



STATE TIMBER CORPORATION

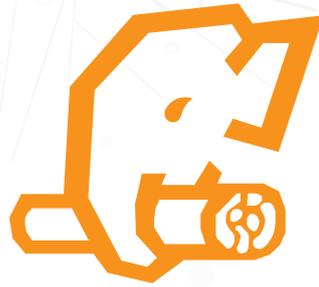
2018

ANNUAL REPORT



Ministry of Mahaweli Development and Environment

50  1968 - 2018
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Anniversary
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STATE TIMBER CORPORATION
ANNUAL REPORT 2018

True Leadership for Timber Market



50  1968 - 2018
ಕಂಠಿವಕರ
Anniversary
ರಾಜ ಲಠಿ ಕಂಠಿರಾಲ • STATE TIMBER CORPORATION



The Journey of a Half Century



THE JOURNEY OF A HALF CENTURY



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



Anyone who sees the name State Timber Corporation can understand easily its relationship with timber. With 50 years of experience and commitment, the service rendered to the country and to its loved employees cannot be explained. Despite all these years, the State Timber Corporation is a treasured example for other government entities to run their businesses successfully without being a burden to the Sri Lankan government.

Needless to say, the management of the corporation and all the employees by their generous contribution towards corporation has helped them to move for the victory amidst various obstacles and dilemmas. The primary objectives are to carefully cut and remove our valuable "trees" in a more responsible and environmentally friendly manner, and to make various designs and shapes to the best use of available timber to meet the timber needs of the people.

The State Timber Corporation is marking another milestone in its 50th anniversary with the determination to serve the people for a long time and to serve the country as well.

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*Proud Memories of
Golden Jubilee*







BEGINNING

The State Timber Corporation is a state owned business organization which was established by the Gazette Notifications No. 14796 of 04.04.1968.. 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 14879 of 07.11.1969, No. 178/10 of 05.02.1982, No. 119017 of 26.06.2001 and No. 153817 of 25.02.2008. The initial capital of the Corporation was Rs. 2.5 million.

TODAY

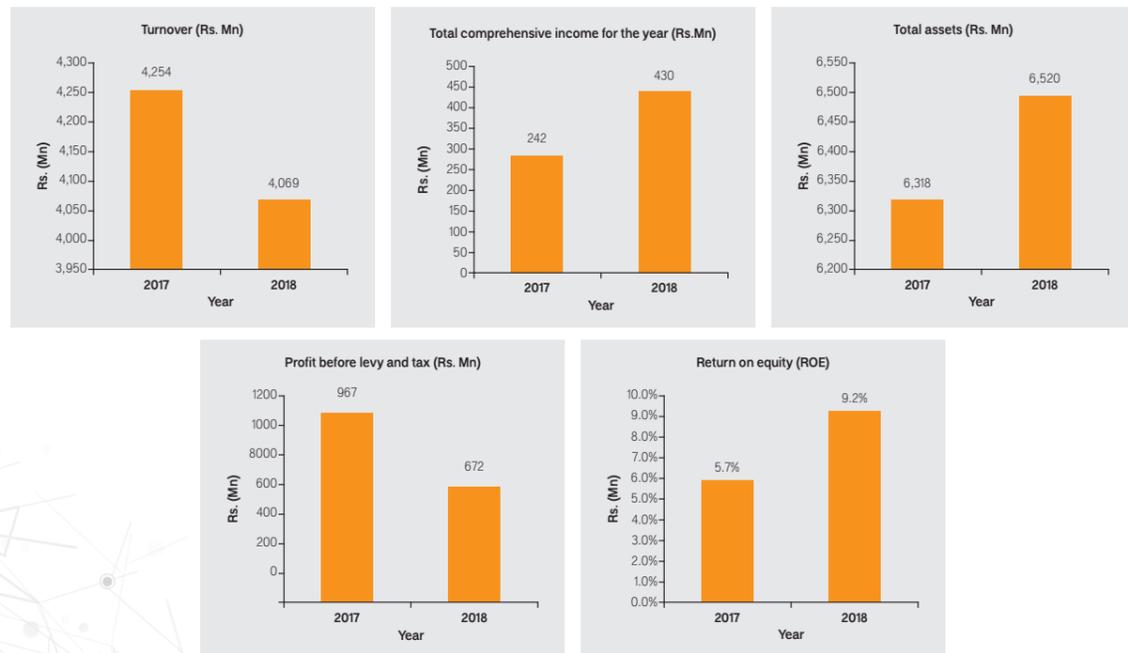
The head office of State Timber Corporation is housed in "Sampathpaya", Battaramulla and which being the core of the Corporation with its sub divisions having been located islandwide.

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 50 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.

FINANCIAL HIGHLIGHTS

For the year ended 31st December		2018	2017	Variance %
EARNINGS HIGHLIGHTS AND RATIOS				
Turnover	Rs. '000	4,069,020	4,253,774	-4%
Profit before levy and tax	Rs. '000	672,433	966,804	-30%
Levy paid to treasury	Rs. '000	100,000	100,000	0%
Tax expenses	Rs. '000	250,372	301,063	-17%
Comprehensive income for the year	Rs. '000	429,662	242,328	77%
Return on equity [ROE]	%	9.2	5.7	61%
Return on assets [ROA]	%	6.6	3.8	72%
FINANCIAL POSITION				
Total assets	Rs. '000	6,520,465	6,317,702	3%
Total equity	Rs. '000	4,660,357	4,230,694	10%
Total debts	Rs. '000	1,860,109	2,087,008	-11%
Debt/ Equity	%	40	49	-19%
Debt/ Total assets	%	29	33	-14%
OTHER INFORMATION				
Total employees	No.	2,001	2,083	-4%
Revenue per employee	Rs. '000	2,033	2,042	-0.4%
Profit per employee [before levy and tax]	Rs. '000	336	464	-28%



AWARDS AND ACCOLADES



2018

State Timber Corporation won the **Gold Award** of the "MANUFACTURING - STATE SECTOR" at the National Business Excellence Awards - 2018 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.



2017

2016

State Timber Corporation won the **Gold Award** of the "MANUFACTURING - STATE SECTOR" at the National Business Excellence Awards - 2017 and 2016



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



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

CORPORATE INFORMATION - 2018

His Excellency Hon. Maithripala Sirisena - Minister of Mahaweli Development and Environment
Mr. Ajith Mannapperuma - State Minister of Mahaweli Development and Environment
Mr. Anura Dissanayake - Secretary, Ministry of Mahaweli Development and Environment

Board of Directors - 2018

Mr. K.W. Shantha Bandara - **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. T.P. Ranjan Fernando - **Director**
 Mr. A.M.C. Perera - **Director**

Dr. N.D. Ruwanpathirana - **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 – 2018

General Manager	Dr.N.D.Ruwanpathirana	PhD (Forestry), M.Sc. (Forestry), B.Sc.
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DEPUTY GENERAL MANAGERS

DGM (Internal Audit)	Mrs.W.W.M.J.Coorey	FCA
DGM (Finance)	Mr.G.D.S.Kumarasinghe	MBA, B.Sc(Acct.Fin. Mgr), ACA, ACMA
DGM (Human Resources & Administration)	Mr.M.A.C.N.Samarasinghe	MPM, B.Sc (Business studies) Ad.Dip in Mgt. and Admin.
DGM (Operation)	Mr.M.C.Devendra	M.Sc. (Forestry), B.sc
DGM (Marketing) (cover up)	Mr.W.B.Samantha	M.Sc.(Forestry), B.Sc. N. Dip.Teaching
DGM (Engineering & Production) (cover up)	Mr. G.G.Thisara Gamage	B.Sc.

ASSISTANT GENERAL MANAGERS

Actg.AGM (Zonal)	Mr.P.K.Ajith Chandana	B.Sc.
Actg.AGM (Zonal)	Mr.H.B.Rajawaththa	BA

MANAGERS

Manager (Administration)	Mr.A.G.H.Kularathne	M.LRHRM,PgD. LRHRM,PQHRM,Dip. in Mgt,Dip. in Forestry,Dip.in English, AMCIPM, ACPM
Manager (Research, Development & Training)	Mr.C.K.Muthumala	M.Sc.(Forestry), B.Sc. (Agri:) Hons.
Manager (Finance)	Mr.P.D.A.M.D. Wickramasinghe	Dip. (F.A)
Manager (Finance)	Mrs.P.T.N.Bowatte	
Manager (Finance)	Mrs.K.D.K.C.De Silva	
Manager (Finance)	Mr.H.G.R.Wijenayake	
Manager (Internal Audit)	Mr.H.M.S.Madawa	B.Com (Sp)
Manager (Mechanical Engineer)	Mr.A.K.Lasitha Edmand	B.Sc.(Engineering)
Manager (Purchasing & Ship.)	Mr.T.Aruna De Silva	
Manager (IT)	Mr.A.G.Maduwege	
Manager (Security)	Mr.Chaminda Weeraman	
Manager (Sleepers & T.Poles)	Mr.D.M.Pushpakumara Nilmini	B.Sc.

REGIONAL MANAGERS

Reg.Manager (Head Office)	Mr.R.Vijethunga	B.Sc.(Agri.)Sp
Reg.Manager (Head Office)	Mr.M.D.C.Sampath	BA
Reg.Manager (Colombo)	Mr.H.P.S.Dissanayake	BA
Reg.Manager (Monaragala)	Mr.M.K.G.Wasantharaj	
Reg.Manager (Anuradhapura)	Mr.H.L.Nandana	B.Sc.
Reg.Manager (Ampara)	Mr.U.P.H.Uluwaduge	B.Sc.
Reg.Manager (Rathnapura)	Mr.D.H.Rajapaksha	M.Sc.(Forestry),B.Sc.
Reg.Manager (Kandy)	Mr.E.M.S.Ekanayaka	
Reg.Manager (Jaffna)	Mr.Sri Skandharasa	
Reg.Manager (Kurunegala)	Mr.U.S.M.Fernando	BA (Sp)
Reg.Manager (Matara)	Mr.W.I.Saranga	B.Sc.(Hon.)
Reg.Manager (Nuwaraeliya) (Cover up)	Mr.D.A.Hedavitharana	
Reg.Manager (Bandarawela) (Cover up)	Mr.Sunil Jayarathna	
Reg.Manager (Minneriya) (Cover up)	Mr.L.S.Jayasekara	

DEPUTY MANAGERS

Dy.Manager (Legal)	Mrs.K.I.D.P.Kariyawasam	LLB, Attorney at Law
Dy.Manager (Designing & Quality Assurance)	Mrs.E.M.M.Fernando	
System Analyst	Mr.W.H.A.Chandrakumara	B.Sc.
System Analyst	Mr.J.M.M.B.Jayasundara	B.Sc. (Sp) Hon.
Dy.Manager (HR)	Mrs. H.P.Perera	
Dy. Manager (HR)	Mrs. K.S.Abeynayake	
Dy.Manager (Finance) - Boossa	Mr.U.S.Madawala	HNDA, MAAT
Dy.Manager (Finance) - Kandy	Mr.H.M.P.B.Herath	MBA, FABA, HNDA, PgD
Dy.Manager (Finance) - Boossa	Miss.A.L.W.Thushari de Silva	HNDA, MAAT
Dy.Manager (Finance) - Nuwaraeliya	Mr.N.T.S.K.P.Thilakawardana	HNDA, MAAT
Dy.Manager (Finance) - Jaffna	Mr.W.M.G.M.Wijesinghe	B.Sc.(Bus.Admin.) MAAT.
Dy.Manager (Finance) - Monaragala	Mr.A.J.Pushpakumara	B.Sc.(Bus.Admin)
Dy.Manager (Finance) - Minneriya	Mr.M.D.P.M.Dissanayake	B.Sc.(Acc)
Dy.Manager (Finance) - HO	Mrs.D.N.Wijesuriya	B.Sc.(Acc), CTA
Dy.Manager (Finance) - HO	Mrs.S.Vithanage	
Dy.Manager (Finance) - Anuradhapura	Mrs.W.K.Jayasinghe	
Dy.Manager (Finance) - Colombo	Mr.S.P.A.J.C.Samarakoon	B.Sc.(Finance)
Dy.Manager (Finance) - Bandarawela	Mr.S.M.Hewage	B.BA(Bus.Econ.)
Dy.Manager (Finance) - Kaldemulla	Mr.W.A.L.S.Perera	
Dy.Manager (Finance) - Kurunegala	Mr.S.H.I.Prasad	B.BA(Bus.Econ.)
Dy.Manager (Finance) - Jaffna	Mr.D.K.G.G.Pushpakumara	B.Com.
Dy.Manager (Marketing)	Mr.W.D.A.S.Thilakarathne	
Dy.Manager (Timber grading)	Mr.D.P.K.S.G.Samarawickrama	B.Sc.(Mkt.Mgt.)
Dy.Manager (Timber supply)	Mr.B.A.Nalin Desappriya	
Dy.Manager (Furniture Design)	Mrs.H.M.T.S.Abeyrathne	B.Desi. (Hon.) MBA in MOT
Dy.Manager (Timber sawmill)	Mr.M.P.N.Aruna Shantha	B.Sc.(Bus.Admin.)

