



STATE TIMBER CORPORATION

Real Leadership of the timber industry that won consumer trust

2020

ANNUAL REPORT



Ministry of Wildlife and Forest Conservation



State Timber Corporation

ANNUAL REPORT 2020

True Leadership for Timber Market

1968 - 2020

Continuing the Journey of 52 Years
State Timber Corporation

Our Future as a
Heart Winning
Organization

VISION

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

MISSION

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



THE FINEST WOODWORK

OUR STORY

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.1190/7 of 26.06.2001 and No.1538/7 of 25.02.2008. The initial capital of the Corporation was Rs.2.5 million.

State Timber Corporation endeavor to produce the highest quality timber products with the best possible service. From elegant residences to luxurious villas, from executive suites to exotic dwelling, our specialty wood adds a touch of class to everywhere. Our distinctive range of house hold furniture, office furniture, logs and sawn timber from precious Sri Lankan woods comfort and delight the senses of our valuable customers. As a reputed state owned organization, State Timber Corporation offers a wide range of top-class wooden products, which are assuredly durable. All our items are produced at modern atmosphere using high-tech machineries with state-of-the-art technology.

With over 52 years of combined experience, State Timber Corporation's Furniture has become an automatic choice of hotel operators, government institutes, interior designers, architects & individual customers all of whom specify quality furnishings. From stunning "front of house" signature chairs to exclusive bedroom ranges, STC will never compromise on quality, yet can still meet demanding budgets and challenging timescales. Our furniture is engineered to withstand the rigours of the market place and is constructed using quality timbers, complemented by rated fabrics.

How we assure the quality of our products?

- Raw material we use are well matured timber, harvest from sustainable forest plantation
- We use graded timber which is free from sap & lot of other defects
- Well-seasoned and preserved timber.
- Sophisticated machineries for production process.
- Quality and certified other materials.
- Modern methods & techniques of assembling and finishing



A GLANCE AT THE STATE TIMBER CORPORATION



ASSETS
Rs. 7,286 Mn



EMPLOYEES
1,708



REVENUE
Rs. 3,982 Mn



LIABILITIES
Rs. 1,822Mn

Other than the product quality, STC provide a free estimating and measuring service for all aspects of our work. We assure to supply a range of top quality furniture, manufactured to our own specification with stunning results. We constantly improve not only our collections, but also our services and working environment for customers.

WHAT WE DO



WE ARE
FINANCIALLY
SUSTAINABLE



WE PROVIDE
SUSTAINABLE MATERIALS
TO BUILD HOMES
AND WORKPLACES



WE PROTECT AND
ENHANCE ENVIRONMENT
THROUGH APPLYING SFM
STARTEGIES



WE PAY TAX, LEVY &
CONTRIBUTE TO
COMMUNITY
DEVELOPMENT

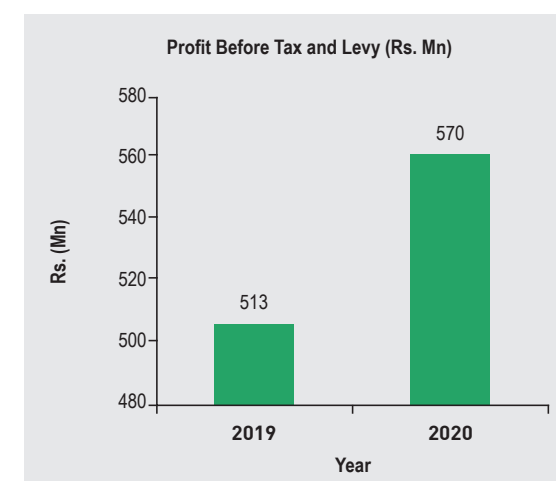
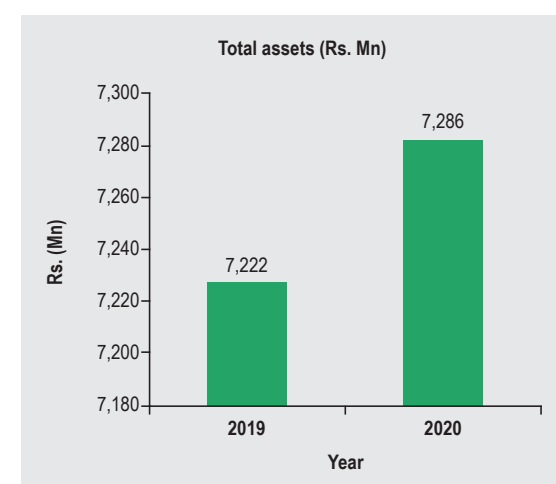
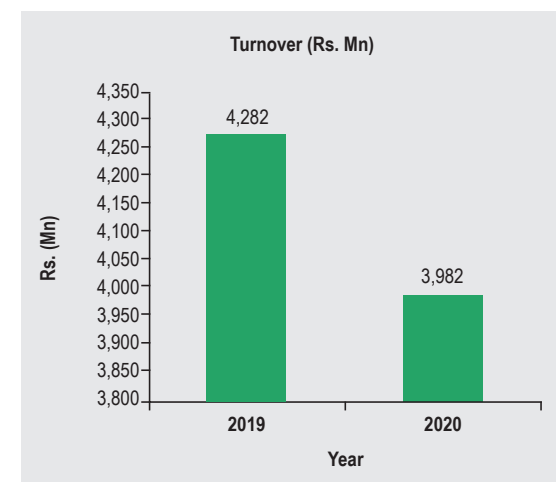


