per cent to 75 per cent as compared with that of the previous year. Sales income of exported sawn timber had only increased by 0.85 per cent.
- (d) Even though, the total net profit of the Corporation for the year under review amounted to Rs.966,804,360, of the 12 Regional Offices, a loss totalling Rs.16,990,112 in 2 Regions of Ampara and Polonnaruwa, a total loss of Rs.52,044,023 in 2 timber complex of the Corporation out of 3, a total loss of Rs.52,308,236 in 2 workshops out of 3 and a loss of Rs.30,750,890 in Kaldemulla Technical Unit, all together Rs.152,093,261 had incurred.
- (e) According to the objectives of the Corporation, sales income of furniture is one of the major income earning sources but the income on sales of furniture of the year under review had been as insufficient low level as 9 per cent of the overall sales income. The total profit of the furniture unit in the year under review amounted to Rs.985,596, representing 0.1 per cent of the total profit of the Corporation. Accordingly, new marketing strategies required to increase the sales income of furniture had not been followed even though the Corporation had a monopolistic right in obtaining State Timber.
- (f) According to the budgeted sales of the Corporation for the year 2017, the targeted furniture sales income amounted to Rs.501,333,000 but actual sales income earned was Rs.389,044,488, being observed a difference of Rs.112,288,512. Accordingly, the targeted income could not be reached in the year under review.

- (g) Even though, a gross profit of Rs.3,240,127 had been earned in the year 2015 by the Bussa Finger Joint Factory operated with the objective of manufacturing by products being used timber wastage process, the gross profit being Rs.2,253,536, declined by Rs.986,591 in the year 2016 and had become a gross loss of Rs.2,712,225 in the year under review. It had been a decline of 220 per cent as compared with the gross profit earned from sale of products at the finger Joint in the previous year. Accordingly, it was observed that a sufficient market for by products of the Corporation was not available.
- (h) Of the 7 show rooms belonging to the Corporation a gross profit of Rs.33,521,024 had been earned by 4 show rooms in the year under review but the gross loss incurred by 3 show rooms in Thalalla, Bussa and Ampara totalled Rs.4,879,985. According to the statement in comprehensive income of the furniture unit, the net profit after, being adjusted the cost of sales and the administrative cost to this profit/ loss had decreased to Rs.985,596. Accordingly, it was observed that profits earned by those show rooms had not given sufficient contribution to the Corporation.

4.2 Management Activities

The following observations are made.

- (a) The Keppetipola unit of the Corporation had obtained electricity posts from the trees taken from the lands belonging to the private parties and the balance timber had been sold at prices less than the prices stated in circulars, incurring a loss of Rs.1,051,346. Even though, instructions had been given by the Deputy General Manager (Internal Audit) by his letter dated 10 March 2016 that the loss should be recovered from the officer who had issued invoices or from the relevant buyers, a sum of Rs.629,318 thereof had not been recovered even by the end of the year under review.

- (b) The contract for the fixing of new iron racks in the stacking shed at Kaldemulla Complex had been awarded to a private entity for Rs.2,052,500 without following the procurement procedure and without entering into an agreement with the contractor. As timber could not be stored in the racks fixed as planned, those iron racks had to be removed. Even though, the committee by which a financial investigation was conducted had recommended to recover the loss of Rs.834,124 incurred therein from the responsible officers, action had not been taken accordingly.
- (c) Even though, sums of Rs.566,098 and Rs.94,906 had been spent in the year 2013 for the preparation of estimates and bid documents respectively in respect of the construction of Bandarawela Regional Office and the Keppetipola stores officers official quarters, such expenditure had become fruitless as those construction works had not been commenced.

4.3 Operating Inefficiencies

The following observations are made.

- (a) Due to making lots in good condition timber logs together with defective timber logs in selling timber logs by auction, sales had to be effected at a lower rates and as such, good condition timber logs had also to be sold at lower prices.
- (b) A sum of Rs.1,477,650 spent in the year 2013 for the design of construction work of Ratmalana show room had been shown under Kaldemulla partly completed buildings. However, construction works had not been commenced and the approval of the Board of Directors had been taken on 14 November 2014 to commence a construction works having being designed again but its work had not been commenced even by the end of the year under review.

- (c) The income of the circuit bungalows of the Corporation for the year under review amounted to Rs.1,046,548 and the expenditure incurred amounted to Rs.6,667,018, being the expenditure over income amounting to Rs.5,620,473. However, the Corporation had not taken action to increase the income, being made aware of the external parties about circuit bungalows by introducing an effective methodology.

4.4 Idle and Under- utilised Assets

The following observations are made.

- (a) A test physical verification carried out on 14 September 2017 observed that 116 items of spare parts valued at Rs.599,178 purchased before 25 years had been idle in the Boralanda Mechanical Spare parts store.
- (b) As the vehicle washing yard in the Boralanda Technical Unit constructed 5 years ago had not been made at the specific standard, it could not be used and as such buildings, equipment and water remittance machines valued at Rs.2,094,677 had become idle.

4.5 Personnel Administration

The approved cadre of the Corporation and the actual cadre at the end of the year under review stood at 2308 and 1901 respectively. Accordingly, it was observed that a shortage of 440 officers in 65 posts and a surplus of 33 officers in 7 posts had existed. Shortages of staff included 6 posts in top management, 45 posts in middle management, 54 posts in lower management, 69 posts in Management Assistants Service and 266 posts in primary service.

4.6 Market Share

The following observations are made.

- (a) The Corporation is the sole government entity in all sectors with the monopoly of obtaining state timber, manufacture and sale of furniture and sale of timber. However, action had not been taken to conduct a periodical survey in order to determine the stability of the Corporation within the market and the market share of the Corporation.
- (b) The Corporation possesses the least market share, even less than 0.45 per cent of the sale of furniture within the market, despite the availability of resources such as 52 timber stores and other resources including 6 market show rooms and having the government monopoly, enabling to manufacture high standard furniture by obtaining state timber.