Dy.Manager (Investigation)	Mr.S.A.D.Niroshan	B.Sc.(Bus.Mgt.)
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DEPUTY COMPLEX MANAGERS

Actg.Dy.Manager (Furniture Complex) Ampara	Mr.N.P.S.W.Jayarathna	
Dy.Manager (Furniture Complex) Kaldemulla	Mr.H.M.U.P.Somaweera	BLE, Dip. IT & M
Dy.Manager (Furniture Complex) Boossa	Mr.R.S.Palliyage	B.Sc.(Bus.Admin)

DEPUTY REGIONAL MANAGERS

DRM (Bandarawela)	Mr.I.P.Liyanage	
DRM (Nuwaraeliya)	Mr.W.D.P.G.Jayasekara	
DRM (Minneriya)	Mr.K.M.P.T.C.Kapilarathna	
DRM (Minneriya)	Mr.U.J.G.Ekanayaka	
DRM (Kandy)	Mr.R.C.Saman Kumara	
DRM (Kandy)	Mr.W.A.S.Wijesekara	
DRM (Jaffna)	Mr.T.P.Ramesh	
DRM (Rathnapura)	Mr.H.A.Gamini Alwis	
DRM (Monaragala)	Mr.S.C.Jayamanna	B.Sc.
DRM (Keppetipola)	Mr.D.L.Abeynayake	
DRM (Matara)	Mr.K.Chandrasena	
DRM (Anuradhapura)	Mr.M.W.W.B.Mudannayaka	
DRM (Colombo)	Mr.E.M.A.K.Edirisinghe	
DRM (Ampara)	Mr.P.Hettiarachchi	B.Sc.
DRM (Kurunegala)	Mr.S.A.Manoj Thushara	
DRM (Kurunegala)	Mr.R.P.P.D.Jayasinghe	



CHAIRMAN'S MESSAGE

“ we once again expanded our environmental and sociocultural performance at a high level. On the sustainability front, organization is aware of the gravity of employing environmentally sustainable practices

State Timber Corporation took further great steps towards sustainable achievement in the 2018 year under review. As the Chairman of the State Timber Corporation, I would like to present to you on behalf of the Board of Directors of the Corporation the Annual Report and the Audited Financial Statements of the State Timber Corporation for the year ending 31st December 2018.

Operating environment

Looking back past 50 years, I am very happy that this journey has come through obstacles and hardships. Considering the economic and political situation in Sri Lanka and the world, the success of the State Timber Corporation is a good example to all state institutions in the country.

Although the year under consideration was a very difficult year for our Corporation, the commitment, confidence and untiring efforts of the entire Board of Directors, the management as well as the entire staff to achieve the objectives somehow led to the success of 2018. Decisions taken by the Government of Sri Lanka from time to time for environmental reasons often directly affect the functioning of the Corporation. 2018 is the year that marks the beginning of a new chapter with 5 decades of celebration.

State Timber Corporation plays major role in the timber industry by providing most trusted and quality timber product. We continued to strengthen our economic performances and increase efficiency in all our business processes. At the same time, we once again expanded our environmental and sociocultural performance at a high level. On the sustainability front, organization is aware of the gravity of employing environmentally sustainable practices.

It is our belief that the much valued asset of the corporation is the human resource. During 2018 we continued to invest in our staff in the form of training and professional development programmes 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 2018 to win the Gold Award for the state sector best production division is testimony to our commitment.

Corporate social responsibility

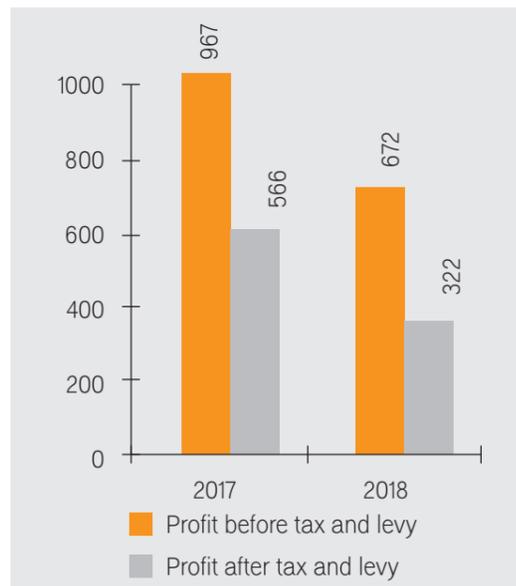
In 2018 it was possible for us to achieve performance improvement through adoption of all-round controlling standard and entrepreneurship skills. In keeping with the concept of sustainable development, we also built our track record as a responsible corporate citizen by continuing “ThurujanaSisu Bank”, tree planting programme which has been implementing through a special unit established under the State Timber Corporation for this purpose. We were produced around 130,000 saplings in STC nurseries and distributed among the government, Semi-Government, Non-Government institutions and schools for free of charge under “Wanaropa” programme. Concurrent programmes organized for the 50th anniversary of State Timber Corporation, scholarships were offered to the children of employees who were studying in universities.

Financial performance

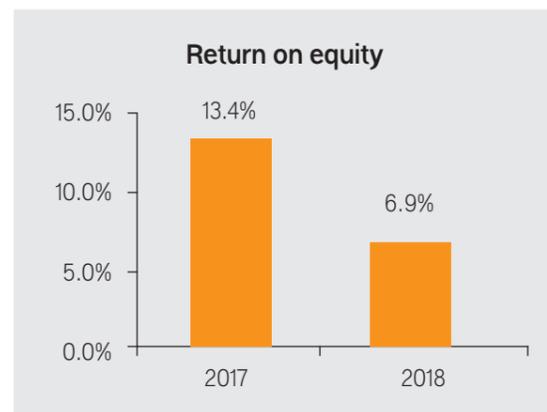
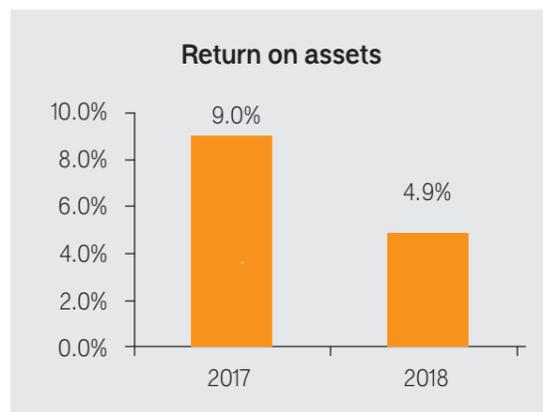
Sri Lanka recorded a growth rate of 3.2% whilst all sectors of the economy contributed to this growth, a lower proportion were delivered by the industry sector to growth rate recorded in 2018.

The Corporation recorded turnover of Rs. 4,069 million during the financial year 2018 compared to Rs. 4,253 million in the previous year. Even when sales revenue is down, State Timber Corporation was able to record a profit before treasury levy and tax of Rs.672 million and profit after tax of Rs.322 million in 2018. Profit before treasury levy and tax and profit after tax declined by 31% and 43% respectively, compared to the figures reported in 2017.





Return on Assets is an indicator of how profitable a Corporation is relation to its total assets. In 2018 it was 4.9% and marked 45% decline compared with previous year 2017. The increase in administrative and sales and distribution costs, coupled with the decline in sales revenue compared to the previous year, has led to a decline in net profit. However, the Corporation was able to contribute Rs. 2199 million to the national economy as tax payment, stumpage payment and special levy paid to the consolidated fund. It was marked Return on Equity of 6.9% which was the 48% decline compared with year 2017. Sri Lankan government is the main shareholder of the Corporation. STC has generated higher Return on Equity throughout the past few years. Return on Equity has grown year by year and STC has utilized its increased capital to generate more profits and to make capital investment effectively.



My gratitude

I take this opportunity to extend my sincere thanks to the General Manager and his staff for their continuous contribution to put the Corporation in to a firm stability. My sincere gratitude is also hereby expressed to our valued customers, whose loyalty to us as their long-term supplier of timber and timber based products.

On behalf of the Board of Directors, I am much grateful for the immense and support and co-operation extended to us by the Minister of Mahaweli Development and Environment, 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.

Although 2018 was not an easy year, our primary challenge is to break through the barriers and work with determination to make the coming year even more successful.

Shantha Bandara
Chairman
State Timber Corporation

Looking ahead

The State Timber Corporation has been able to contribute enormously for development of the timber 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.

We will develop our strategy to deliver excellent results in line with our targets through diversify our investing approaches to enhance the robustness of our asset base and focus on improving the resilience of our capital structure, all of which will accelerate short and medium-term growth.

I am confident that today the State Timber Corporation is well prepared to the challenges and take advantage of the opportunities to build market share and to grow its core business. The company annually plans to innovate further, reduce resource wastage through modern technology and make customers more satisfied.



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 2018 during which we were able to earn profits with high cost regime and it was the most challenging time for timber industry compared with previous years...

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 2018 during which we were able to earn profits with high cost regime and it was the most challenging time for timber industry compared with previous years. As I look back on the journey of rough gravel with so much experience gained over the course of five decades, I feel a very serious feeling about the corporation. In this year we are celebrating 50 years of excellence as government entity which is able to stand alone and grow up as against in the local timber industry.

Who we are

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 island wide operational network consisting of 12 regional offices, 53 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 furniture showrooms.

Demand and supply

The national demand for industrial timber in Sri Lanka is around 16-17 lakhs cubic meters. 18% of the annual sawn timber requirement is about 1.5 lakhs cubic meters of timber valued at Rs. 9,074 million is imported annually. The Forest Department owns about 100,000 hectares of forest plantations. About 2000 hectares can be released to harvest for timber per year, which can provide more than 200,000 cubic meters of timber annually for the national timber requirement. However, at present only 1000 hectares are being released, which yields only 100,000 cubic meters of timber. To stop the importation

of timber, the remaining amount of timber can be achieved through enrichment and development of trees in home gardening, by increasing the yield of forest plantation and converting failed forest plantations into successful plantations.

Performance of the year

Considering the past few years with year under review the economic and political situation in the country is not running under satisfactory level and business faced many difficulties. Due to the decrease in sales revenue of the corporation, the high cost of labour and administrative expenses, the performance of the Corporation has come down in comparison to last year. The State Timber Corporation has formulated its objectives and policies in 2018 aimed at achieving sustainable economic development in parallel to the national economic strategies and appropriate economic policies. The annual net turnover was Rs.4,069 million in 2018 and it was 4% decreased compared with previous year. In spite of the downturn, the profit before tax and treasury levy, the Corporation has earned Rs 672 million compared to Rs 967 million in the previous year.

However, contributing Rs.2,199 million to the national economy including Rs. 100 million as special levy paid to the General Treasury, Rs. 744 million as indirect and direct taxes and Rs.1355 million as stumpage. Profit After levy paid to Treasury and tax was amounted to Rs.322million and previous year it was Rs. 566 million. This year's recession has been sluggish compared to the previous year, but it is already in place to achieve higher performance in the coming year further strengthening our production standards. Our success at the National Business Excellence Award 2018 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.

Acting as a responsible entity

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 2018 we also built our strong track record as a responsible corporate citizen by continuing “ThurujanaSisu 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 Kegalle and Kurunegala districts and conducted tree planting and awareness programs. To mark world environmental day, distributed saplings for the selected government agencies and organized Jack tree planting program along the Alawella road, Matara.

As a fulfillment of social responsibility opportunities were provided to undergraduates to engage in research and training under various Divisions of the Corporation. In addition to that, 43 scholarships were offered to the children of employees who were studying in Universities as special project to celebrate our 50th Anniversary. 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.

Employer and employee relationship

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. People are the most valuable resource of the Corporation. Their commitment and efforts have driven for the success in good times and hard times. 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. Employee promotions, transfers, scholarships and recruitments are carried out in a transparent and fair manner in a manner that builds employee trust by ensuring the job security of the employees. The corporation offers a variety of facilities to improve the quality of life of the employees and providing more than 2,000 individuals employment opportunities and it also acts as a government agency to reduce unemployment, which is a major problem in the country. Arrangements are being made to introduce a methodology for measuring the service efficiency of employees (PBES) in the future and we hope to encourage employees and create a satisfied staff.