WE OFFER WIDE RANGE OF
MODERN & TRADITIONAL
HOUSEHOLD FURNITURE
& OFFICE FURNITURE

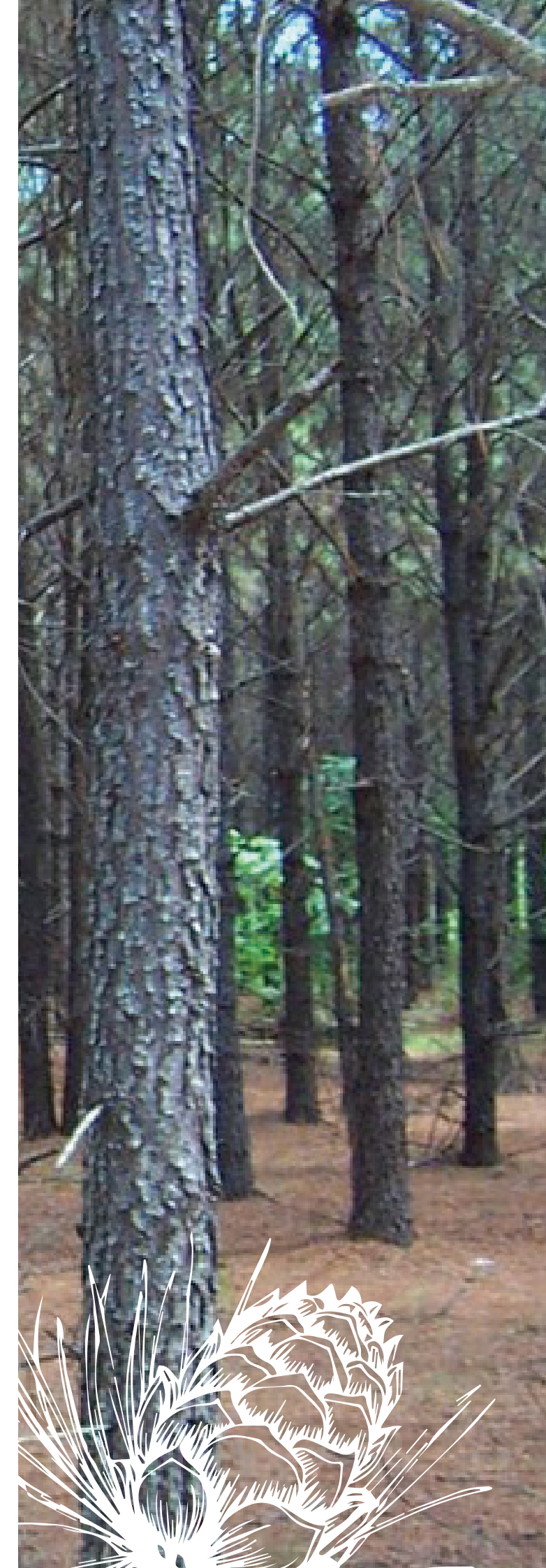
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FINANCIAL HIGHLIGHTS



FOR THE YEAR ENDED 31 st DECEMBER		2020	2019	Variance %
EARNINGS HIGHLIGHTS AND RATIOS				
Turnover	Rs. '000	3,981,688	4,282,181	-7%
Profit before levy and tax	Rs. '000	569,521	512,947	11%
Levy paid to treasury	Rs. '000	511,026	50,000	922%
Tax expenses	Rs. '000	105,615	195,524	-46%
Profit before levy	Rs. '000	463,907	317,424	46%
Return on equity [ROE] before treasury levy & after Income tax	%	8.0	5.7	40%
Return on assets [ROA] before treasury levy & after Income tax	%	6.0	4.4	37%
BALANCE SHEET HIGHLIGHTS AND RATIOS				
Total assets	Rs. '000	7,286,194	7,222,054	1%
Total equity	Rs. '000	5,464,633	5,540,551	-1%
Total debts	Rs. '000	1,821,561	1,681,503	8%
Debt/ Equity	%	33.3	30.3	10%
Debt/ Total assets	%	25.0	23.3	7%
OTHER INFORMATION				
Total employees	No.	1,708	1,803	-5%
Revenue per employee	Rs. '000	2,331	2,375	-2%
Profit per employee [before levy and tax]	Rs. '000	333	284	17%



CORPORATE INFORMATION 2020

Hon. C.B.Rathnayake – Minister of Wildlife and Forest Conservation.

Mr. Bandhula Harischandra - Secretary, Ministry of Wildlife and Forest Conservation.