5. Sustainable Development

5.1 Reaching Sustainable Development Goals

Every public entity should act in accordance with the 2030 “Agenda” of the United Nations on Sustainable Development and the State Timber Corporation was aware about how it performs the functions coming under the scope of the Corporation. The following observations are made in this regard.

- (a) On the acquaintance of the 2030 Agenda, the state Timber Corporation had taken action to identify such objectives as poverty alleviation, upliftment of economic level, new sustainable consumption and production to be reached in terms of its scope. Nevertheless, action had not been taken to identify data base targets for the upliftment of sustainable consumption and production, economic level and to make new products and the turning points to be reached and the indicators to measure the progress.

- (b) Even though, the school teachers low income carpenters, sewers and contractors had been identified as the interested parties on the implementation of sustainable development goals, it was further observed that a participatory approach had not been depicted in the preparation of targets relating to the Corporation.
- (c) Even though, the existence of a correct data base in order to measure the correct performance of any function is essentially required, the Corporation had not taken action to create a correct data base to measure the reaching of Sustainable Development Targets. It was further observed that insufficient financial provisions, insufficient physical facilities, lack of skilled employees had caused thereto.
- (d) Functions identified by the Corporation for reaching Sustainable Development targets had not been included in the annual action Plan and the financial provisions to achieve those functions had also not been included in the annual budget.
- (e) In the preparation of reaching sustainable Development targets it was observed that there was no appropriate coordination with other entities and as such the process of planning to reach targeted goals and preparedness had indicated a slackness or weak position.

6. Accountability and Good Governance

6.1 Procurements and Contract Process

6.1.1 Procurements

The following observations are made.

- (a) Six items of capital nature not included in the Procurement Plan had been purchased by incurring an expenditure of Rs.9,415,858.

- (b) A Master Procurement Plan (MPP), at least for a period of 3 years had not been prepared by the entity in terms of guideline 4.2 of the Government Procurement Guidelines.

6.2 Deficiencies in Contract Administration

The following observations are made.

- (a) Even though, the construction works of Bandarawela Regional Office commenced on 21 November 2016 should have been completed by 26 May 2017, the works had not been completed even by May 2018. A sum of Rs.4,132,005 had been spent for additional works, exceeding 78 per cent of the contract value but approval of the Board of Directors and the Procurement Committee had not been obtained therefor.
- (b) According to the budget of the year under review, the provision made for construction works amounted to Rs.238,400,000 out of which a sum of Rs.138,700,000 had not been utilized, representing 58 per cent of the overall provision. In terms of section 4.2.1 of the Good Governance Guidelines, the annual budget and the annual plans should be reviewed in order to determine for reaching targets and goals with confidence. Had action been taken in accordance with the directives in the good governance guidelines, it was observed in audit that such provisions could have been transferred to another economical transaction.

6.3 Budgetary Control

Variances between the budgeted income and expenditure and actuals ranging from 85 per cent to 1252 per cent were observed and as such the budget had not been made use of as an effective instrument of management control.

7. Systems and Controls

Weaknesses in systems and controls observed in audit were brought to the notice of the Chairman of the Corporation from time to time. Special attention is needed in respect of the following areas of controls.

Areas of systems and control

Observations

- | | |
|-----------------------------------|--|
| (a) Fixed Assets Control | Existence of fixed assets not established and under-utilization of assets. |
| (b) Debtors and creditors control | Non-recovery of loan balances receivable within the specific period, non-payment of royalty to external parties. |
| (c) Personnel Administration | Recruitments and promotions not done in terms of establishments rules and regulations. |
| (d) Procurement | Non-compliance with procurement guidelines. |
| (e) Revenue Control | Tax computation in sales invoices not correctly recorded. |

W.P.C. Wickramaratne
Auditor General (Acting)

ANNUAL ACCOUNTS

For the year ended 31st December
2017

STATEMENT OF PROFIT OR LOSS

For the year ended 31st December			
	Notes	2017 Rs.	2016 Rs.
Turnover	2	4,253,774,266	4,213,955,684
Cost of sales	3	(2,177,824,205)	(2,168,865,411)
Gross profit on operation		2,075,950,061	2,045,090,273
Other income	6		
Operating	6.2	103,163,513	91,843,464
Non - operating	6.1	273,779,849	216,438,841
Total net income		2,452,893,423	2,353,372,578
Selling and distribution expenses	4	(680,617,770)	(766,023,834)
Administration expenses	5	(805,471,293)	(927,616,510)
Profit before levy		966,804,360	659,732,234
Levy paid to treasury		(100,000,000)	(175,000,000)
Profit after levy		866,804,360	484,732,234
Taxation for the year	7	(301,062,806)	(398,053,273)
Profit for the year		565,741,554	86,678,961

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st December			
	Notes	2017 Rs.	2016 Rs.
Profit for the year		565,741,554	86,678,961
Other comprehensive income			
Retirement benefit surplus/(deficit) for the year		(323,413,595)	(51,403,312)
Other comprehensive income for the year		(323,413,595)	(51,403,312)
Total comprehensive income for the year		242,327,959	35,275,649