Linkage to the environment

STC added value to the environment by providing timber demand in sustainable way. As CO₂ is a green house gas it traps heat from the atmosphere and leads to enhance the green house effect beyond the optimum level. Trees can sequester 3.67 times of carbon dioxide from atmosphere and store 1 carbon unit in timber tissues through the process of photosynthesis. This depends on the tree species, age, growth rates, site qualities and the forest management practices. Timber is a renewable raw material. Therefore harvesting and correct utilization in scientific manner by considering these concepts can quench the timber thirst of public as well as the environmental aspects. STC wish to plan next 5 years corporate strategic plan based on these concepts by ensuring their environmental linkage and the scientific visionary.

Future outlook

Plans are afoot to develop the timber industry over the next 10 years, to produce value-added quality timber products and increase sales revenue by selling to local and foreign markets. The State Timber Corporation expects to increase its furniture revenue from 10% of its total revenue to 30% over the next 10 years and reduce its revenue from the sale of logs form without value addition from 69% to 50% to release more value added timber products to the market. Extensive implementation of wood related research and taking into account all the modern “ergonomics” and “anthropometric” theories

to manufacture of furniture according to the structure of the human body. Then the human body can feel very comfortable as well as can avoid physical discomfort. Furthermore, arrangements are being made to grade the logs and sawn timber according to a scientific methodology with the introduction of a new method of timber grading rules. As the next step, we are planning to implement a system of quality assurance to the manufacture of furniture, from the use of raw materials to the delivery of the finished product, through the development of an ISO certification program in the coming years.

My heartfelt gratitude

I take this opportunity to thank my fellow employees, 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 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 2018.

The State Timber Corporation is not just for-profit earning. We do businesses in a way that ensures the future of the entire country and the environment. It is our wish that your valuable sustainable (green) timber product, certified by the State Timber Corporation will be preserved for more generations.



Dr. N.D. Ruwanpathirana
General Manager
State Timber Corporation



OUR FUNCTION

- 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 2018

Mr. K.W. Shantha Bandara
Chairman
State Timber Corporation

Mr. H.Y.T. Pawarakumara
Working Director
State Timber Corporation

Mr. D. Wijesiriwardena
Director
Treasury representative

Mr. S.A.A. Sathursinghe
Director
Conservator General of Forest

Mr. M.V. Karunarathna
Director

Mr. T.P. Ranjan Fernando
Director

Mr. A.M.C. Perera
Director

Senior Management Team 2018

Mrs.W.W.M.J.Coorey
Deputy General Manager - Internal Audit

Mr.G.D.S.Kumarasinghe
Deputy General Manager - Finance

Mr.M.A.C.N.Samarasinghe
Deputy General Manager - Human Resources & Administration

Mr.M.C.Devendra
Deputy General Manager - Operation

Mr.W.B.Samantha
Deputy General Manager (Coverup) - Marketing

Mr. G.G.Thisara Gamage
Deputy General Manager (Coverup) - Engineering & Production

Board of Directors' Review for the Year 2018

The directors of the State Timber Corporation have pleasure in presenting Annual Report together with the Audited Financial Statements of the Corporation for the year ended 31st December 2018.

Overview

State Timber Corporation is a state owned business entity which was established in 1968. It was incorporated under the provisions of State Industrial Corporation act No. 49 of 1957. The head office of State Timber Corporation is housed in "Sampathpaya" Battaramulla and sub divisions are located islandwide.

Principal activity

State Timber Corporation earns its revenue primarily through manufacture and sale of timber and timber based products.

Review of business

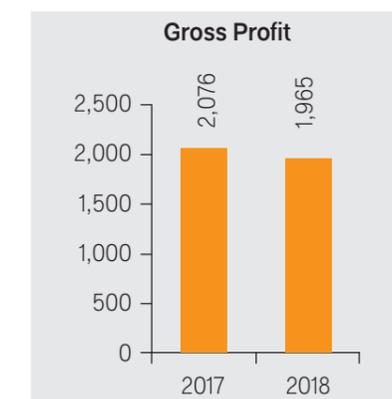
Year 2018 was a challenging year under the rapidly changing economic, political as well as environmental conditions in Sri Lanka. With strategic decisions of Board of Directors, STC carried out its business and performed in reasonable manner in the year under review and completed its annual budgets same as past 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 availability of natural timber resource, growing market competition and substitutes available for natural resources in the market. Solution for the scares timber, STC has expanded its business functions to import quality timber to Sri Lanka as mentioned in the gazette notification issued by the government. 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.

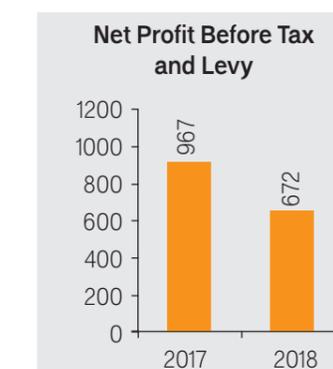
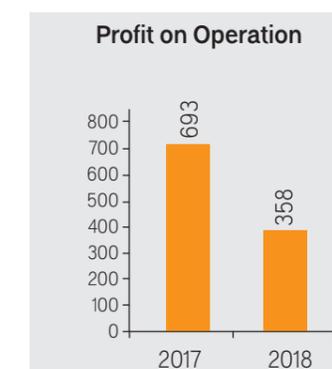
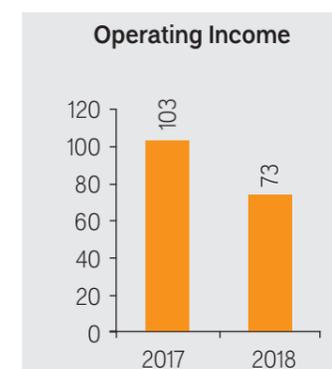
Financial performance

Performance	2018	2017
	Rs. Mn	Rs. Mn
Turnover	4,069	4,254
Gross profit	1,965	2,076
Other operating income	73	103
Profit on operation	358	693
Non - operating income	315	274
Levy imposed by treasury	100	100
Net profit before tax and levy	672	967

The turnover of the Corporation during the year declined to Rs. 4,069 million, compared to Rs. 4,254 million in the previous year. The total turnover of year under review is decreased by 4% compared with the previous year. Gross Profit for the year was Rs. 1,965 million compared to 2,076 million in the previous year, and it was decreased by 5% compared with year 2017.



Net profit before tax and levy for the year under review was Rs. 672 million and it was Rs. 295 million reductions compared with the previous year net profit before tax and levy of Rs.967 million. STC is always at the forefront of performing as a responsible entity without thinking only to earn higher profits. STC believes that, it has responsibility to provide quality products to the market and more employment opportunities to support the government to reduce high rate of unemployment in Sri Lanka. Therefore, STC has to incur high operational cost and to bear high cost of employment in every year by giving more than 2,000 number of employment opportunities. The Corporation has incurred Rs. 1,680 million as administration and selling and distribution expenses in addition to the Rs. 2,104 million as cost of sales for the year under review. Rs.1,602 million was paid as total cost of employment for the benefit of employees.



In 2018, net profit of the Corporation after deducting all the expenses incurred for operational activities, special levy paid to the treasury and income taxes is Rs.322 million. By evaluating this year performance, we concentrate to employ all our energies towards expanding business functions and diversifying business activities to cope well under growing global and local market competitions. STC continued to enjoy strong demand for value added products that are specially developed for local market.

Return on assets ratio reflects how was the Corporation able to earn profit by using its assets and Return on assets and return on equity for 2017 and 2018 are as follows,

	ROA	ROE
2017	3.8%	5.7%
2018	6.6%	9.2%

Year under review was able to achieve a ROA ratio of 6.6% and ROE ratio of 9.2% and it was 72% and 61% increase compared with previous year performance respectively. The Corporation's contribution to the Government Revenue for the period under review was Rs. 2,199 million by contributing Rs. 100 million as treasury levy.

Our growth strategy will focus on developing innovative product portfolio, minimizing wastage, introducing substitutes for hardwood, encouraging people to plant valuable timber trees and signing special agreements to obtain orders from other countries to earn foreign currency. We look forward to sustaining the strong growth of the Corporation over the short to medium term.

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 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 related 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 objects 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.

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 2018. 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.

Extraction of timber from state forests

Declining the extent of matured forest plantations released from the Forest Department was a main obstacle that we had to face recently. We had to make necessary arrangements to release more forest plantations with Forest Department and General Treasury and to purchase untreated transmission poles and sleepers from State Plantation Corporation, and to negotiate with Sri Lanka Railway and Land Reform Commission in order to extract timber from their lands.

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 2017 and 2018 are as follows.

Species	Clear Felling (Ha)		Thinning (Ha)	
	2018	2017	2018	2017
Teak	836.4	569.8	225	375.9
Eucalyptus	73	210.7	526	515.0
Pinus	124.3	160.2	-	-
Kaya	-	-	37	20.0
Akashiya	65.1	30.0	-	-

Conversion of logs into sawn timber

4,389m³ sawn timber has been produced by the saw mills and 3,059m³ has been sold out the island wide STC depots during the year 2018 as against the 4,909m³ production of year 2017.

Treatment of transmission poles and sleepers

During the year under review 43,651 numbers of sleepers, 9,850 numbers of transmission poles and 17,155 numbers of elephant poles treated in the STC treatment plants at Kaldemulla, Keppetipola and Boossa. Production of sleepers has been increased during the year under review by 489% compared to last year. Production of transmission poles and elephant poles have been significantly dropped during the year due to low demand of the Ceylon Electricity Board and Department of Wildlife compared with past years' production of 20,186 and 33,424 units respectively.

Manufacturing of furniture

STC furniture plants at Ampara, Boossa and Kaldemulla have been produced Rs. 232.2 million worth furniture during the year 2018. Furniture worth Rs. 301.90 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 dropped by 21% during the year compared with previous year.

Production, sales and revenue 2017-2018

		Production		Sales volume		Sales value (including taxes)	
		2018	2017	2018	2017	2018	2017
						Rs.Mn	Rs.Mn
Logs	M3	130,040	146,094	115,471	131,518	3,249.2	3,653.7
Sawn Timber	M3	4,389	4,909	3,059	2,997	268.5	290.2

Sleepers	No.	43,651	7,416	45,301	14,322	499.2	153.1
Trans. Poles	No.	9,850	20,186	11,733	19,484	120.1	197.8
Elephant Poles	No.	17,155	33,424	34,493	25,616	131.5	88.9
Round Poles	No.	112,837	141,790	114,058	132,863	20.4	21.3
Fire Wood	M3	101,172	126,861	95,680	119,669	57.7	64.5
Fence Post	No.	125,967	114,681	89,917	103,516	11.7	13.9

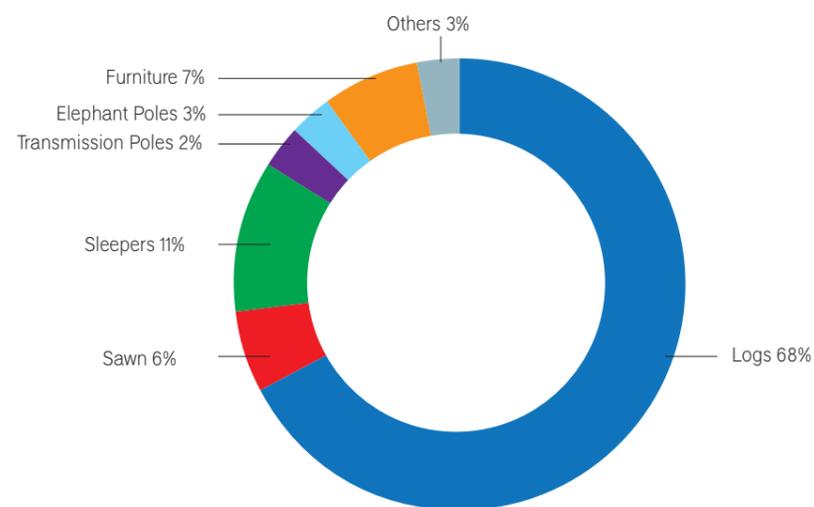
Managing Customer Expectations

The Marketing Division of the State Timber Corporation plays a vital role in promoting the business and mission of the Corporation. We, as a team carry out following key activities to achieve our objectives.

- Determining the need for a product through consumer research and by observing sales patterns of similar goods in the marketplace.
- Modifying existing products or creating new products to match consumer wants and needs.
- Determining how best to reach potential customers to make them aware of our products and persuade them to buy them.
- Creating marketing campaigns in effective way of reaching customers.

As a profit earning state owned organization, main risk we identified in this year is, small scale entrepreneurs coming up with the strategies to cater to the same market segment we are operating in the furniture industry. They are developing strategies to target high end customers by introducing modern furniture designs match to the current market trends at a low price. Thus, to mitigate this & compete with the key players in the industry, STC developed its marketing strategies by emphasising quality of its products, specially the quality of the timber we use. Furthermore, we have diversified product range, by which we are expected to offset the risk.