Board of Director - 2020

Mr. Udaya C. Walisinghe – Chairman - State Timber Corporation

Mrs. B.N.Gamage - Director – Treasury representative

Mr. W.A.C. Weragoda - Director - Conservator General of Forest

Mr. P.K. Prasanna - Director

Mr. P.D.Preethi Gunathilaka - Director

Mr. H.K.M.J.H.Kumarasinghe - Director

Mr.B.A.Dharmarathne – Director

Ms.M.G.Dilani Sharika – Board Secretary

Audit & Management Committee

Mrs. B.N.Gamage - Chairperson

Mr. H.K.M.J. Kumarasinghe - Member

Mr. P.K. Prasanna - Member

Auditor

Auditor General

Auditor General's Department

306/72, Polduwa Road, Battaramulla, Sri Lanka

Principal Bankers

Bank of Ceylon

Financial Calendar

January 1st to 31st December

Telephone :+94112866600-5

Fax :+94112866623

Website :www.timco.lk

TEAM OF MANAGEMENT - 2020

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

DGM (Finance)	Mr.G.D.S.Kumarasinghe	MBA, B.Sc. (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 (Operations)	Mr.M.C.Devendra	M.Sc. (Forestry), B.Sc.
DGM (Marketing)	Mr.W.B.Samantha	M.Sc. (Forestry), B.Sc. N. Dip. Teaching
DGM (Cover up) (Engineering & Production)	Mr.G.G.Thisara Gamage	B.Sc.
AGM (Zonal)	Mr.P.K.Ajith Chandana	B.Sc.
AGM (Zonal)	Mr.H.B.Rajawaththa	BA
AGM (Research, Train & Develop)	Mr.C.K.Muthumala	M.Sc. (Forestry), B.Sc. (Agri.) Hons.

MANAGERS

Manager (Administration)	Mr.A.G.H.Kularathna	M.LRHRM, PgD. LRHRM, PQHRM, Dip.in Mgt, Dip. in Forestry, Dip.in English, AMCIPM, ACPM.
Manager (Finance)	Mrs.P.T.N.Bowatte	
Manager (Finance)	Mr.H.G.R.Wijenayake	
Manager (Internal Auditor)	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.N.Pushpakumara Nilmini	B.Sc.
Manager (Finance) Cover up	Mr.U.S.Madawala	HNDA, MAAT

REGIONAL MANAGERS		
Reg.Manager (Head Office)	Mr.R.Wijethunga	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 (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 (Minneriya) (Cover up)	Mr.D.L.Abenayake	
Reg.Manager (Kandy) (Cover up)	Mr.D.A.Hendavitharana	Dip in Forestry
Reg.Manager (Nuwaraeliya) cover up	Mr.W.D.P.G.Jayasekara	
Reg.Manager (Bandarawela) (Cover up)	Mr.Sunil Jayarathna	

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 (Fin.Kandy)	Mr.H.M.P.B.Herath	
Dy.Manager (Fin.Boossa)	Miss.A.L.W.Thushari De Silva	HNDA, MAAT
Dy.Manager (Nuwaraeliya)	Mr.N.T.S.K.P.Thilakawardana	HNDA, MAAT
Dy.Manager (Fin.Jaffna)	Mr.W.M.G.M.Wijesinghe	B.Sc. (Bus.Admin.) MAAT.
Dy.Manager (Fin.Monaragala)	Mr.A.J.Pushpakumara	B.Sc. (Bus.Admin)
Dy.Manager (Fin.Minnereya)	Mr.M.D.P.M.Dissanayake	B.Sc. (Acc)
Dy.Manager (Fin.HO)	Mrs.D.N.Wijesuriya	B.Sc. (Acc), CTA.
Dy.Manager (Fin.HO)	Mrs.S.Vithanage	
Dy.Manager (Fin.Anuradhapura)	Mrs.W.K.Jayasinghe	
Dy.Manager (Fin.Colombo)	Mr.S.P.A.J.C.Samarakoon	B.Sc. (Finance)
Dy.Manager (Fin.Bandarawela)	Mr.S.M.Hewage	B.BA (Bus.Econ.)
Dy.Manager (Fin.Kaldemulla)	Mr.W.A.L.S.Perera	
Dy.Manager (Fin.Kurunegala)	Mr.S.H.I.Prasad	B.BA (Bus.Econ.)
Dy.Manager (Fin.Keppetipola)	Mr.D.K.G.G.Pushpakumara	B.Com.
Dy.Manager (Marketing)	Mr.W.D.A.S.Thilakarathne	
Dy.Manager (Timber grading & auction)	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.Desing (Hon.) MBA
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.)
Dy.Manager (Mechanical Engineering)	Mr.M.K.M.Athhar	B.Tech.
Dy.Manager (Quality Assurance)	Mr.H.M.L.E.Gunasekara Herath	B.Sc.

Dy.Manager (Quality Assurance)	Mr.W.M.I.H.Weerasooriya	B.Sc.
Dy.Manager (Production)	Mr.I.M.J.S.K.Wickramasinghe	PgD.Fin. & Mathematics, B.Sc.
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 (Minneriya)	Mr.K.M.P.T.C.Kapilarathna	
DRM (Ampara)	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 (HO)	Mr.S.C.Jayamanna	B.Sc.
DRM (Matara)	Mr.K.Chandrasena	
DRM (Anuradhapura)	Mr.M.W.W.B.Mudannayaka	
DRM (Colombo)	Mr.E.M.A.K.Edirisinghe	
DRM (Colombo)	Mr.S.B.Udagedara	BA
DRM (Monaragala)	Mr.P.Hettiarachchi	B.Sc.
DRM (Kurunegala)	Mr.S.A.Manoj Thushara	
DRM (Kurunegala)	Mr.R.P.P.D.Jayasinghe	
DRM (Kurunegala)	Mr.S.M.S.Siriwardana	

Pine forest plantations in Sri Lanka.