STATEMENT OF FINANCIAL POSITION

As at 31st December

	Notes	2017 Rs.	2016 Rs.
ASSETS			
Non-current assets			
Property plant and equipment	8	980,517,535	1,008,318,543
Intangibles	9	1,443,873	1,357,674
Biological assets	10	6,577,016	6,042,270
Deposits with treasury		2,966,000	2,966,000
Security deposits - staff		63,941,048	60,798,982
Investments	11.1	605,190,777	565,993,603
Prepaid staff benefit		67,459,232	53,906,375
Deferred tax asset	7.2	96,644,503	7,494,820
Capital work in progress		69,856,596	25,761,631
Total non-current assets		1,894,596,581	1,732,639,898
Current assets			
Inventories	12	1,513,147,565	1,353,002,944
Trade and other receivables	13	868,402,923	979,885,750
Investments in fixed deposits	11.2	1,694,380,646	1,060,353,181
Cash and cash equivalents	14	347,174,014	258,943,959
Total current assets		4,423,105,148	3,652,185,834
TOTAL ASSETS		6,317,701,729	5,384,825,732
EQUITY AND LIABILITIES			
Capital and reserves			
Authorized		75,000,000	75,000,000
Contributed capital	15	41,503,668	41,503,668
Revenue reserves		3,857,127,941	3,703,809,584
		3,898,631,609	3,745,313,252
Staff loan revolving fund	16	332,062,529	243,052,926
Total equity		4,230,694,138	3,988,366,178
Non current liabilities			
Retirement benefit obligation	17	788,350,624	438,573,892
Security deposits - staff		63,941,048	60,798,982
Deferred tax liability	7.2	-	-
Total non-current liabilities		852,291,672	499,372,874
Current liabilities			
Income tax liabilities	18	268,225,025	132,894,534
Trade and other payables	19	966,490,894	764,192,145
Total current liabilities		1,234,715,919	897,086,679
Total liabilities		2,087,007,591	1,396,459,553
TOTAL EQUITY AND LIABILITIES		6,317,701,729	5,384,825,732

This statement of the activities of the State Timber Corporation is submitted in terms of the Finance Act No. 38 of 1971.


General Manager
 State Timber Corporation

The accounting policies on pages 178 to 184 and Notes on pages 185 to 195 form and integral part of these Financial Statements. The Board of Directors is responsible for the preparation and presentation of these Financial Statements. These Financial Statements were approved by the Board of Directors and signed on their behalf,


Chairman
 State Timber Corporation
 On behalf of the Board of Directors


Director

Date: 28.02.2018

STATEMENT OF CHANGES IN EQUITY

	Contributed capital Rs.	Staff loan revolving fund Rs.	Revenue reserves Rs.	Total Rs.
Balance as at 1st January 2016	41,503,668	236,650,441	3,674,936,420	3,953,090,529
Profit for the year	-	-	86,678,961	86,678,961
Staff loan interest for the year	-	6,402,485	(6,402,485)	-
Other comprehensive income	-	-	(51,403,312)	(51,403,312)
Balance as at 1st January 2017	41,503,668	243,052,926	3,703,809,584	3,988,366,178
Adjustments during the year	-	81,000,000	(81,000,000)	-
Profit for the year	-	-	565,741,554	565,741,554
Staff loan interest adjustment	-	8,009,603	(8,009,603)	-
Other comprehensive income	-	-	(323,413,595)	(323,413,595)
Balance as at 31st December 2017	41,503,668	332,062,529	3,857,127,941	4,230,694,138

CASH FLOW STATEMENT

For the year ended 31st December	2017 Rs.	2016 Rs.
Cash flows from operating activities		
Cash receipts from customers	4,600,374,990	4,054,595,067
Cash paid to suppliers and employees	(3,600,892,262)	(4,488,502,221)
Cash generated from operating activities	999,482,728	(433,907,154)
Income tax paid	(254,881,998)	(566,831,903)
Special levy paid to the treasury	(100,000,000)	(175,000,000)
Net cash inflow/(outflow) from operating activities	644,600,730	(1,175,739,057)
Cash flows from investing activities		
Purchase and construction of property, plant & equipment	(94,637,473)	(113,675,466)
Development of biological assets	(534,746)	(724,891)
Investments	(673,224,639)	874,018,802
Income from investments	214,393,281	216,114,314
Proceeds from disposal of property, plant and equipment	3,718,263	19,256,332
Proceeds from sale of investment	30,000,000	-
Work in progress	(44,094,965)	72,073,158
Staff loan revolving fund	8,009,603	6,397,122
Net cash from/(used in) investing activities	(556,370,675)	1,073,459,371
Cash flows from financing activities		
	-	-
Net increase/(decrease) in cash and cash equivalents	88,230,055	(102,279,686)
Cash and cash equivalents at the beginning of the year (Note-14)	258,943,959	361,223,645
Cash and cash equivalents at the end of the year (Note 14)	347,174,014	258,943,959

NOTES TO THE FINANCIAL STATEMENTS

1.1 Reporting Entity

1.1.1 Legal Form

State Timber Corporation is a Corporation which was incorporated in April 1968, under the State Industrial Corporation Act No. 49 of 1957.

1.1.2 Date of Authorization for Issue

The Financial Statements of the Corporation for the year ended 31st December 2017 were authorized for issue in accordance with a resolution of the Board of Directors on 27.02.2018.

1.1.3 Number of Employees

The employees' strength of the Corporation as at 31st December 2017 is 2,083. (2016-2,125).

1.1.4 Responsibility for Financial Statements

The Board of Directors is responsible for preparation and presentation of these financial statements.

1.2 Basis of Preparation

1.2.1 Statement of Compliance

The Statement of Financial Position, Statement of Profit or Loss, Statement of Comprehensive Income, Changes in Equity and Statement of Cash Flows, together with the notes, (the "Financial Statements") of the Corporation as at 31st December 2017 and for the period then ended have been prepared in accordance with Sri Lanka Accounting Standards (LKAS & SLFRS) and statements of recommended practices promulgated by The Institute of Chartered Accountants of Sri Lanka (ICASL).

1.2.2 Basis of Measurement

The Financial Statements have been prepared on the historical cost basis except for the staff loan receivables and trade debtors are measured at fair value.

1.2.3 Functional and Presentation Currency

The Financial Statements are presented in Sri Lankan Rupees, which is the Corporation's functional currency. All financial information presented in Sri Lankan Rupees has been given to the nearest Rupee, unless stated otherwise.

1.2.4 Use of Estimates and Judgments

The presentation of Financial Statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future period affected.

1.2.5 Foreign Currency Transactions

Transactions in foreign currencies are translated to the functional currency at exchange rates on the date of the transactions.

1.2.6 Taxation

The provision for income tax is based on the elements of income and expenditure as reported in the Financial Statements and computed in accordance with the provision of the Inland Revenue Act No.10 of 2006 and subsequent amendments.