Contribution of STC products to the revenue in 2018



While supplying diversified product portfolio, we manage supply tailor made furniture as per the customer requirements through well qualified designing team to stand out in the competition.

Another biggest challenge we face is, we have to operate in undeveloped industry which has not come to the optimum level. As a result, harvested timber is used within the country, which makes

timber resources underutilized. As, the timber harvested from forest plantations & the other hardwood logs are not in optimum quality to meet current industry demand, it needs to be downgraded to sell before being deteriorated. As a result, we have been unable to cover the cost of production in some circumstances.

As motioned earlier, Sri Lankan context timber and timber based product market are highly competitive, due to the large number of emerging small scale players and the fewest number of giant players in different sectors within the industry. However, STC managed to have considerable market share in its each market segment in 2018 as follows.

- 13% market share of Logs, Sawn timber and other product except furniture.
- 0.5% market share in the furniture industry.
- 12.29% market share in the wood industry.

As STC holds, sole ownership in supplying of transmission poles, elephant poles, and sleepers, we are obliged to ensure timely supply in keeping with the requirement of the relevant institutes and we always try to give necessary assistance & guidance to fulfil the requirements of entrepreneurs, through B 2 B trade of few species logs & sawn timber, which create social responsibility. Apart from that, as we are supplying a sizable portion of a market, we have some control over the prices in logs and sawn timber sector. Hence we act as a price setter of the industry.

"Customers are core for any business". Companies manufacture products to fulfil their needs. Every company would like to increase their market share through sales by beating their competitors. In order to achieve this, STC implemented efficient and effective marketing plan. The most vital element of a successful marketing plan knows our customers likes, dislikes and expectations. Therefore, through this new marketing plan, State Timber Corporation tried to touch every single aspect of 4 P's (Product, Price, Place, Promotion). Such as,

- New channels of distribution
- Customer oriented production plan
- Slight change in pricing model
- New promotional strategies.

Key achievement of STC in the year 2018 is, we were able to initiate online furniture business through our web store, to cater to millennial buyers who turn to the internet first to gather information, compare prices and order products.

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 for 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

Shantha Bandara
Chairman
State Timber Corporation

Our Reach

Ampara Region



Batticaloa Depot

Padiyathalava Depot

Ampara Regional Office
Ampara depot
Ampara Saw Mill
Ampara Show Room



Anuradhapura Region



Vavuniya Depot

Medawachchiya Depot

Anuradhapura Regional Office
Anuradhapura Depot

Thalawa Depot



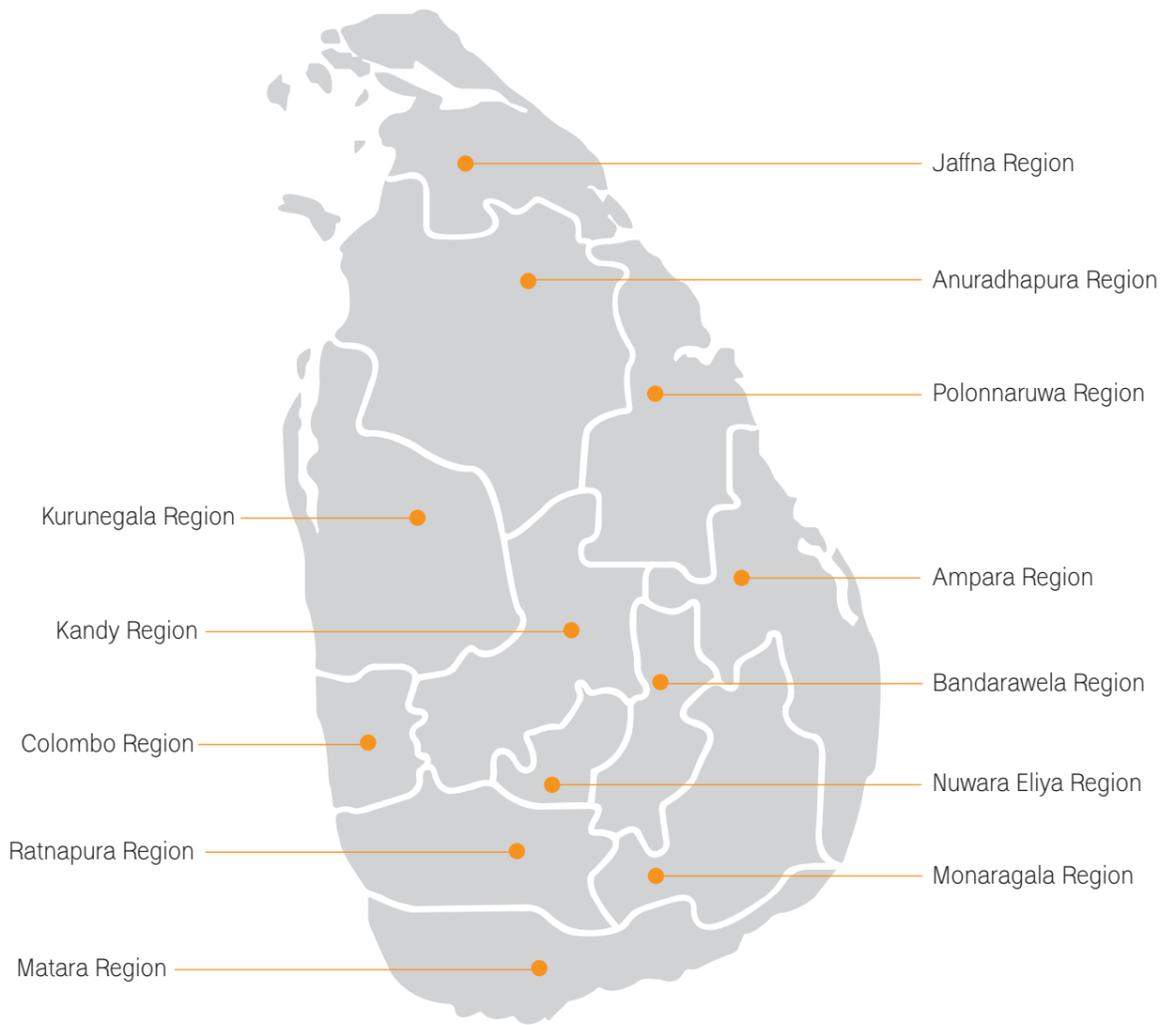
Bandarawela Region



Boralanda Depot

Bandarawela Regional Office

Bandarawela Saw Mill



Colombo Region

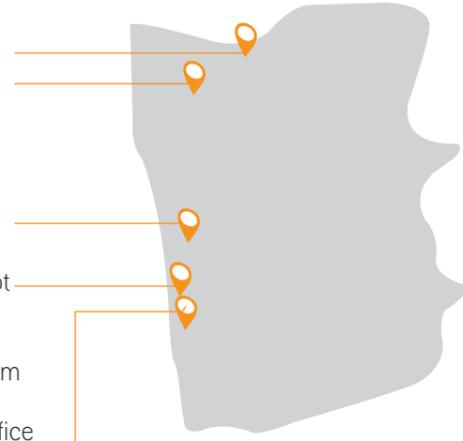


Mirigama Depot
Kadawatha Depot

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



Kurunegala Region



Puttalama Depot

Nikaweratiya Depot

Melsiripura Depot
Melsiripura Saw Mill

Bingiriya Depot

Kankaniyamulla Depot
Nainamadama Depot

Kurunegala Regional Office
Kurunegala Depot



Jaffna Region



Jaffna Regional Office
Jaffna Depot

Nallur Depot

Kilinochchi Depot



Monaragala Region



Monaragala Regional Office

Buttala Depot

Wellawaya Depot



Kandy Region



Dambuluoya Depot

Matale Depot

Pallekela Depot
Kanda Regional Office
Kandy Show Room
Nelundeniya Depot

Ethgala Depot
Ethgala Saw Mill



Matara Region



Boossa Depot
Boossa Saw Mill
Boossa Show Room
Ambalangoda Depot

Matara Regional Office
Thalalla Depot
Thalalla Show Room
Hambantota Depot



Nuwara Eliya Region



Harasbedda Depot
Kithulgala Depot

Nuwara-Eliya Regional Office
Nuwara Eliya Depot
Keppetipola Depot
Keppetipola Saw Mill



Polonnaruwa Region



Vilankulama Depot
Minneriya Depot
Habarana Depot

Kaduruwela Depot
Polonnaruwa Regional Office



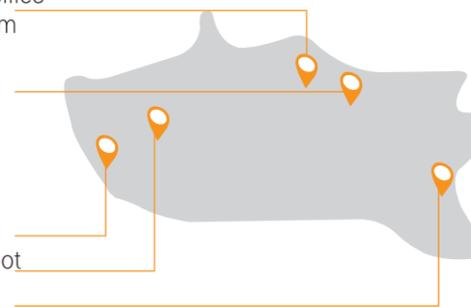
Ratnapura Region



Ratnapura Regional office
Ratnapura Show Room

Dela Depot
Dela Saw Mill

Beruwela Depot
Mathugama New Depot
Thimboldetiya Depot



Audit and Management Committee Report

Members of the Audit and Management Committee - 2018

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, is 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

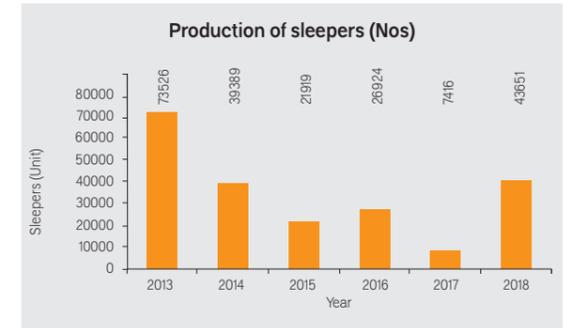
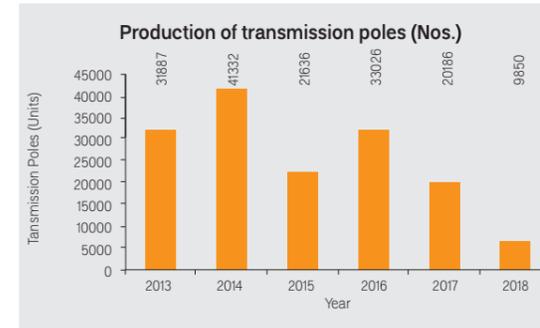
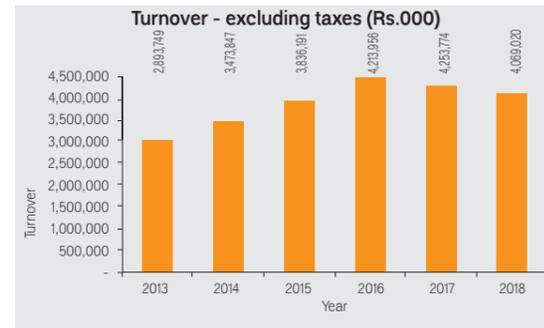




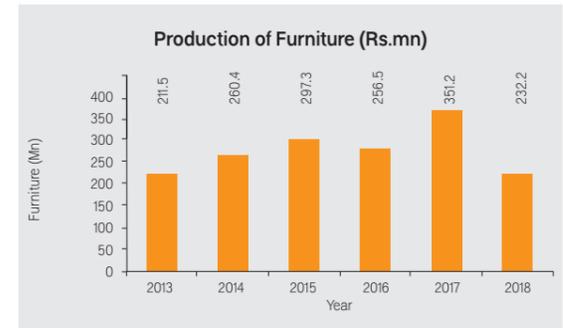
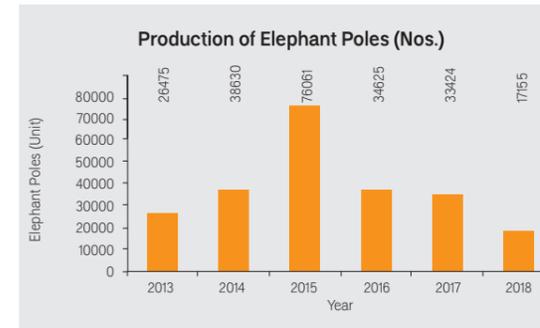
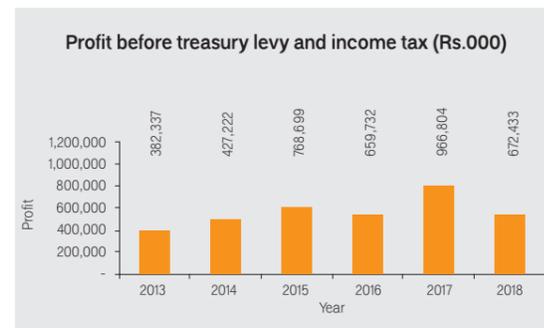
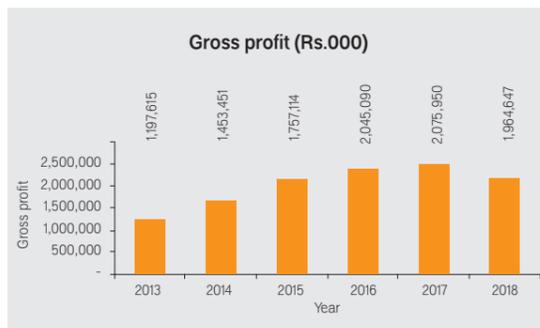
Business Summary