The establishment of forest plantations in Sri Lanka Began in the year of 1870s. Since then, up to now forest plantations have been established in a considerable amount of land area. Teak, Eucalyptus, Pine and Mahogany like tree species were used for this purpose. Pine trees, considered as conifers, were planted in Sri Lanka in the year of 1960-1990 period of time. They were started to plant in large scale in 1967 in order to produce raw material for the paper industry and to create a forest cover on the degraded lands in the catchment areas. At present, there are 16,000 hectares of pinus plantation in the wet and the intermediate zones of Sri Lanka. Since under plantation does not exist in the pinus plantation found in the hilly areas, its contribution towards the watershed conservation is minimal.

The pine trees in Sri Lanka usually grow up to upto 30m - 40m in height and 40cm - 50cm in diameter at breast height. It holds straight stems and shows a lifespan of more than 100 years.

Initially, these pine plantations were confined to the degraded dry and fallow lands of the upcountry and the lowland wetlands and also "Kekilla" grown lands of the intermediate zone. Several species of pines have been introduced to Sri Lanka. Two species were selected for large-scale use. That is,

- *Pinus caribaea* var. *hondurensis*
- *Pinus patula*



ANNUAL REPORT

State Timber Corporation

- Chairman Message
- Review of the General Manager (CEO)
- Our Functions
- Our Business Values
- Board of Directors 2020
- Senior Management Team 2020



CHAIRMAN MESSAGE

“ While the COVID-19 pandemic caused a disruption across the country during the course of the year, we are proud to state that our corporation remained steadfast and strong which enabled us to contribute 511million to the treasury as a levy despite significant external negative forces.”



I am pleased as Chairman to present the Annual Report and the Audited Financial Statements for State timber Corporation for the year ended 31st December 2020. It should be stated, that the adaptability & flexibility of the workforce was key to maintaining our business throughout the year.

The global health crisis due to COVID-19 epidemic not only affected lives and livelihoods, but had an unprecedented impact on economies worldwide, and countering its effects and repercussions will possibly take a considerable length of time. For us in Sri Lanka, it was enormous & unprecedented as the nation was recovering from the disaster of the Easter attacks in 2019, the virus brought the nation to a halt once again, testing our resilience further. For our Corporation, continuing operations and making progress in such an environment was an uphill task. Despite the effect of the pandemic, our prudent and proactive measures have resulted in delivering a Profit before Tax of Rs. 570 million with a profit growth of 11% for the financial year ended 31st December 2020.

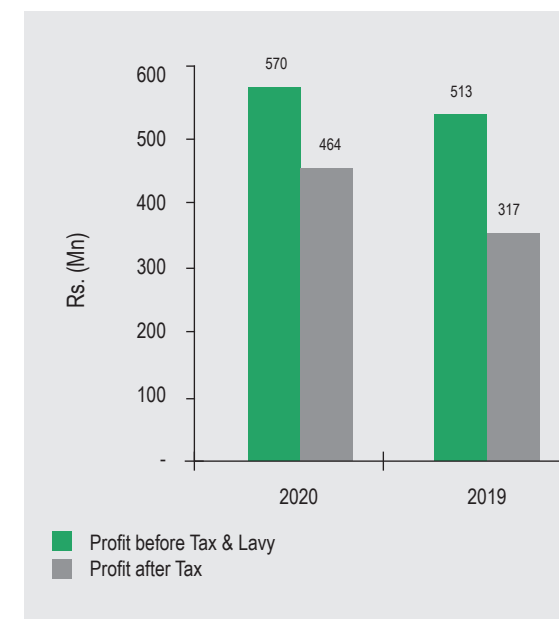
We have always placed great importance on safety measures and standards. During the year under review, they were further raised and expanded to include stringent COVID-19 safety procedures, maintaining guidelines stipulated by the Ministry of Health.

This was a year of focusing on our core strengths, manufacture of innovative and high quality products. Under the new normal conditions our operations commenced in April with safety measures in place & a motivated staff. At the same time, we once again expanded our environmental and sociocultural performances at a high level.

It is our belief that the most valued assets of the corporation is the human resource. During 2020 we continued to invest in our staff in the form of training and development programs aimed at improving skills and competency of employees who are committed in serving our customers at the highest possible level while achieving targets of the corporation.