1.3 Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

1.3.1 Assets and Basis of the Valuation

1.3.1.1 Property, Plant and Equipment

1.3.1.1.1 Basis of Recognition

Property, plant and equipment are recognised if it is probable that future economic benefits associated with the asset will flow to the corporation and the cost of the asset can be reliably measured. Items of property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to a working condition for its intended use, and the cost of dismantling and removing the items and restoring the site on which they are located and capitalized borrowing cost. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

1.3.1.1.2 Gains and Losses on Disposal

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net within "other income/other expenses" in Statement of Profit or Loss.

1.3.1.1.3 Subsequent Costs

The cost of replacing a part of an item of property, plant and 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 Corporation, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

1.3.1.1.4 De-Recognition

The carrying amount of an item of Property, Plant & Equipment is derecognized on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from

derecognition of an item of Property, Plant & Equipment is included in profit or loss when the item is derecognized.

1.3.1.1.5 Depreciation

Depreciation is recognized in profit and loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Freehold land is not depreciated. Applicable rates are as follows.

Buildings Permanent	2.5%
Buildings Semi-Permanent	30.0%
Plant and Machinery	10.0%
Vehicles	20.0%
Roadways and Railways	5.0%
Leasehold Lands	5.0%
Road Construction	10.0%
Furniture and Fittings	15.0%
Office Equipment	15.0%
Miscellaneous Assets	20.0%
Computers	20.0%
Electrical Equipment	10.0%
Tools and Implements	20.0%
Land Improvements	10.0%

1.3.1.2 Capital Work in Progress

Capital expenses incurred during the year which are not completed as at the statement of financial position date are shown as capital work-in-progress, while the capital assets which have been completed during the year and put to use are transferred to property, plant and equipment.

1.3.1.3 Intangible Assets

An intangible asset is recognized only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Corporation. Intangible assets wholly consist of cost of computer software. Intangible assets acquired are measured on initial recognition at cost. Intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Subsequent expenditure is capitalized only when it increases the future economic benefits. Amortization is recognized in Statement of Profit or Loss on a straight-line basis over the estimated useful lives of five years.

1.3.1.4 Biological Assets

Biological assets are classified as mature biological assets and immature biological assets. Mature biological assets are those that have attained harvestable specifications or are able to sustain regular harvests. Immature biological assets are those that have not yet attained harvestable specification.

Biological assets are further classified as bearer biological assets and consumable biological assets. Bearer biological asset are not intended to be sold or harvested, however used to grow for harvesting agriculture produce. Consumable biological assets includes managed timber trees those that are to be harvested as agricultural produce from biological assets or sold as biological assets. The entity recognize the

biological assets when, and only when, the entity controls the assets as a result of past event, it is probable that future economic benefits associated with the assets will flow to the entity and the fair value or cost of the assets can be measured reliably. Life span of Teak Tree to maturity is expected to be 35 years from the date of planting. It is assumed that one teak tree takes 10 year period from the date of planting for its biological transformation. The cost is treated as approximation to fair value of immature plants as the impact on biological transformation of such plants to price during this period is immaterial. The managed timber trees are measured on initial recognition and at the end of each reporting period at its fair value less cost to sell in terms of LKAS 41.

1.3.1.5 Financial Instruments

1.3.1.5.1 Non-derivative financial assets

The Company initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks

1.3.1.5.1.1 Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Loans and receivables comprise trade and other receivables, including staff loan receivables. Cash and cash equivalents comprise cash balances and call deposits are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

1.3.1.6 Investments

1.3.1.6.1 Investment in Fixed Deposits stated at cost.

1.3.1.6.2 Long Term Investments Stated at Cost

1.3.1.6.3 Investment at State Mortgage and Investment Bank

This investment has been made with the State Mortgage and Investment Bank for granting housing loan facilities to the employees of the State Timber Corporation.

1.3.1.6.4 Impairment

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence

that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

1.3.1.7 Inventories

Inventories are measured at the lower of cost or net realizable value. Donated timber inventory also measured at the lower of cost (to bring inventories into present location and condition) or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses. Cost is determined on the first in first out basis and includes all costs incurred in bringing inventories to the present location and condition. Production cost includes all direct cost and production overhead cost at normal level of activity. When it is necessary 15% general provision has been provided for obsolete, slow moving and defective items.

1.3.2 Liabilities and Provisions

Liabilities classified as current liabilities on the Statements of Financial Position are those which fall due for payment on demand or within one year from the Statement of Financial Position date. Non-current liabilities are those balances that fall due for payment later than one year from the Statement of Financial Position date. All known liabilities have been accounted for in preparing the Financial Statements.

1.3.2.1 Trade and Other Payables

Trade and other payables are stated at their cost.

1.3.2.2 Retirement Benefit Obligation

Employees who have completed five years of continued service with the Corporation are eligible for retirement benefit in accordance with the payment of Gratuities Act No.12 of 1983. However provision has been made in the accounts for the retirement benefit for all employees of the corporation taking into consideration their last drawn salary and the years of services as at 31st December 2017. The defined benefit obligation is calculated annually using the Formula method.

1.3.2.3 Provisions, Contingent Assets and Contingent Liabilities

Provisions are recognised, if as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provision has been made for all quantifiable liabilities and others have been declared.

The Conservator General of Forest has informed us the government had sustained a loss due to unauthorized felling in the Bagawanthalawa Chapalton commercial thinning plot of land. After the investigation this was not established due to doubtful facts. Conservator general of forest has decided to investigate this issue together with STC Officers.

Although a discrepancy has occurred in removing timber from submerging areas of Rambakenoya reservoir, "B" report has been presented by Forest Department to the Dehiaththakandiya court. Since the State Timber Corporation and the Forest

Department come under the same Ministry, the two state entities have suggested to come to mutual settlement, and we have informed the court accordingly. The court informed that we seek the advice of the Attorney General to come for the settlement.

Department of Labour had raised a case against the State Timber Corporation (STC) regarding EPF and ETF contribution, which STC had not included Cost of Living allowance when calculating monthly EPF and ETF contribution for the period 2006 to 2012. STC has already remitted employer's contribution of an amount equivalent to 15% of the cost of living allowance and penalty charge for that amount. Still discussions are going between STC and Department of Labour to settle employees' contribution which was not deducted from employees of an amount equivalent to 10% and penalty charge.