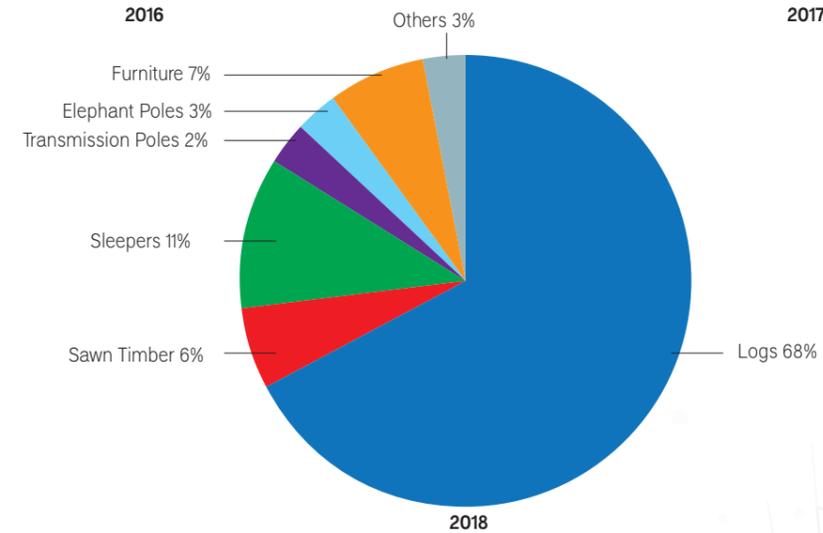
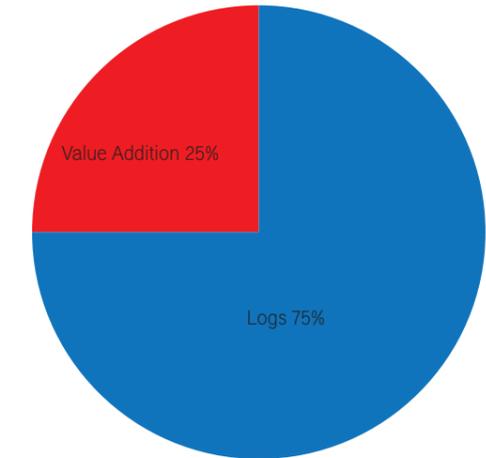
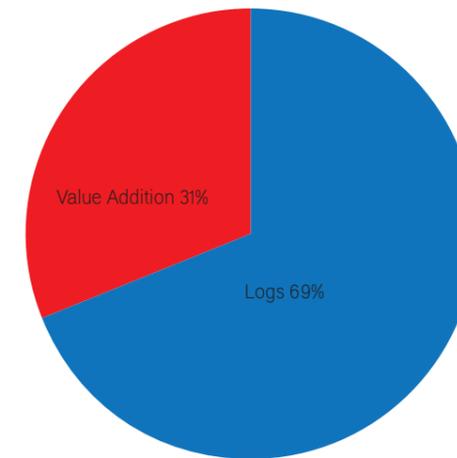
Income growth trend analysis



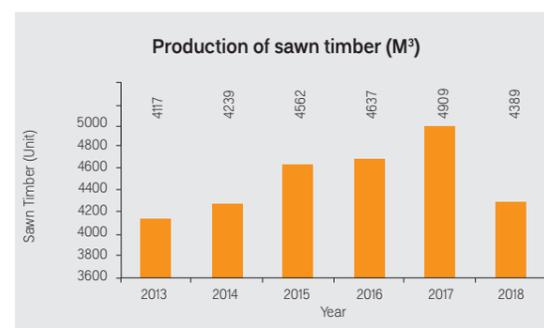
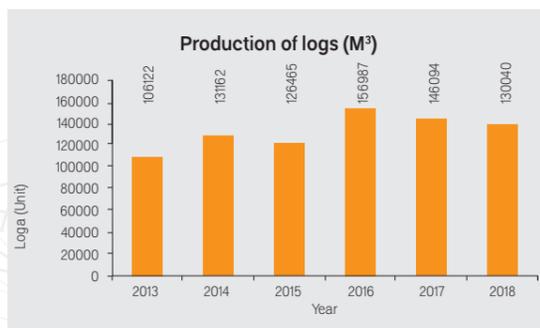
Prifit growth trend analysis



Value Addition



Production growth trend analysis





Capital expenditure - 2018

Description (more than 1mn)	Rs.
Construction of the regional office building- Bandarawela region	25,721,558
Construction of the office and circuit at Pannipitiya - Colombo region	12,285,226
Construction of the Showroom building at Thalalla - Matara region	10,499,908
Construction of the depot office premises at Thibolketiya - Ratnapura region	8,275,819
Construction of the ARM office at Kumbukkana - Monaragala region	7,977,115
Construction of the Padiyathalawa depot office premises - Ampara region	5,925,072
Stacking shed for Vilankulama depot - Polonnaruwa region	5,818,931
Stacking shed for Kaldemulla seasoning plant at Kaldemulla complex	5,345,449
Labour quarters at Ampara - Ampara region	5,159,443
Concrete road - Ratnapura region	2,577,665
Fence and main gate at Ampara depot-Ampara region	1,713,889

Investment

	31-12-2018	31-12-2017
Government ins. temporary surplus trust fund	457,962,079	431,403,535
People's bank	740,849,636	367,323,062
Land reclamation and development (pvt) ltd	500,000	500,000
Bank of Ceylon	831,506,739	1,327,057,585
State mortgage and investment bank	187,946,304	173,287,242

Decade at a glance

(Absolute values)	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total revenue for the year	Rs. '000	3,445,141	3,616,164	3,103,744	3,563,390	3,213,644	3,756,482	4,522,238	4,630,718	4,457,024
Gross profit for the year	Rs. '000	1,351,695	1,365,285	1,237,640	1,546,107	1,197,615	1,453,451	1,757,115	2,045,090	2,075,950
Net profit before levy and tax	Rs. '000	810,612	877,623	603,499	801,681	382,337	427,222	768,699	659,732	966,804
Total cost of employment	Rs. '000	898,652	901,910	953,498	1,065,052	1,117,036	1,254,516	1,449,746	1,789,572	1,572,775
Capital expenditure for the year	Rs. '000	112,909	237,332	180,546	162,509	332,870	115,132	244,929	113,675	94,637
Non current assets as at end of the year	Rs. '000	1,793,467	1,801,988	1,739,893	1,479,880	1,658,535	1,654,908	1,743,580	1,732,640	1,894,597
Current assets as at end of the year	Rs. '000	2,079,543	2,341,020	2,177,892	2,929,185	3,153,777	4,004,860	4,115,259	3,652,116	4,423,105
Current liabilities as at end of the year	Rs. '000	1,028,979	1,034,258	497,229	804,102	1,050,258	1,591,991	1,480,966	897,087	1,234,716
Non current liabilities as at end of the year	Rs. '000	364,553	399,057	399,953	409,030	384,831	484,649	424,854	499,373	852,292
Equity as at end of the year	Rs. '000	2,479,478	2,709,694	3,020,602	3,195,933	3,377,223	3,583,129	3,953,019	3,988,297	4,230,694
Contribution to the consolidated fund	Rs. '000	50,000	413,490	75,000	600,000	50,000	25,000	50,000	175,000	100,000
No. of employees as at end of the year	Nos.	2,457	2,346	2,267	2,187	2,139	2,186	2,145	2,125	2,083
Investment of surplus fund as at end of the year	Rs. '000	858,777	605,235	764,328	298,546	338,010	360,227	382,550	405,727	431,404
Key performance indicators										
Net profit before levy & tax to equity	%	32.69	32.39	19.98	25.08	11.32	11.92	19.45	16.54	22.85
Net profit before levy & tax to total assets	%	20.93	21.18	15.40	18.18	7.94	7.55	13.12	12.25	15.30
Current ratio	Times	2.02	2.26	4.38	3.64	3.00	2.52	2.78	4.07	3.58
Total cost of employment per employee	Rs. '000	365.75	384.45	420.60	486.99	522.22	573.89	675.87	842.15	755.05
Equity : Asset ratio	Times	0.64	0.65	0.77	0.72	0.70	0.63	0.67	0.74	0.67
Return on assets	%	9.26	5.32	7.68	3.73	3.78	3.64	6.31	0.66	3.84
Total revenue growth	%	15.34	4.96	(14.17)	14.81	(9.81)	16.89	10.00	9.44	2.40
										(3.75)

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 three forms such as strategic, operational and financial risks regularly review to minimize or completely eliminate before harming to any business activity.

Main objective of the risk management is to identify potential problems aggressively and early before they occur and have a plan for addressing them. Risk management looks at internal and external risks that could negatively impact an organization. There should be a continuous, forward-looking process to address risk factors. Having a risk management plan is easier and more cost-effective than to address a sudden crisis or situation that's gotten out of control.

The risk management process



Types of Risk

Strategic Risk

Operational Risk

Financial Risk

1. Strategic Risk

Strategic risk means the failure of business decisions or risk directly affect to the Organization's overall strategy. This means that particularly at an executive level, leaders and teams need to be able to look for strategic risk. These types of risk pose real danger to companies. This risk would be managed by the Board of Directors with higher management.

2. Operational Risk

Operational risk associates with the failure or inadequacy of procedures, systems or policies and employee errors. Any event that disrupts day today business processes.

3. Financial Risk

Financial risk is the risk that a Corporation is incapable to meet its obligations to pay back its debts. It is the Possibility of losing money on an investment or business.

Risk Type and Exposure	Objectives	Mitigating activities
1. Strategic Risk		
1.1 Business risk	To avoid risk of expressing and implementing fundamental corporate strategies which is defective or inappropriate to the Corporation's business	Board of directors continually obtain and evaluate all the information on how the business is performing and relevant aspects of the economical, technological environments.
		Prepare and get an approval for budgets and plans which serve as a controlling tool for income and expenditure.
		Develop the proper internal controlling system to identify the risk associate the outside may impact on the organization
1.2 Non-business risk	Maintaining business success while minimizing the risks of external environment.	Evaluating external opportunities and threats such as economic changes, government policy changes, climate changes etc. when preparing corporate plan and action plan
2.Operational Risk		
2.1 Risk of assets damage & embezzlement	To minimize losses caused by assets especially from machine breakdowns and damages from fire, employees or theft.	Establishment and maintenance of strong and effective internal control system to safeguard company's assets.
		Obtaining comprehensive insurance covers for buildings, vehicles and plant and machinery. Carrying out planned preventive and maintenance programs.
2.2 Risk of competition	To avoid losses of market share due to import of low quality timber products To increase sales of main products of STC such as logs, sawn timber, sleepers, transmission poles, elephant poles etc.	To ensure that prevailing quality standards are met.
		Strengthening STC brand through various paper advertisement and promotional campaigns. Bringing new concepts to develop existing products and carry out market research for introducing innovative products and technology to attract more customers and to reduce cost of production.

2.3 Environmental risk	To minimize adverse impact of operations on the environment	Complying with the standards set by the relevant authorities and ensuring the compliance. Minimization of wastage of timber and dispose wastage in a proper manner to the environment.	
	Adherence to Corporation's environmental policy.	Distributing plants and other equipment relating to tree planting to promote tree planting activities among selected schools, offices, various programs and groups.	
2.4 Employee satisfaction	To maximize the job satisfaction level of the employees' through sound health & safety practices	Maintaining and observing employee health and safety statistics and providing safety equipment to production staff Providing medical insurance for each employee. HR department carry out activities to ensure employees health and safety such as health checkup clinics, seminars etc.	
	To reduce labour turnover	Maintaining healthy and cordial relationship with employees at all levels.	
	To ensure smooth flow of operations without interruptions	Providing various benefits eg: shoe allowance, loans for lower interest rates, attendance incentives etc.	
	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.	
	Innovation & product development	Establish STC own research and development unit to recognize new products/methods or processes etc.	
2.5 Customer satisfaction	To satisfy customers and identify customer requirements.	Introducing innovative products. Perform market surveys and assess customer complaints. Attract and retain highly qualified and experienced talent employees. Implement the quality control processes to identify customer satisfaction level.	
	Innovation & product development	Establish STC own research and development unit to recognize new products/methods or processes etc.	
	2.6 Technological and quality related risk	To work with current technological developments and quality standards to avoid wastage and obsolescence.	Developing a long term plan to replace existing machines with technologically advanced machines.
		To minimize production of stocks those do not meet the standards.	Obtaining certifications from relevant authorities and ensuring that products comply with most of the local and international standards. Conducting internal and external audits Carrying out research and development activities for technological advancement. Necessary laboratory facilities are provided within the organization to assure the quality of timber products.