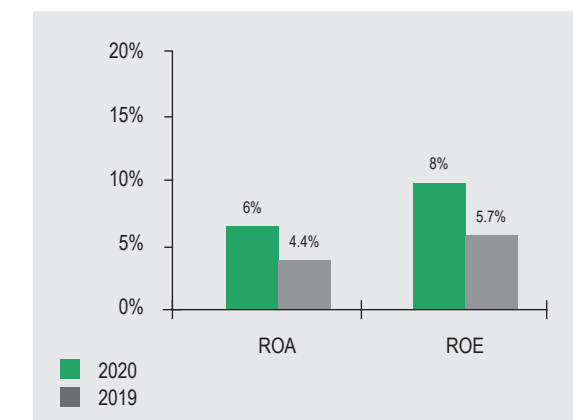
Financial Performance

Under the contracted GDP of 3.6% in 2020, the corporation recorded revenue of Rs. 3,982 million during the financial year 2020 which is slight decline compared to Rs. 4,282 million in the previous year. However, It is remarkable that even in this backdrop; State Timber Corporation was able to record a profit before treasury levy and tax of Rs.570 million and profit after tax of Rs.464 million in 2020. Thus, profit before treasury levy and tax and profit after tax increased by 11% and 46% respectively, compared to the figures reported in 2019. However, as a state owned corporation we are proudly contributed Rs.511million levy to the treasury from the profit after tax during this hard time period.



Similarly, Return on Average Assets (ROA) before levy & after income tax increased to 6% in 2020 from 4.4% in 2019, while Return on Average Equity (ROE) before levy & after income tax increased from 5.7% in 2019 to 8% in 2020. This reflects that all the asset and equity has given the biggest contribution to generate the income & it reveals

that the corporation maintains an appropriate working capital management policy.



The road ahead

As the COVID-19 pandemic continues to create uncertainty throughout the world, we will stand strong, certain of our unwavering ability to persevere and progress despite whatever obstacles the future may hold in the year ahead for the development of the corporation, industry & country as a whole. With renewed confidence we will adapt and adjust as necessary to a journey forward and reach the goals we have set for the years to come.

As we are stepping in to a challenging new year, we will be doing situation analysis regularly and will review our plans as they unfold, but we have confidence in the strong foundations, solid strategy as well as the resilience and agility of business models, which proved to be vital in bringing success this past year, will help the State Timber Corporation to navigate the challenges.

I am confident that the State Timber Corporation is well prepared to the challenges exploiting opportunities to build and grow our core business. At the same time we expect to, further invest into our brand and strengthen our off balance sheet factors, to facilitate our growth journey. I emphasize that we are driven by our desire to boost the value we create for our stakeholders. With that, State Timber Corporation will maintain its whole focus to ensure each of the businesses continue to deliver sustainable value to stakeholders, while strengthening their identity as a socially and environmental responsible organization. Further, we would fully utilize assistance given by the present government to local manufacturers to promote exports.



Acknowledgement

On behalf of the Board of Directors, I am much grateful for the enormous support and corporation extended to us by the Hon. Minister of Wildlife & forest conservation, State Minister, Secretary and the staff of the Ministry and Conservator General of Forests and the staff attached to the Forest Department and all other government officials for extending their co-operation on behalf of the Board. Special thanks are also go to the General Manager and all the staff members on behalf of the Board of Director for their contributions, their knowledge, and skill and, above all their unstinted loyalty and dedication on our voyage to success. We do not expect 2021 to be an easier, but we remain focused as always on the long term regardless of shorter term challenges and will continue to deliver to the very best of our ability. We remain committed to continuing to deliver a good return to our stakeholders through the achievement of our targets.

Finally I would like to assure all the stakeholders that the State Timber Corporation would be the top brander and the genuine player among the timber world in the future



Mr. Udaya C. Walisinghe
Chairman
State Timber Corporation

Pinus caribaea var hondurensis, native to Central America, thrives in a wide range of soils and climates. This species is best suited for altitudes between 900m -1600 m in Sri Lanka. The *Pinus patula* species, native to Mexico is similar to the *Pinus caribaea var. hondurensis* and grows at altitudes above 1600m. These two pine species are best suited for fallow lands as they compete well with grass species and plant species.

Pinus caribaea var. hondurensis is used for the lower peaks in the upland, central and lowland wet zone, and *Pinus patula* for the high peaks in Sri Lanka. In the upcountry, pine plantations were aimed at water conservation and timber production. Pines were planted in the 1980s for the protection of high water catchment areas. Accordingly, it was hoped to prevent soil erosion, prevent siltation, and ensure the flow of water to low-lying reservoirs during the dry season. Pine plantations in other areas were intended to create a buffer zone around the natural forest. In addition, the aesthetics of pine plantations were exploited in urban forestry.



GENERAL MANAGER (CEO) REVIEW

“STC is currently focusing on expanding local and export market for Pinus timber products as it possesses immense wood properties, while investing in value additions to diversify product ranges.”



As General Manager (CEO) of the State Timber Corporation, I am pleased to lay down a message for 2020 Annual Report. As intimated last year in my message, I had the greatest satisfaction in leading STC amidst tough conditions to return excellent results in every aspect for the year 2020.

Victory within the COVID 19 pandemic

The year 2020 was one of the most challenging and at the same time most exciting year I have ever met in my carrier as it is the year which was extremely challenging on account of the COVID-19 pandemic spread throughout the world. I never expect to face such critical period not even in my life or else in my carrier period. In whole world still facing for the pathetic situation from the past year due to the corona pandemic and whole businesses were significantly impacted in both financially and operationally. Because of the employees' performance and dedication at such harsh time, STC witnessed to achieve the targets faster than anticipated recovery momentum.