Bank guarantees were issued against Bank of Ceylon fixed deposits A/C numbers 7777554, 77902580 and 79747063 as collateral.

STC had been instructed by the Labour commissioner to pay arrears salary amounting Rs. 1,957,174/- of interdicted officer. It was refused to pay by the Board of directors of the Corporation and filed a case again in Labour Court against the interdicted officer. Still STC has not received any directions to pay arrears salary.

1.3.3 Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Corporation and the revenue and associated costs incurred or to be incurred can be reliably measured. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates.

The timber has been issued to the employees of the State Timber Corporation and the Forest Department, under the scheme of 25% concessionary rate. This is included in the account of welfare facilities.

1.3.3.1 Sale of Goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch of the goods.

1.3.3.2 Rental Income

Rental income is recognized on an accrual basis.

1.3.4 Expenditure Recognition

All expenditure incurred in the running of the business has been charged to income in arriving at the profit for the year. Repairs and renewals are charged to Statement of Comprehensive Income in the year in which the expenditure is incurred.

1.3.4.1 Income Tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss

for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Current applicable income tax rate is 28% and deemed dividend tax rate is 25%.

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the Statements of Financial Position date.

A Deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the future asset can be utilized. Deferred tax assets are reduced to the extent that is no longer probable that the related tax benefit will be realized.

1.3.4.2 Stumpage Payment

The stumpage payment for the year 2017 has been calculated on actual felled timber volume basis.

1.3.4.3 Cost Allocation

Cost of conversion of Saw Mills and Timber Cost is allocated on the basis of Timber Transfer Value and Mechanical Workshop cost is allocated on the basis of Hiring Charge to relevant units.

1.3.5 Events Occurring After the Reporting Date

All material post reporting events have been considered and where appropriate, adjustments or disclosure have been made in respective notes to the Financial Statements.

1.3.6 Staff Loan Revolving Fund

This fund is created to grant the loans to employees of the Corporation. The amount of interest received from staff loans stated as other income in the Statement of Profit or Loss. Interest income received after tax is transferred to Staff Loan Revolving Fund to buildup fund. Employee loans disbursements limit to the available fund balance in the Staff Loan Revolving Fund.

1.3.7 Statement of Cash Flows

The Statement of Cash Flow has been prepared using the direct method in accordance with the Sri Lanka Accounting Standards (LKAS) 07, Statement of Cash Flows. Cash and cash equivalents comprise short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. The cash and cash equivalents include cash in-hand, balances with banks and short term deposits with banks.

Notes to the Financial Statements

02.Turnover	2017 Rs.	2016 Rs.
Logs - crown lands	2,775,603,532	2,560,718,285
Logs - private lands	33,237,974	85,657,810
Sawn timber	207,698,281	196,750,255
Imported sawn timber	48,620,691	26,226,922
Sleepers - private lands	91,685,336	136,725,089
Sleepers - crown lands	41,654,406	150,758,501
Sleepers - export	1,138,372	3,871,012
Transmission poles - crown lands	136,382,640	258,375,810
Transmission poles - private lands	36,313,002	67,386,081
Elephant poles	75,465,961	124,695,886
Others	19,181,410	27,611,426
Forest offence received timber	78,284,437	60,472,984
State land donated timber	405,112,249	294,699,866
Furniture	389,044,488	304,814,376
Gross turnover	4,339,422,777	4,298,764,303
Less:Nation building tax	(85,648,511)	(84,808,619)
Net turnover	4,253,774,266	4,213,955,684
03. Cost of Sales	2017 Rs.	2016 Rs.
Depots and wayside depots	1,205,030,916	971,728,339
Impregnation plants	347,215,178	593,694,002
Furniture plants	268,939,817	235,284,197
Wayside sales	356,638,294	368,158,873
Total	2,177,824,205	2,168,865,411
04. Selling and Distribution Expenses	2017 Rs.	2016 Rs.
Depots	616,166,666	675,189,054
Impregnation plants	13,434,188	35,492,820
Furniture plants	40,567,396	42,387,655
Regional managers' office and head office	10,449,520	12,954,305
Total	680,617,770	766,023,834

05. Administration Expenses		2017 Rs.	2016 Rs.
Impregnation plants		20,425,440	20,188,525
Furniture plants		71,971,576	71,496,095
Regional managers' office and head office		706,407,258	828,343,591
Circuit bungalows		6,667,018	7,588,299
Total		805,471,293	927,616,510
06. Other Income		2017 Rs.	2016 Rs.
6.1 Non-operating income 6.1			
Interest income - investments		246,148,133	187,857,600
Foreign exchange gains		4,091	7,356
House rent		13,060,102	15,493,131
Staff loan interest		14,567,524	13,080,754
		273,779,849	216,438,841
6.2 Operating income 6.2			
Miscellaneous income		62,725,858	49,507,982
Fines-contractors and suppliers		800,692	759,032
Disposal income		3,015,776	19,195,783
Over provision of stock		14,410,259	17,258,585
Debtors over provision		18,442,082	1,636,568
Recovery on shortages and losses		1,159,228	2,086,333
Non refundable tender deposits		2,609,617	1,399,181
		103,163,513	91,843,464
Total		376,943,362	308,282,305