2.7 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.
3. Financial Risk		
3.1 Liquidity risk	To maintain robust liquidity position	Corporation strives to ensure sufficient funds are available to meet the debt commitments and working capital requirements.
		Frequent cash flow forecasting and maintaining acceptable cash and cash equivalent position.
3.2 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.
3.3 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.
		Following an assessment procedure to ensure credit worthiness of customers and implementing customer based specific credit policies.
3.4 Exchange risk	To minimize exposure to fluctuations in foreign currency rates for imports and exports.	Regularly monitor the debt position and collection and report to the Board of Directors.
		Closely monitor the fluctuations and plan imports and exports accordingly.
3.5 Inventory management risk	To minimize the losses on obsolete 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.
3.6 Capital investment	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.



Corporate Social Responsibility

State Timber Corporation, as the trusted timber and timber based product provider in Sri Lanka, is a responsible corporate citizen. We believe in giving back to the community. Our CSR programmes are designed and executed under the strict framework of the Sustainable Development Goals. With that objective in mind, we actively work towards to foster good relationship with environment within which its businesses operate, and manage responsibly. We support and initiate a number of corporate social responsibility projects that are geared towards achieving our long term and short term objectives.



Ethical Responsibility

Ethical corporate social responsibility programmes focus on ensuring that all stakeholders in a business ensuring fair treatment, from employees to customers.

- ♦ Concurrent programmes organized for the 50th anniversary.
 - ♦ 43 scholarships worth Rs.2,150,000 were offered to the children of employees who were studying in universities.
- ♦ Published research articles related to the timber and wood industry which were written by STC staff members and University students. Following are the summary details (title) of the articles.

Title of the Research Articles

Staff Members	University students
Identify the Strength Grade for Finger Jointed Timber Species.	Identification of Timber Species Using Physical & Anatomical Features.
Evaluation the Authenticity of Wood Species in Sri Lankan Market.	Determination of Same Wood Properties and its uses in 50 lesser known Timbers in Sri Lanka.
Strength Classification for Sri Lankan Wood Species.	Estimation Harvesting Cost of Pine Plantation by Private Sector & State Timber Corporation.
Investigation of the Most Suitable Glue Type for Finger-Joints Production in Sri Lanka.	Development of Timber Classification System for Finger-Joints Production Using Strength Properties.

Employees training programme.

Local Training		Foreign Training	
Timber Technology Training Institute (TTIT)	799,651.00	Total Cost	1,910,310.88
Other Institute	1,200,075.00		
Total Cost	1,999,726.00		
Training Programme Category	No: of Programmes	Facilitate to foreign training programmes for employees in various fields to make their effective, efficient and motivate them.	
Training Programmes provider by TTTI	09		
Other Institute	40		
Facilities for further studies (Post Graduate, Degree, Diploma, ect)	14		
Total Program	63		
No: of Employees participated to training	1,107	No: of Employees participated to training	08

Philanthropic/Community Responsibility

Philanthropic social responsibilities go beyond simply operating as ethically as possible and involve actively bettering society.

- Contribution to “Thurujana Sisu Bank” program.
 - Donation of 14 Agriculture Equipment sets and set of books related to timber and trees for 10 schools in Kegalle and 4 Schools in Kurunagala Districts.
 - Conducted tree planting and awareness program in 10 schools.
- Facilitated for factory/plant visits and lectures in State Timber Corporation for 325 students in 09 academic institutes.
- Contribution to the 12 workshops which were conducted to aware around 1200 school teachers on sustainable utilization of timber and timber related products and distributed more than 4000 timber related leaflets among them.
- Corporation has contributed to the “X-ban” exhibition by repairing the auditorium and podium in Bandaranayeka College, Gampaha and conducted a stall for the exhibition.
- Magazine including the education articles of “Adasiyawasaka Piyasatahan” were printed and free distributed among society.

- Contribution to the symposiums and conference
 - Contributed to Forestry Symposium, organized by Department of Forestry & Environmental Science, University of Sri Jayawardanapura in 2018.
 - Contributed to ISAE 2018 symposium organized by Faculty of Agriculture, University of Ruhuna.

Environmental Responsibility

During the 2018 year following environmental activities were conducted by State Timber Corporation.

- Active contribution to the “Wanropa” program conducted by the Ministry of Mahaweli Development and Environment.
 - State Timber Corporation produced around 130,000 saplings in our nurseries and distributed among the government, Semi-Government, Non-Government institutes and private organizations free of charge under the “Wanaropa” programme.
 - Contribution to the National event of “Wanaropa” 2018 was inaugurated in Mannar District.
 - The main event for “Wanaropa” 2018 was organized in Nakkawatta National School in Kurunagala District.
- Contribution to the “World Environmental Day” program 2018
 - Jack tree plantation programme organized to mark the World Environment Day 2018 at Mellakanda Forest reserve collaboration with villages of Narammala Divisional Secretariat, Kurunagala District.
 - Organized a tree planting programme along the “Alawella” road near Sujatha Vidyalaya Matara, and planted around 100 plants and established tree guard for those plants.
 - 50 tree guards were issued to Haritha Jana Foundation in Ampara and 20 tree guards issued for the Forest Department.
 - Issuing saplings for the government agencies; Sri Lankan Army Singha Regiment Training Schools in Kegalle and North province governor’s secretariat, Jaffna.



Economic Responsibility

Economic decisions are made by considering their overall effects on society and businesses at the same time. Hence, economic responsibility can improve business operations while engaging in sustainable practices.

- The State Timber Corporation contributed Rs. 2,199 million to the national economy as stumpage, operating taxes, income tax and special levy.
- STC provides direct and indirect employment opportunities to many more. STC plays a vital role in reducing the problem of unemployment in the country which helps economic development of the nation.
- STC promotes regional development and removes regional discrepancies by setting up regional offices in less developed and backward areas. The establishment of business in these areas provides large number of public benefits.
- State Timber Corporation has a legal authority for timber authentication in Sri Lanka and green building certificate process. 216 timber reports were issued and 382 samples were checked during the year 2018.

Timber Certificate	No: of Report
Identification Report	133
Strength Report	08
Moisture Content Report	30
Density Report	26
CCB Treatment Report	07
Boron Treatment Report	12
Total	216





Report of the Auditor General





IEN/C/STC/1/9/215

31 May 2019

Chairman

State Timber Corporation

Report of the Auditor General on the Financial Statements and Other Legal and Regulatory Requirements of the State Timber Corporation for the year ended 31 December 2018 in terms of Section 12 of the National Audit Act, No. 19 of 2018.

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the State Timber Corporation for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No. 19 of 2018 and Finance Act No. 38 of 1971. My report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution will be tabled in due course.

In my opinion, except for the effects of the matters described in the basis for Qualified Opinion section of my report, the accompanying financial statements give a true and fair view of the financial position of the Corporation as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.



1.2 Basis for Qualified Opinion

- (a) A difference of Rs. 3,970,482 had been observed as the balance of Nations Building Tax and Value Added Tax Payable were Rs. 59,871,133 according to the Financial Statements and Rs. 63,841,605 according to the relevant tax reports.
- (b) The losses of Rs. 834,124 that was identified from the rearrangement of metal racks fixed in Kaldemulla stack hut which were out of standard had been accounted as the Work In Progress in buildings of Kaldemulla furniture complex.
- (c) Asum of debit balance of Rs. 161,776,032 in 03 accounts of customer advances, cash sales advances and cash sales control that was stated under the other creditors as per the Section 32 of Sri Lanka Accounting Standard 01 had been offset. Accordingly, it was observed that the true position of the balance of creditors stated in the Financial Statements had not been indicated.
- (d) According to the Section 61 of Sri Lanka Accounting Standard 16, the depreciation method applied to an asset shall be reviewed at least at each financial year end and if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method shall be changed to reflect the changed pattern. Such change had not been accounted as a change in an accounting estimate in accordance with Sri Lanka Accounting Standard 8.
- (e) According to the section 79 of Sri Lanka Accounting Standard 16, the following information relevant to the needs of users of financial statements had not been disclosed.
 - (i) The carrying amount of temporarily idle property, plant and equipment
 - (ii) The carrying amount of property, plant and equipment retired from active use and not classified as held for sale in accordance with SLFRS 5.

- (iii) When the cost model is used, the fair value of property, plant and equipment when this is materially different from the carrying amount.
- (f) The file on the dual quarters of Kappetipola Complex amounted to Rs. 2,035,694 that stated as Work In Progress of buildings had not been submitted to the audit.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Corporation is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Corporation.

1.4 Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to

continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I have identified during my audit.

2. Report on Other Legal and Regulatory Requirements

National Audit Act, No. 19 of 2018 include specific provisions for following requirements.

- Except for the effect of the matters described in the Basis for Qualified Opinion paragraph, I have obtained all the information and explanation that required for the audit and as far as appears from my examination, proper accounting records have been kept by the Corporation as per the requirement of Section 12 (a) of the National Audit Act, No. 19 of 2018.
- The financial statements of the Corporation presented is consistent with the preceding year as per the requirement of Section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- The financial statements presented includes all the recommendations made by me in the previous year as per the requirement of Section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

Based on the procedures performed and evidence obtained were limited to matters that are material, nothing has come to my attention;

- To state that any member of the governing body of the Authority has any direct or indirect interest in any contract entered into by the Authority which are out of the normal cause of business as per the requirement of section 12 (d) of the National Audit Act, No. 19 of 2018
- To state that the Authority has not complied with any applicable written law, general and special directions issued by the governing body of the Authority as per the requirement of section 12 (f) of the National Audit Act, No. 19 of 2018 except for following observations;

Reference to Laws, Rules and Regulations

Incompliances

- | | |
|---------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (a) Financial Regulation 571 (2) | Action had not been taken to settle or take into revenue as per Financial Regulation 571(2) in respect of gang nail deposit amounted Rs.1,258,635 expired more than 02 years, post commencing advances amounted to Rs.133,800 expired for the period of 02 to 05 years, retention of Rs.2,513,001 and tender deposit of Rs.7,783,104. |
| (b) Urban Development Authority Act No 41 of 1978 | Although the construction works of Anuradhapura Divisional Office was commenced on 15 November 2017, the approval for the plans relevant to that had not been obtained from the Urban Development Authority even by 03 December 2018. |
- To state that the Corporation has not performed according to its powers, functions and duties as per the requirement of section 12 (g) of the National Audit Act, No. 19 of 2018 except for following observations;

The Corporation had not **taken action** to execute the objectives of importation of agricultural and cane products out of the objectives of the Corporation and the production of by-products of timber and sales had not been done as expected. The exportation of sleeper timber had not been done in the year under review. As well, although the exportation of finished and work in progress goods related to timber was an objective of the Corporation, the Corporation had not taken action to fulfill that objective.

- To state that the resources of the Corporation had not been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws as per the requirement of section 12 (h) of the National Audit Act, No. 19 of 2018.

3. **Other Audit Observations**

- (a) The advances amounted to Rs.10,833,500 that allocated for the work site within the period of 2013 to 2017 and amount of Rs.1,142,000 given before 2013 had not been settled even by April 2019.
- (b) Although there were a sum of Rs.11,871,954 receivable from a private company since the year 1983, amount of Rs.207,910,689 receivable from government and semi-government entities, amount of Rs.1,687,042 receivable from a private entity and amount of Rs.777,353 receivable from two persons that lapsed for more than 4 years, action had not been taken to recover even by 31 December 2018.
- (c) Action had not been taken to recover electricity, water expenses and building rent that should be recovered from Ministry of Mahaweli Development and Environment and Department of Forest Conservation amounted to Rs.1,661,487 and Rs.31,333,241 respectively even by 31 December 2018.
- (d) Although it should be completed on 21 March 2018 according to the agreement of construction of Anuradhapura divisional office building of State Timber Corporation and quarters, it had not been done so. Though the period was extended up to 25 August 2018, the constructions had not been completed even 03 December 2018. Accordingly,

although it should be charged delay charges of Rs.1,500,000 by Rs.15,000 per day after 25 August 2018, action had not been taken to recover those charges. Amount of Rs.375,000 as office rent had to be paid as non-completion of the due date. Contractor had not taken action to extend the period of performance bond and insurance cover.