The country had to endure quarantine emergency regulations and new protocols had to be drafted into our business plan to ensure our tasks were carried out without a breakdown in providing the national service expected of us whilst ensuring our staff was safe and healthy. Although there were island-wide lockdown from April to mid-May 2020 and intermittent isolation measures during other periods, STC employees were actively participated very safely in all the carrier pathways in it to earn profits and achieve the targets with taking the risk of COVID - 19. I must be specially hats off and pay my respect for them on behalf the STC. I believe that the positive attitude of all our employees enabled to carry out with best performance with navigating

through this unprecedented and volatile period which encountered numerous challenges despite the resiliencies. It was also an exciting period where we discovered our real strengths and opportunities beyond normal condition. Working from home or close to home was adopted to reduce converging and staff being exposed to the virus. Our timely action safeguarded the staff and we successfully managed the epidemic. Once again I wish to admire all for their contribution, particularly those who served in our front lines and played a pivotal role in serving the customers of STC in this very challenging time. Their commitment to proactively transition to new ways of working and embrace and support given in implementing a series of cost containment and productivity measures aided to remain resilient and maintain its position of financial stability. I thank our vigilant staff for the quick action taken to mitigate a probable disaster while contributing their one day salary for the special fund launch by the government for the COVID 19.

Headway of past 52 years

STC has passed 52 year of proud history to the year 2020. I hope trust bond with the reputation might be one of the reasons for this success. Currently STC consist with 12 regional offices, 53 sale centers, and 3 furniture factories with impregnation and seasoning plants as well as 8 furniture showrooms including modern technologies and the required infrastructure facilities. With the long term planned strategies already planned to extend our productions by upwising our factories, sawmills, impregnation plants and seasoning plants with the hope of introducing our products from national levels to the international levels. At present the foundation is being laid to prepare the necessary arrangements for that. However it's clear that it's not very smooth and simple towards the challenges we have to face day by day in the country's political and economic background.

Forwarding financial outlook

It's essential to turn back on the institutional revenue of the challenging year 2020 to identify the drawbacks, threats as well as the strengths and future opportunities. STC earned Rs.3,982 million rupees in the year of 2020. Although it is little drawback with comparing to the year 2019, the profit before tax was Rs. 570 million and profit after tax for the year was Rs. 464 million. We paid Rs. 511 million as the levy to the

treasury for the year of 2020. As a General Manager I was so proud of leading the institute in direct way with collaborating the management and supportive staff to gain such great achievement in such controversial pathetic situation. However this corona pandemic will forward for next few years too as not synthesize proper medicine yet to eliminate it from the world. Therefore we can't giveup have to adopt and interfere with the oncoming situations with proper suitable novel strategies as we done in past year.

Continuing trustworthy quality products

Not only the financial activities, but also in past year we were success with our operational and humanitarian activities. Up to the date STC was being the prioritize leader in timber supply in Sri Lanka. It is a big challenge to compete with other timber industries and be a heart winner organization. However we have proven that we done best job by selling logs, sawn timber, sleepers, fence poles, elephant poles, and transmission poles as well as the furniture. As each and every year, 2020 performed well with logs, sawn timber and sleepers trading. STC furniture still won the trust of the nation due to comfortable, trustful, well finished attractive furniture products. STC won top ranks always for our traditional furniture production as well as the finger jointed furniture products. The regular customers as well as the novel customers satisfied with the best quality, fair price of the furniture and the best service offered for them by our retailers. Therefore they always tried to contact our furniture showrooms to get best product with reasonable price which they pay for their purchasing product. Furthermore we always certify them to provide them best quality products without cheating. So far, as the reputed government organization we always provide best service rather than earning profits. We assure it to our customers further by ensuring never collapse their trust anyhow, though we have to face with difficult situations as COVID.

Rendering quality service via scientific framework

Apart them our employees did several timber related research studies which were published as research articles, conference abstracts, extended abstracts connecting via zoom conferences, symposiums and also the book chapters within past year by doing work from home without wasting time and got the maximum benefit from the wasting time which spend for travelling. However it was succeed. As



STC activities and its processes are in line with the scientific concepts and backgrounds always conducted the research studies on timber of Sri Lanka. After doing several laboratory tests related to the timber identification, timber properties as well as the seasoning and preservation techniques, STC who is the only authorized institute of issuing timber certificate reports, precede relevant certificates and reports to the requested authorities. In 2020 we were able to issue all together 207 timber related certificate reports.

Lending hand to CSR activities

Apart from that STC maintained 26 nurseries in 14 Regionals and produced saplings of valuable timber species mainly with the aim of performing CSR activities. The saplings were distributed free of charge to the tree planting programs via various government and non-government organizations. By the year 2020, about 120,000 saplings were produced in nurseries of STC and 78,657 saplings were distributed free of charge for tree planting programs such as "Wanaropa tree planting programs", "ThurujanaSisu Bank tree planting programs", "World Environmental Day programs" and "International Day of Forests programs" via specially in Jaffna, Polonnaruwa and Anuradhapura regions as well as other regional offices of STC.