6.3 Analysis of other income for the year 2017

Income source	Units					Total
	Depots	Impregnation plants	Furniture plants	Regional offices & head office	Circuit Bungalows	
Non-operating income 6.1						
Interest income - investments	-	-	-	246,148,133	-	246,148,133
Foreign exchange gains	-	-	-	4,091	-	4,091
House rent	-	-	44,000	13,016,102	-	13,060,102
Gratuity Over Provision	-	-	-	-	-	-
Staff loan interest	-	-	-	14,567,524	-	14,567,524
	-	-	44,000	273,735,849	-	273,779,849
Operating income 6.2						
Miscellaneous income	5,138,851	-	963	56,539,498	1,046,545	62,725,858
Fines-contractors and suppliers	-	-	-	800,692	-	800,692
Disposal income	-	-	-	3,015,776	-	3,015,776
Over provision on stock deterioration	14,328,635	-	81,624	-	-	14,410,259
Over provision on doubtful debtors	3,496,589	14,945,494	-	-	-	18,442,082
Recovery on shortage and losses	-	-	-	1,159,228	-	1,159,228
Non refundable tender deposits	-	-	-	2,609,617	-	2,609,617
	22,964,075	14,945,494	82,587	64,124,812	1,046,545	103,163,513
Total	22,964,075	14,945,494	126,587	337,860,661	1,046,545	376,943,362

07. Taxation Expenses	2017 Rs.	2016 Rs.
Current tax expenses		
Income tax on profit for the year	Note 7.1 390,212,803	247,475,962
Over/under provision of previous year	(314)	160,763,556
	390,212,489	408,239,518
Deferred tax expense	Note 7.2	
Origination and reversal of temporary differences	(89,149,683)	(10,186,245)
	(89,149,683)	(10,186,245)
Tax charge for the year	301,062,806	398,053,273
7.1 Income tax on profit for the year	2017 Rs.	2016 Rs.
Profit before taxation	866,804,360	484,732,234
Aggregate disallowable expenses	208,624,269	334,625,242
Aggregate allowable expenses	(522,958,134)	(434,394,181)
Profit from business	552,470,495	384,963,295
Non business income	273,775,759	216,431,485
Taxable income	826,246,253	601,394,780
Income tax at 28%	231,348,951	168,390,538
Deemed dividend tax	158,863,852	79,085,424
Total	390,212,803	247,475,962
7.2 Deferred tax	Temporary difference	Tax effect (asset)/ liability
	Rs.	Rs.
Balance as at 01st January 2017	(26,767,212)	(7,494,819)
Amount origination during the year	(318,391,726)	(89,149,683)
Balance as at 31st December 2017	(345,158,938)	(96,644,503)
Temporary difference of property plant and equipment	443,191,688	124,093,673
Temporary difference of retirement benefit obligations	788,350,626	220,738,175
Carried forward tax losses	-	-
Balance as at 31st December 2017	345,158,938	96,644,503

08. Property, Plant and Equipment

Description	Cost			Depreciation		Carrying amount as at 31.12.17	Carrying amount as at 31.12.16
	Balance as at 01.01.17	Additions	Disposals	Balance as at 31.12.17	Charge for the year		
Land	59,057,146	-	-	59,057,146	-	59,057,146	59,057,146
Land Improvement	26,324,125	12,672,823	-	38,996,948	2,516,993	21,646,819	11,490,989
Buildings	783,651,009	15,939,525	789,592	183,333,754	17,617,097	598,639,618	600,317,255
Stacking sheds and other buildings	32,943,518	48,690	-	18,948,258	4,530,468	23,478,726	13,995,260
Roadways and railway lines	18,421,732	-	-	18,421,732	781,959	8,140,540	11,063,150
Plant and machinery	678,400,318	23,212,257	4,974,359	520,295,149	31,730,680	548,442,280	158,105,168
Leasehold land and building	148,311	-	-	148,311	-	-	-
Road construction mach. and equi.	60,450	-	-	60,450	-	60,450	-
Tools & implements	6,014,975	54,450	-	6,069,425	261,123	5,642,867	633,230
Electrical equipments	19,040,584	1,873,864	596,109	20,318,339	1,373,833	11,418,404	8,408,573
Vehicles	589,013,019	28,909,740	3,577,176	614,345,583	45,343,181	530,464,345	100,314,804
Furniture and fittings	46,223,563	3,917,666	17,903	50,123,326	4,821,508	35,110,094	15,917,622
Office equipments	34,665,396	1,299,838	772,176	35,193,058	1,857,296	29,892,817	5,300,241
Computers and accessories	68,488,923	4,021,114	4,740,706	67,769,331	6,322,806	53,696,133	16,375,275
Miscellaneous assets	28,113,590	1,707,094	34,800	29,785,884	2,900,519	24,196,944	6,782,365
Pre fabricated structure	4,938,333	-	-	4,938,333	-	4,938,333	-
Leasehold land-Rathnapura	680,300	-	-	680,300	-	680,300	-
Total	2,396,185,292	93,657,061	15,502,821	2,474,339,532	120,057,423	1,493,821,997	1,008,318,543

* The Corporation owns the cost of Rs. 1,067,455,747/- fully depreciated property, plant and equipments at the reporting date.

09. Intangible Assets

Description	Cost			Amortization		Carrying amount as at 31.12.17	Carrying amount as at 31.12.16
	Balance as at 01.01.17	Additions	Disposals	Balance as at 31.12.17	Charge for the year		
Computer software	4,209,432	980,411	-	5,189,843	894,213	1,443,873	1,357,674
Total	4,209,432	980,411	-	5,189,843	894,213	1,443,873	1,357,674

10. Biological Assets	2017 Rs.	2016 Rs.
As at 31st December		
Balance at the beginning of the year	6,042,270	5,317,379
Increase due to replantation	534,746	724,891
Balance at the end of the year	6,577,016	6,042,270

Life span of Teak tree to maturity is expected to be 35 years from the date of Planting. The cost of immature trees up to 10 years from the date of planting are treated as approximate to fair value particular on the grounds of little biological transformation has taken place and impact of the biological transformation on price is not material. Therefore, Teak plantations belong to the corporation are still only 4 years old immature plantations, when such plantations become mature, the additional investments since taken over to bring them to maturity are transferred from immature to mature.

Locations of the Teak plantations held by the Corporation are Puliyankulama, Madawachchiya, Sevanapitiya and Vineethagama.