- (e) The construction works of Padiyathalawa Store Keeper Office that commenced the constructions on 13 September 2017 had not been completed by 31 December 2018.

W.P.C. Wickramaratne
Auditor General



Annual Accounts



STATEMENT OF PROFIT OR LOSS

For the year ended 31st December

	Notes	2018 Rs.	2017 Rs.
Turnover	2	4,069,020,266	4,253,774,266
Less-Cost of sales	3	(2,104,372,869)	(2,177,824,205)
Gross profit on operation		1,964,647,397	2,075,950,061
Other income	6		
Operating	6.2	73,199,174	103,163,513
Non-operating	6.1	314,804,979	273,779,849
Total net income		2,352,651,550	2,452,893,423
Selling and distribution expenses	4	(789,340,223)	(680,617,770)
Administration expenses	5	(890,878,473)	(805,471,293)
Profit before levy		672,432,854	966,804,360
Levy paid to treasury		(100,000,000)	(100,000,000)
Profit after levy		572,432,854	866,804,360
Taxation for the year	7	(250,372,289)	(301,062,806)
Profit for the year		322,060,565	565,741,554

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st December

	Notes	2018 Rs.	2017 Rs.
Profit for the year		322,060,565	565,741,554
Other comprehensive income			
Retirement benefit surplus/(deficit) for the year	17	107,601,910	(323,413,595)
Other comprehensive income for the year		107,601,910	(323,413,595)
Total comprehensive income for the year		429,662,475	242,327,959

STATEMENT OF FINANCIAL POSITION

As at 31st December

		2018 Rs.	2017 Rs.
ASSETS			
Non-current assets			
Property plant and equipment	8	983,985,526	980,517,535
Intangible assets	9	1,384,486	1,443,873
Biological assets	10	7,061,289	6,577,016
Deposits with treasury		2,966,000	2,966,000
Security deposits - staff		67,948,050	63,941,048
Investments	11.1	646,408,384	605,190,777
Prepaid staff benefit		106,106,944	67,459,232
Deferred tax asset	7.2	77,240,757	96,644,503
Capital work in progress		85,753,849	69,856,596
Total non-current assets		1,978,855,286	1,894,596,581
Current assets			
Inventories	12	1,628,071,793	1,513,147,565
Trade and other receivables	13	1,127,960,087	868,402,923
Investment in fixed deposits	11.2	1,572,356,375	1,694,380,646
Cash and cash equivalents	14	213,221,840	347,174,014
Total current assets		4,541,610,096	4,423,105,148
TOTAL ASSETS		6,520,465,382	6,317,701,729
EQUITY AND LIABILITIES			
Capital and reserves			
Authorized		75,000,000	75,000,000
Contributed capital	15	41,503,668	41,503,668
Revenue reserves		4,277,346,100	3,857,127,941
		4,318,849,768	3,898,631,609
Staff loan revolving fund	16	341,506,845	332,062,529
Total equity		4,660,356,613	4,230,694,138
Non current liabilities			
Retirement benefit obligation	17	744,492,569	788,350,624
Security deposits - staff		67,948,050	63,941,048
Total non-current liabilities		812,440,619	852,291,672
Current liabilities			
Income tax liabilities	18	361,558,026	268,225,025
Trade and other payables	19	686,110,124	966,490,894
Total current liabilities		1,047,668,150	1,234,715,919
Total liabilities		1,860,108,769	2,087,007,591
TOTAL EQUITY AND LIABILITIES		6,520,465,382	6,317,701,729

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 169 to 175 and Notes on pages 176 to 186 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: 07.03.2019

STATEMENT OF CHANGES IN EQUITY

	Contributed capital Rs.	Staff loan revolving fund Rs.	Revenue reserves Rs.	Total Rs.
Balance as at 1st January 2017	41,503,668	243,052,926	3,703,809,585	3,988,366,179
Adjustments during the year	-	81,000,000	(81,000,000)	-
Profit for the year	-	-	565,741,554	565,741,554
Staff loan interest for the year	-	8,009,603	(8,009,603)	-
Other comprehensive income	-	-	(323,413,595)	(323,413,595)
Balance as at 1st January 2018	41,503,668	332,062,529	3,857,127,941	4,230,694,138
Profit for the year	-	-	322,060,565	322,060,565
Staff loan interest adjustment	-	9,444,316	(9,444,316)	-
Other comprehensive income	-	-	107,601,910	107,601,910
Balance as at 31st December 2018	41,503,668	341,506,845	4,277,346,100	4,660,356,613

CASH FLOW STATEMENT

For the year ended 31st December

	2018 Rs.	2017 Rs.
Cash flows from operating activities		
Cash receipts from customers	3,907,223,870	4,600,374,990
Cash paid to suppliers and employees	(4,034,358,377)	(3,600,892,262)
Cash generated from operating activities	(127,134,507)	999,482,728
Income tax paid	(137,635,542)	(254,881,998)
Special levy paid to the treasury	(100,000,000)	(100,000,000)
Net cash inflow/(outflow) from operating activities	(364,770,049)	644,600,730
Cash flows from investing activities		
Purchase and construction of property, plant & equipment	(116,034,227)	(94,637,473)
Development of biological assets	(484,273)	(534,746)
Investments	80,806,664	(673,224,639)
Income from investments	256,478,250	214,393,281
Proceeds from disposal of property, plant and equipment	16,504,399	3,718,263
Proceeds from sale of investment	-	30,000,000
Work in progress	(15,897,253)	(44,094,965)
Staff loan revolving fund	9,444,316	8,009,603
Net cash from/(used in) investing activities	230,817,875	(556,370,675)
Cash flows from financing activities	-	-
Net increase/(decrease) in cash and cash equivalents	(133,952,174)	88,230,055
Cash and cash equivalents at the beginning of the year (Note-14)	347,174,014	258,943,959
Cash and cash equivalents at the end of the year (Note 14)	213,221,840	347,174,014

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 2018 were authorized for issue in accordance with a resolution of the Board of Directors on 07th March 2019.

1.1.3 Number of Employees

The employees' strength of the Corporation as at 31st December 2018 is 2,001. (2017-2,083).

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 2018 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 recognised 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 amortisation and any accumulated impairment losses. Subsequent expenditure is capitalised only when it increases the future economic benefits. Amortisation is recognised 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 2018. 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 the Forest Department to the Dehiaththakandiya Court. Nowadays, the inquest of the trial is being process at Dehiaththakandiya court.

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 as well as ETF contribution with penalty. Still discussions are going between STC and Department of Labour to settle employees' contribution of Employee Provident Fund which was not deducted from employees of an amount equivalent to 10% and penalty since the Board of Directors has not approved to remit.

Bank guarantees were issued against Bank of Ceylon fixed deposits A/C numbers 81353078, 82509320 and 82509291 as collateral.

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%.

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 it is no longer probable that the related tax benefit will be realized.

1.3.4.2 Stumpage Payment

The stumpage payment for the year 2018 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 build up 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	2018 Rs.	2017 Rs.
Logs - crown lands	2,506,101,785	2,775,603,532
Logs - private lands	2,730,380	33,237,974
Sawn timber	210,754,441	207,698,281
Imported sawn timber	17,924,309	48,620,691
Sleepers - private lands	76,821,781	91,685,336
Sleepers - crown lands	368,879,938	41,654,406
Sleepers - export	-	1,138,372
Transmission poles - crown lands	76,445,394	136,382,640
Transmission poles - private lands	28,451,439	36,313,002
Elephant poles	106,247,028	75,465,961
Others	23,681,431	19,181,410
Forest offence received timber	42,695,379	78,284,437
Donation of timber	383,190,733	405,112,249
Furniture	308,063,371	389,044,488
Gross turnover	4,151,987,409	4,339,422,777
Less: Nation building tax	(82,967,143)	(85,648,511)
Net turnover	4,069,020,266	4,253,774,266

03. Cost of Sales	2018 Rs.	2017 Rs.
Depots and wayside depots	1,117,549,353	1,205,030,916
Impregnation plants	468,608,497	347,215,178
Furniture plants	247,673,924	268,939,817
Wayside sales	270,541,094	356,638,294
Total	2,104,372,869	2,177,824,205

04. Selling and Distribution Expenses	2018 Rs.	2017 Rs.
Depots	667,804,998	616,166,666
Impregnation plants	73,322,880	13,434,188
Furniture plants	38,990,428	40,567,396
Regional managers' office and head office	9,221,917	10,449,520
Total	789,340,223	680,617,770

05. Administration Expenses	2018 Rs.	2017 Rs.
Impregnation plants	24,643,237	20,425,440
Furniture plants	82,796,814	71,971,576
Regional managers' office and head office	776,571,426	706,407,258
Circuit bungalows	6,866,996	6,667,018
Total	890,878,473	805,471,293

06. Other Income	2018 Rs.	2017 Rs.
6.1 Non-operating income		
Interest income - investments	289,884,669	246,148,133
Foreign exchange gains	39,790	4,091
House rent	10,307,944	13,060,102
Gratuity over provision	195,069	-
Staff loan interest	14,377,507	14,567,524
Total	314,804,979	273,779,849

6.2 Operating income		
Miscellaneous income	25,469,611	62,725,858
Fines-contractors and suppliers	1,156,477	800,692
Disposal income	15,552,429	3,015,776
Over provision of stock	21,189,929	14,410,259
Debtors over provision	6,184,020	18,442,082
Recovery on shortages and losses	2,093,164	1,159,228
Non refundable tender deposits	1,553,544	2,609,617
Total	73,199,174	103,163,513
Total	388,004,153	376,943,362

6.3 Analysis of other income for the year 2018

Income source	Units						Total
	Depots	Impregnation plants	Furniture plants	Regional offices & head office	Sawmills	Circuit bungalows	
Non-operating income 6.1							
Interest income - investments	-	-	-	289,884,669	-	-	289,884,669
Foreign exchange gains	-	-	-	39,790	-	-	39,790
House rent	-	-	86,000	10,221,944	-	-	10,307,944
Gratuity Over Provision	11,014	26,914	-	-	157,142	-	195,069
Staff loan interest	-	-	-	14,377,507	-	-	14,377,507
	11,014	26,914	86,000	314,523,909	157,142	-	314,804,979
Operating income 6.2							
Miscellaneous income	365,168	-	1,000	24,017,540	-	1,085,903	25,469,611
Fines-contractors and suppliers	-	-	-	1,156,477	-	-	1,156,477
Disposal income	-	-	-	15,552,429	-	-	15,552,429
Over provision on stock deterioration	17,844,124	3,073,674	272,131	-	-	-	21,189,929
Over provision on doubtful debtors	3,207,722	-	2,976,298	-	-	-	6,184,020
Recovery on shortage and losses	-	-	-	2,093,164	-	-	2,093,164
Non refundable tender deposits	-	-	-	1,553,544	-	-	1,553,544
	21,417,015	3,073,674	3,249,428	44,373,154	-	1,085,903	73,199,174
	21,428,028	3,100,588	3,335,428	358,897,063	157,142	1,085,903	388,004,153

07. Taxation Expenses	2018 Rs.	2017 Rs.
Current tax expenses (7.1)		
Income tax on profit for the year	230,724,261	390,212,803
Over/under provision of previous year	244,282	(314)
	230,968,543	390,212,489
Deferred tax expense (7.2)		
Origination and reversal of temporary differences	19,403,746	(89,149,683)
	19,403,746	(89,149,683)
Tax charge for the year	250,372,289	301,062,806

7.1 Income tax on profit for the year	2018 Rs.	2017 Rs.
Profit before taxation	672,432,854	866,804,360
Aggregate disallowable expenses	349,148,224	208,624,269
Aggregate allowable expenses	(512,135,980)	(522,958,134)
Profit from business	509,445,098	552,470,495
Non business income	314,570,120	273,775,759
Taxable income	824,015,218	826,246,253
Income tax at 28%	230,724,261	231,348,951
Deemed dividend tax	-	158,863,852
Total	230,724,261	390,212,803

7.2 Deferred tax	Temporary difference	Tax effect (asset)/ liability
	Rs.	Rs.
Balance as at 01st January 2018	(345,158,938)	(96,644,503)
Amount origination during the year	69,299,093	19,403,746
Balance as at 31st December 2018	(275,859,845)	(77,240,757)
Temporary difference of property plant and equipment	468,632,725	131,217,163
Temporary difference of retirement benefit obligations	744,492,570	208,457,920
Carried forward tax losses	-	-
Balance as at 31st December 2018	275,859,845	77,240,757