As the authorized government institute, we were bound to make aware public as well as school children on environment, forests, community forests, identification of timber, and sustainable utilization of timber. As a responsible knowledgeable party, STC contributed to provide resource persons for the teachers training programs as well as public awareness programs. Due to COVID 19, it was a barrier to conduct face to face seminars or training programs as we have to avoid the contacts and gatherings. But with all these circumstances, we were able to trained 654 employees to improve their professional skills, soft skills and also their carrier knowledge. In addition to that in the year 2020, 150 number of science teachers were trained for Environmental Science at Kalegana, Galle with the collaboration of the Ministry of Environment.

Ensuring aspirations for the betterment of employees

Employee promotions, transfers, were carried out in a transparent and fair manner that builds employee trust by ensuring the job security of the employees in this

year too. Taking timely decisions, paying commitment and effort in all the good as well as hard times by the experienced executive staff towards solving problems arising with regard to the policy implementation of the institute is the other important secret behind the success of the Corporation. We appreciate and much values the manner in which the management and the staff have co-operated with the Board of Directors amidst numerous challenges.

Future stratagems

STC is currently focusing on expanding local and export market for Pinus timber products as it possesses immense wood properties while investing in value additions to diversify product ranges. Pine wood is used in the manufacture of furniture, light construction, fences, door and window frames, ceiling boards, as well as sleepers in foreign countries. And also pine wood can be used in manufacturing of innovative designed items such as toys, ornamental products, packagings and wall panels. It is used in many countries for the production of finger joints. The Finger Joint Unit, located at the Boossa Complex of the State Timber Corporation, manufactures pine wood furniture and wood boards.

Annually, mature pine forests are cleared by the State Timber Corporation and converted into local or commercial forest plantations. The Department of Forest Conservation is currently in the process of clearing the pine forests and restoring the forests using native plant species. At present about 1000 hectares of the pine forest plantations owned by the Department have been converted into broadleaf forests. The felling of trees is scheduled to begin in 2021 and end in 2028. Normally from pine plantations produce about 300-400 cubic meters of timber per hectare and have a market value of around Rs. 10 million per hectare.

Therefore focusing the coming year with the innovative pine products will enhance the economical, conservational, environmental benefits to the society too. Hence as the future outlook of the STC we focus highly on the harvesting protocols, seasoning and preservation techniques, grading rules as well as the end quality innovative novel products manufacturing by following scientific way which cost effective to the current economic conditions.

Acknowledgement

I take this opportunity to express my deep appreciation for the committed efforts put by Chairman, Board of Directors, executive staff, as well as all the working staff within high risky environment without concerning the life threat from COVID 19. My sincere gratitude is also expressed to our valued customers who laid the foundation over this pathetic condition too towards the 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 to the Hon. Minister for the Ministry of Wildlife and Forest, Conservation his State Minister and the Secretary to the Minister and Conservator General of Forests and his staff of the Forest Department for their unstinted support and cooperation given to us to achieve our goals and objectives during the challenging harsh time era of 2020.



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



OUR FUNCTIONS

- Extraction of timber from forests, conversion of such timber into sawn timber and finished products, sale of logs, sawn timber and finished products, construction of forest roads required for the above purpose.
- Acquisition, construction and operation of logging units, saw mills, impregnation and preservation plants, seasoning and drying kilns and other equipment and installations.
- Operation of timber and firewood sales depots.
- Manufacturing and marketing of by-products of timber.
- Import of timber.
- Afforestation, reforestation and scientific management of forests and forest plantations.
- Agricultural productions.
- Export of timber related finished and semi-finished products.
- Purchase of timber from private lands.
- Processing of forest related products.
- Import of cane.
- Identification and certification of local and imported timber species through sample testing.
- Conduct training programmes related to timber industry on related subjects and issue of certificates to successful candidates and undertake 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 generation.

BOARD OF DIRECTORS 2020

Mr. Udaya C. Walisinghe
Chairman
State Timber Corporation

Mrs. B.N.Gamage
Director
Treasury representative

Mr. W.A.C. Weragoda
Director
Conservator General of Forest

Mr. P.K. Prasanna
Director

Mr. P.D.Preethi Gunathilaka
Director

Mr. H.K.M.J.H.Kumarasinghe
Director

Mr.B.A.Dharmarathne
Director

Ms.M.G.Dilani Sharika
Board Secretary

SENIOR MANAGEMENT TEAM 2020

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 - Marketing

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



Pine plantations are often established on steep slopes to minimize soil erosion. Currently, the Forest Department does not allow to harvest pines in soil conservation areas with an inclination of more than 30 degrees and in areas with an altitude of more than 5000 feet.

About 16,000 hectares of pines are currently planted in Sri Lanka. Pinus caribaea var. hondurensis has been established in more than 94% of the total pine extent. Another 700 hectares have been established with Pinus patula, and Pinus insularis, along with the two main species mentioned above, has been established as a mixed crop in very small areas of low humidity. These pine plantations have been established in Ratnapura, Kandy, Badulla, Nuwara Eliya, Matale, Galle, Kalutara and Kegalle districts. 60% of these pine plantations are owned by the Forest Department and 38% by the Land Reforms Commission.