11. Investment	2017 Rs.	2016 Rs.
11.1 Investment - Long term		
As at 31st December		
Investment in fixed deposits - long term		
Government ins temporary surplus trust fund	431,403,535	405,727,407
State mortgage and investment bank	173,287,242	159,766,196
	604,690,777	565,493,603
Investment in shares		
Land reclamation and development (pvt) ltd	500,000	500,000
Lanka timber plantation ltd.		30,000,000
(-) Impairment of investment		(30,000,000)
	500,000	500,000
Total	605,190,777	565,993,603

11.2 Investment - short term	2017 Rs.	2016 Rs.
As at 31st December		
Investments in fixed deposits		
People's bank	367,323,062	449,551,554
Bank of ceylon	1,327,057,585	610,801,627
Total	1,694,380,646	1,060,353,181

12. Inventories	2017 Rs.	2016 Rs.
As at 31st December		
Stock-in-trade	1,527,107,769	1,293,964,826
Stock deteriorations	(198,077,293)	(168,503,904)
	1,329,030,475	1,125,460,922
Goods in transit	-	3,985,398
Work in progress	32,421,998	40,692,396
Stores and spares	83,836,328	96,933,841
Preservatives	52,575,012	68,263,473
Fuel and oil	2,985,371	3,413,001
Stationary stock	12,298,381	14,253,913
Total	1,513,147,565	1,353,002,944

12.1 Analysis of inventories	2017 Rs.	2016 Rs.
As at 31st December		
Crown land logs	937,127,446	789,182,275
Crown land sawn timber	243,774,881	214,442,149
Imported sawn timber	44,138,449	50,597,751
Private land logs	389,594	3,819,453
Crown land sleepers	5,076,610	1,023,882
Private land sleepers	8,701,121	6,596,657
Crown land transmission poles	27,271,525	33,662,444
Private land transmission poles	25,498,931	6,878,655
Others	28,536,736	17,156,101
Furniture	206,592,475	170,605,459
Total	1,527,107,769	1,293,964,826

13. Trade and Other Receivables	2017 Rs.	2016 Rs.
As at 31st December		
Trade debtors	514,979,365	755,058,341
Allowance for impairment	(80,400,519)	(88,143,065)
	434,578,846	666,915,276
Staff debtors	13.2	217,112,609
Other debtors	13.1	46,917,602
Deposits and prepayments		
Advances local purchases	19,331,296	13,980,491
Advances pre -payment	4,268,634	6,351,577
Advances timber supplies	13,628,480	7,392,962
Interest receivable -deposits	95,438,716	50,623,762

Returned cheques	1,385	47,824
Kataragama astapala funds	900,000	935,000
Deposit courts	8,778,248	8,778,248
Ministry of mahaweli development and environment	1,661,488	2,816,411
Forest department	25,785,621	20,202,147
Ports authority	-	563,698
Total	868,402,923	979,885,750

13.1 Other debtors	2017 Rs.	2016 Rs.
As at 31st December		
Miscellaneous debtors	28,627,258	10,338,537
Deposits- general	18,656,963	15,739,528
Provision	(366,620)	(366,620)
Total	46,917,602	25,711,445

13.2 Staff debtors	2017 Rs.	2016 Rs.
As at 31st December		
Staff receivables		
Vehicle loan	6,761,200	2,757,477
Distress loan	164,575,656	139,641,490
Electrical equipment loan	32,765	33,078
Bicycle loan	1,121,884	577,680
Laptop loan	21,922,972	26,474,658
Furniture loan	947,924	1,223,870
	195,362,402	170,708,253
Advances and other receivables		
Salaries and wages advance	2000	12,000
Special salary advance	13,594,971	-
Travelling advance	15,827	17,950
Festival advance	3,876,495	3,891,100
Internal debit notes	73,285	405,506
Staff recoveries	452,226	478,942
Salusala textile loan	3,735,403	53,158
	21,750,207	4,858,656
Total	217,112,609	175,566,909

14. Cash and Cash Equivalents	2017 Rs.	2016 Rs.
As at 31st December		
Cash in hand	1,055,500	999,500
Cash in transit	24,791,076	21,803,106
Bank of ceylon	47,421,508	161,613,910
Bank of ceylon - call deposits	273,905,930	74,527,443
Total	347,174,014	258,943,959

15. Contributed Capital	2017 Rs.	2016 Rs.
As at 31st December		
Sri Lanka government fund	25,584,808	25,584,808
Assets taken-over from forest department	10,714,815	10,714,815
World bank - grant	708,202	708,202
C.A.D. british aid fund	4,495,843	4,495,843
Total	41,503,668	41,503,668

16. Staff Loan Revolving Fund	2017 Rs.	2016 Rs.
As at 31st December		
Balance at the beginning of the year	243,052,926	236,650,441
Staff loan interest received	8,009,603	6,402,485
Fund transfer during the year	81,000,000	
Total fund at the end of the year	332,062,529	243,052,926
Nominal value of utilized fund balance as at 31st December	261,517,246	223,163,229
Unutilized fund balance as at 31st December	70,545,283	19,889,697

17. Retirement Benefit Obligation	2017 Rs.	2016 Rs.
As at 31st December		
The amounts recognized in the Statement of Financial position are determined as follows.		
Balance at the beginning of the year	438,573,892	366,887,129
charge for the year	41,973,758	20,134,412
Interest for the year	39,364,743	35,979,362
Surplus/ defecit charge for the year	323,413,595	51,403,312
Payment/payable during the year	(54,975,364)	(35,830,323)
Balance at the end of the year	788,350,624	438,573,892

The amounts recognized in the Statement of Profit or Loss are as follows.

Charge of the year	41,973,758	20,134,412
Interest for the year	39,364,743	35,979,362
Recognized in the statement of profit or loss	81,338,501	56,113,773

The amount recognized in the Statement of Comprehensive income as follows.

(Surplus)/deficit charge for the year	323,413,595	51,403,312
Recognized in the statement of comprehensive income	323,413,595	51,403,312

As at December 31, 2017 the gratuity liability was calculated using formula method for all existing employees as required by LKAS 19 – 'Employee Benefits'. However under the Gratuity Act No. 12 of 1983, gratuity liability arises only upon an employee completing continuous service of five years. The following key assumptions were used in arriving at above gratuity liability .