08. Property, Plant and Equipment

Description	Cost				Depreciation				Carrying amount as at 31.12.18	Carrying amount as at 31.12.17
	Balance as at 01.01.18	Additions	Disposals	Balance as at 31.12.18	Balance as at 01.01.18	Disposals	Charge for the year	Balance as at 31.12.18		
Land	59,057,146	-	-	59,057,146	-	-	-	-	59,057,146	59,057,146
Land improvement	38,996,948	3,685,647	-	42,682,595	17,350,129	-	3,561,262	20,911,392	21,771,204	21,646,819
Buildings	798,800,942	77,020,144	-	875,821,086	200,161,324	-	18,736,631	218,897,955	656,923,131	598,639,618
Stacking sheds and other buildings	32,992,208	11,821,610	-	44,813,818	23,478,726	-	6,795,840	30,274,566	14,539,252	9,513,482
Roadways and railway lines	18,421,732	2,577,665	-	20,999,397	8,140,540	-	781,959	8,922,498	12,076,898	10,281,192
Plant and machinery	696,638,216	2,193,394	23,080,678	675,750,932	548,442,280	22,262,720	25,895,902	552,075,462	123,675,470	148,195,935
Leasehold land and building	148,311	-	-	148,311	148,311	-	-	148,311	-	-
Road construction mach. and equi.	60,450	-	-	60,450	60,450	-	-	60,450	-	-
Tools & implements	6,069,425	110,122	-	6,179,547	5,642,867	-	219,486	5,862,353	317,194	426,558
Electrical equipments	20,318,339	2,270,810	-	22,526,149	11,418,404	-	1,465,094	12,883,499	9,642,651	8,899,936
Vehicles	614,345,583	-	11,485,201	602,860,382	530,464,345	11,391,473	38,613,714	557,686,586	45,173,796	83,881,238
Furniture and fittings	50,123,326	10,028,085	-	60,151,411	35,110,094	-	5,506,909	40,617,002	19,534,409	15,013,232
Office equipments	35,193,058	1,235,836	19,000	36,409,893	29,892,817	12,399	1,830,455	31,710,872	4,699,022	5,300,241
Computers and accessories	67,769,331	4,422,387	210,975	71,980,743	53,696,133	177,291	5,721,500	59,240,341	12,740,402	14,073,198
Miscellaneous assets	29,785,884	508,160	-	30,294,044	24,196,944	-	2,262,149	26,459,093	3,834,951	5,588,940
Pre fabricated structure	4,938,333	-	-	4,938,333	4,938,333	-	-	4,938,333	-	-
Leasehold land-Rathnapura	680,300	-	-	680,300	680,300	-	-	680,300	-	-
Total	2,474,339,532	115,810,861	34,795,854	2,595,354,539	1,493,821,997	33,843,884	111,390,899	1,571,369,012	983,985,526	980,517,534

* The Corporation owns the cost of Rs. 1,142,632,416/- fully depreciated property, plant and equipments at the reporting date.

09. Intangible Assets

Description	Cost			Balance as at 31.12.18	Balance as at 01.01.18	Disposals	Charge for the year	Carrying amount as at 31.12.18	Carrying amount as at 31.12.17
	Balance as at 01.01.18	Additions	Disposals						
Computer software	5,189,843	223,368	-	5,413,211	3,745,970	-	282,754	1,384,486	1,443,873
Total	5,189,843	223,368	-	5,413,211	3,745,970	-	282,754	4,028,725	1,384,486

10. Biological Assets

As at 31st December	2018 Rs.	2017 Rs.
Balance at the beginning of the year	6,577,016	6,042,270
Increase due to replantation	484,273	534,746
Balance at the end of the year	7,061,289	6,577,016

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

11.1 Investment - Long term

As at 31st December	2018 Rs.	2017 Rs.
Investment in fixed deposits - long term		
Government ins. temporary surplus trust fund	457,962,079	431,403,535
State mortgage and investment bank	187,946,304	173,287,242
Total	645,908,384	604,690,777
Investment in shares		
Land reclamation and development (pvt) ltd	500,000	500,000
Total	500,000	500,000
Total	646,408,384	605,190,777

11.2 Investment - short term

As at 31st December	2018 Rs.	2017 Rs.
Investment in fixed deposits		
People's bank	740,849,636	367,323,062
Bank of Ceylon	831,506,739	1,327,057,585
Total	1,572,356,375	1,694,380,646

12. Inventories

As at 31st December	2018 Rs.	2017 Rs.
Stock-in-trade	1,692,019,805	1,527,107,769
Stock deteriorations	(227,468,459)	(198,077,293)
	1,464,551,346	1,329,030,475
Work in progress	34,245,861	32,421,998
Stores and spares	87,391,677	83,836,328
Preservatives	25,577,383	52,575,012
Fuel and oil	2,202,542	2,985,371
Stationary stock	14,102,983	12,298,381
Total	1,628,071,793	1,513,147,565

12.1 Analysis of inventories

As at 31st December	2018 Rs	2017 Rs
Crown land logs	1,121,806,209	937,127,446
Crown land sawn timber	294,030,658	243,774,881
Imported sawn timber	29,297,084	44,138,449
Private land logs	-	389,594
Crown land sleepers	4,962,101	5,076,610
Private land sleepers	20,830,501	8,701,121
Crown land transmission poles	30,609,100	27,271,525
Private land transmission poles	6,185,088	25,498,931
Others	8,735,650	28,536,736
Furniture	175,563,414	206,592,475
Total	1,692,019,805	1,527,107,769

13. Trade and Other Receivables

As at 31st December	2018 Rs.	2017 Rs.
Trade debtors	859,519,573	514,979,365
Allowance for impairment	(162,500,334)	(80,400,519)
	697,019,239	434,578,846
Staff debtors	195,590,253	217,112,609
Other debtors	24,616,170	46,917,602
Deposits and prepayments		
Advances local purchases	9,953,751	19,331,296
Advances pre -payment	3,708,443	4,268,634
Advances timber supplies	11,975,500	13,628,480
Interest receivable -deposits	139,348,148	95,438,716

Returned cheques	-	1,385
Kataragama astapala funds	853,000	900,000
Deposit courts	8,778,248	8,778,248
Ministry of environment	1,661,488	1,661,488
Forest department	31,333,242	25,785,621
Escam project	3,122,603	-
Total	1,127,960,087	868,402,923

13.1 Other debtors

As at 31st December	2018 Rs.	2017 Rs.
Miscellaneous debtors	4,478,561	28,627,258
Deposits- general	20,504,229	18,656,963
Provision	(366,620)	(366,620)
Total	24,616,170	46,917,602

13.2 Staff debtors

As at 31st December	2018 Rs.	2017 Rs.
Staff receivables		
Vehicle loan	8,649,845	6,761,200
Distress loan	143,957,200	164,575,656
Electrical equipment loan	33,534	32,765
Bicycle loan	1,544,597	1,121,884
Laptop loan	22,114,834	21,922,972
Furniture loan	2,085,607	947,924
	178,385,617	195,362,402
Advances and other receivables		
Salaries and wages advance	-	2,000
Special salary advance	7,945,779	13,594,971
Travelling advance	51,488	15,827
Festival advance	3,818,625	3,876,495
Internal debit notes	1,179,822	73,285
Staff recoveries	472,365	452,226
Salusala textile loan	3,736,558	3,735,403
	17,204,637	21,750,207
Total	195,590,253	217,112,609

14. Cash and Cash Equivalents

As at 31st December	2018 Rs.	2017 Rs.
Cash in hand	1,023,501	1,055,500
Cash in transit	2,857	24,791,076
Bank of ceylon	74,020,661	47,421,508
Bank of ceylon - call deposits	138,174,821	273,905,930
Total	213,221,840	347,174,014

15. Contributed Capital

As at 31st December	2018 Rs.	2017 Rs.
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

As at 31st December	2018 Rs.	2017 Rs.
Balance at the beginning of the year	332,062,529	243,052,926
Staff loan interest received	9,444,316	8,009,603
Fund transfer during the year	-	81,000,000
Total fund at the end of the year	341,506,845	332,062,529
Nominal value of utilized fund balance as at 31st December	282,115,901	261,517,246
Unutilized fund balance as at 31st December	59,390,944	70,545,283

17. Retirement Benefit Obligation

As at 31st December	2018 Rs.	2017 Rs.
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The amounts recognized in the statement of financial position are determined as follows.

Balance at the beginning of the year	788,350,624	438,573,892
charge for the year	36,694,460	41,973,758
Interest for the year	85,581,902	39,364,743
Surplus/ deficit charge for the year	(107,601,910)	323,413,595
Payment/payable during the year	(58,532,507)	(54,975,364)
Balance at the end of the year	744,492,569	788,350,624

The amounts recognized in the statement of profit or loss are as follows.

Charge for the year	36,694,460	41,973,758
Interest for the year	85,581,902	39,364,743
Recognized in the statement of profit or loss	122,276,362	81,338,501

The amount recognized in the statement of comprehensive income as follows.

(Surplus)/deficit charge for the year	(107,601,910)	323,413,595
Recognized in the statement of comprehensive income	(107,601,910)	323,413,595

As at December 31, 2018 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 .

	31.12.2018	31.12.2017
Discount interest rate	11.88%	10.28%
Salary increment rate	12.54%	13.12%
Staff turnover rate	3.64%	5.72%
Retirement age	60	60

18. Income Tax Payable

As at 31st December	2018 Rs.	2017 Rs.
Balance at the beginning of the year	268,225,025	132,894,534
Withholding tax on deposits	(11,529,679)	(15,948,065)
Economic service charge	(20,305,720)	(21,844,701)
Payment during the year	(105,800,143)	(217,089,232)
Under/(over) provision of tax for previous year	244,282	(314)
Provision for income tax	230,724,261	390,212,803
Balance at the end of the year	361,558,026	268,225,025

* STC has requested Rs. 200 million transfer on 27.09.2018 to the Department of Inland Revenue to settle Income Tax liability as against amount due from Sri Lanka Railway.

19. Trade and Other Payables

As at 31st December	2018 Rs.	2017 Rs.
Central bank- EPF	18,130,666	18,067,553
Labour department-ETF	2,175,680	2,141,317

Accrued expenses	87,073,813	130,272,172
Refundable tender deposits	7,783,104	11,590,240
Security deposits - except staff	66,331,895	67,971,065
Audit fees payable	4,500,000	1,823,228
Retention money	14,431,053	29,738,097
Other creditors	44,386,460	63,191,276
Forest department	379,911,392	587,972,172
Stumpage - Wild life department	792,281	2,614,486
Stumpage - Agriculture department	722,648	722,648
Nation building tax	9,580,200	7,184,941
Value added tax	50,290,933	43,201,698
Total	686,110,124	966,490,894

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. 1,118,028,944/- trees from forest department during the year.
- * State Timber Corporation has rented out part of the headoffice building to Department of Forest and ESCAM project. 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
ESCAM project	5,649	300,000.00

Balances arising from above related party transactions as at the statement of financial position date are as follows.

As at 31st December	2018 Rs.	2017 Rs.
Payable to related parties		
Department of forest	379,911,392	587,972,172
	379,911,392	587,972,172
Receivable from related parties		
Department of forest	31,333,242	25,785,621
Ministry of mahaweli development and environment	1,661,488	1,661,488
	32,994,730	27,447,108

Glossary of Financial Terms

- Accounting Policies**
Specific principles, bases, conventions, rules and practices adopted by the Corporation in preparing and presenting financial statements.
- Amortization**
The systematic allocation of the depreciable amount of an intangible asset over its useful life.
- Accrual Basis**
The principle that revenues and costs are matched with one another, irrespective of the period of receipt or payment.
- Cash and Cash Equivalents**
Liquid investments with original maturities of three months or less.
- Revenue Reserves**
Reserves available for investments.
- Value Addition**
The quantum of wealth generated by the activities of the Corporation and its distribution.
- Current Ratio**
Current assets divided by current liabilities.
- Depreciation**
The systematic allocation of the depreciable amount of an asset over its useful life.
- Gearing**
Proportion of borrowings to capital employed.
- 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.
- 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.
- 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.



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Anniversary
රාජ්‍ය දැව සංස්ථාව • STATE TIMBER CORPORATION

Anyone who sees the name State Timber Corporation can understand easily its relationship with timber. With 50 years of experience and commitment, the service rendered to the country and to its loved employees cannot be explained. Despite all these years, the State Timber Corporation is a treasured example for other government entities to run their businesses successfully without being a burden to the Sri Lankan government.

Needless to say, the management of the corporation and all the employees by their generous contribution towards corporation has helped them to move for the victory amidst various obstacles and dilemmas. The primary objectives are to carefully cut and remove our valuable "trees" in a more responsible and environmentally friendly manner, and to make various designs and shapes to the best use of available timber to meet the timber needs of the people.

The State Timber Corporation is marking another milestone in its 50th anniversary with the determination to serve the people for a long time and to serve the country as well.



STATE TIMBER CORPORATION

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