	31.12.2017	31.12.2016
Discount interest rate	10.28%	10.88%
Salary increment rate	13.12%	6%
Staff turnover rate	5.72%	4.03%
Retirement age	60	60

18. Income Tax Payable

	2017 Rs.	2016 Rs.
As at 31st December		
Balance at the beginning of the year	132,894,534	291,486,919
Withholding tax on deposits	(15,948,065)	(10,976,262)
Economic service charge	(21,844,701)	(17,087,861)
Payment during the year	(217,089,232)	(538,767,780)
Under/(over) provision of tax for previous year	(314)	160,763,556
Provision for income tax	390,212,803	247,475,962
Balance at the end of the year	268,225,025	132,894,534

19. Trade and Other Payables

	2017 Rs.	2016 Rs.
As at 31st December		
Central bank- EPF	18,067,553	15,277,705
Labour department-ETF	2,141,317	1,833,515
Accrued expenses	130,272,172	167,949,943
Refundable tender deposits	11,590,240	5,005,368
Security deposits - except staff	67,971,065	61,610,495
Audit fees payable	1,823,228	3,107,828
Retention money	29,738,097	20,884,478
Other creditors	63,191,276	64,978,563

Conservator of forests	587,972,172	368,248,331
Stumpage - Wild life department	2,614,486	810,697
Stumpage - Agriculture department	722,648	-
Nation building tax	7,184,941	7,959,651
Value added tax	43,201,698	46,525,571
Total	966,490,894	764,192,145

20. Related Party Transaction

* Conservator General of Forest who is the director of the Corporation is also the head person of Forest Department which is released commercial forest plantation according to national forest management plan to extract timber. The Corporation has received the worth of Rs. 1,224,025,093 trees from forest department during the year.

* State Timber Corporation has rented out part of the headoffice building to Ministry of Mahaweli Development and Environment and Department of Forest. State Timber Corporation charges rent income based on the space utilized by each institution.

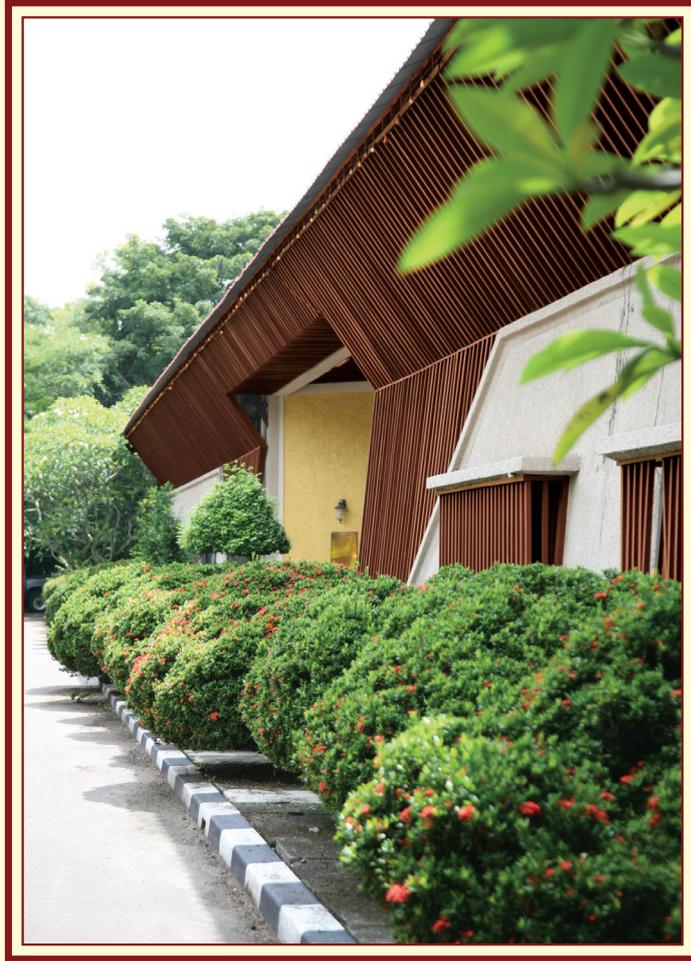
	No. of Sq.Feet	Rental value(Rs.)
Department of Forest	22,040	550,000.00
Ministry of Mahaweli Development and Environment	23,058	676,232.50

Balances arising from above related party transactions as at the Statement of Financial Position date are as follows.

	2017 Rs.	2016 Rs.
As at 31st December		
Payable to related parties		
Department of Forest	587,972,172	368,248,331
	587,972,172	368,248,331
Receivable from related parties		
Department of Forest	25,785,621	20,202,147
Ministry of Mahaweli Development and Environment	1,661,488	2,816,411
	27,447,108	23,018,558

GLOSSARY OF FINANCIAL TERMS

- 1. Accounting Policies**
Specific principles, bases, conventions, rules and practices adopted by the Corporation in preparing and presenting financial statements.
- 2. Amortization**
The systematic allocation of the depreciable amount of an intangible asset over its useful life.
- 3. Accrual Basis**
The principle that revenues and costs are matched with one another, irrespective of the period of receipt or payment.
- 4. Cash and Cash Equivalents**
Liquid investments with original maturities of three months or less.
- 5. Revenue Reserves**
Reserves available for investments.
- 6. Value Addition**
The quantum of wealth generated by the activities of the Corporation and its distribution.
- 7. Current Ratio**
Current assets divided by current liabilities.
- 8. Depreciation**
The systematic allocation of the depreciable amount of an asset over its useful life.
- 9. Gearing**
Proportion of borrowings to capital employed.
- 10. Fair value**
Fair value is the amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction.
- 11. Return on Assets (ROA)**
Net income expressed as a percentage of total assets, used as a measure of profit ability and as a basis of intra-industry performance comparison.
- 12. Deferred Taxation**
The tax effect of temporary differences deferred to / from another period which would only qualify for inclusion on a tax return at a future date.



"Tomorrow is the beginning of a long journey."



State Timber Corporation

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