All pine plantations are maintained and protected by the Forest Department regardless of land ownership. These pine plantations are managed through three rotation cycles, namely the protection cycle in sensitive areas, the timber production cycle in non-sensitive areas and the resin production cycle.



ANNUAL REPORT

State Timber Corporation

- Board of Directors' Review for the Year 2020
- Our Reach
- Audit And Management Committee Report

BOARD OF DIRECTORS' REVIEW FOR THE YEAR 2020

The Directors have pleasure in presenting their Report and the Audited Financial Statements of the State Timber Corporation for the year ended December 31, 2020.

Overview

The 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 island wide.

Principal activity

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

Review of Business

State Timber Corporation is a reputed giant with a history and heritage of trust, built on dependability, quality and remarkable team spirit. Since its inception in 1968, STC has built on its legacy of trust, reliability and a trail blazing enterprise hailed as the trusted and quality Timber provider of the country. Our destined pathway is a road towards a brighter horizon. One abundant with innovation, purpose and customer oriented focus, always augmenting value, always etching our success story with each day that unfolds

The COVID-19 pandemic had an adverse impact on most business units in the first and second quarter, with a mixed performance thereafter. Thus, financial year 2020 was extremely challenging for State Timber Corporation as well, the impacts of which continue to be felt this year.

Sri Lanka's economy contracted by 3.6% in 2020, as the impact of the lockdowns and business interruptions took a toll on economic activity. Whilst this generally affected private consumption, certain sectors including timber were negatively impacted.

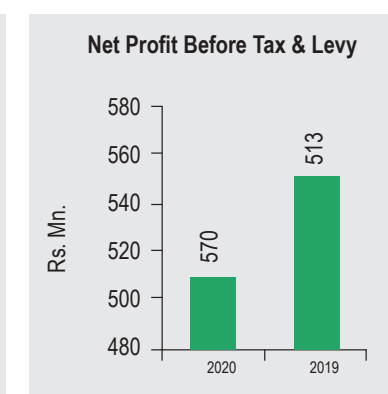
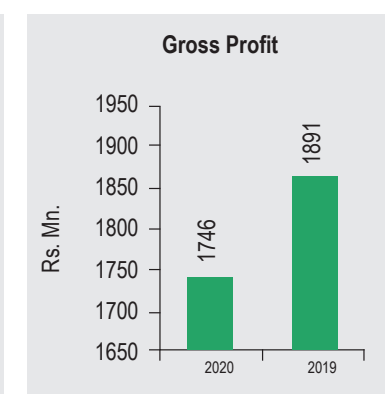
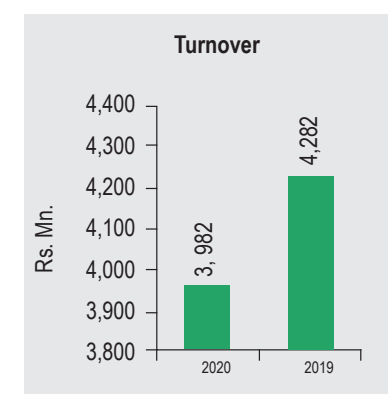
Notwithstanding these challenges, initiatives on cost optimization to

maximize value, high focus on volume driven growth, agile management of teams, building on the experience and knowledge we acquired while navigating the business complexities of 2019 drove the State Timber Corporation to deliver a solid performance in the year under review.

Financial Highlights

Covid-19 had a significant impact on consumer behavior and on the performance of our product categories. The State Timber Corporation recorded revenue of Rs. 3,982 Million, a drop of 7% over the previous year. Gross Profit of Rs. 1,746 Million was reported, reflecting a drop of 8% compared to previous year. The economic impact of the pandemic, lockdown travel bands, health & safety measures were adversely impacted on the financial performance of the State Timber Corporation.

Performance	2020	2019
	Rs.Mn	Rs.Mn
Turnover	3982	4282
Gross profit	1746	1891
Profit on operation	369	277
Non-operating income	200	236
Net profit before tax & levy	570	513



STC generated Rs. 570 million profits before tax (Net Profit) and levy for the year under review which is 11% growth compared to the previous year net profit before tax and levy. Strategies on cost optimization to maximize value, high focus on volume led growth & efficient use of resources have led to achieve this growth.

STC believes that, it has responsibility to provide quality products to the market and more employment opportunities to support the government to further reduce unemployment in Sri Lanka. Rs.1,640 million was incurred as employment cost in 2020 even under economic recession assuring employment safety. Total no of employee in year 2020 was 1,708 and 1803 in 2019.

Return on assets and return on equity for 2020 and 2019 are as follows,

Performance	ROA	ROE
2020	6%	8%
2019	4%	6%

Return on Average Assets (ROA) before levy & after income tax increased to 6% in 2020 from 4% in 2019, while Return on Average Equity (ROE) before levy & after income tax increased from 6% in 2019 to 8% in 2020. The Corporation's contribution to the Government revenue for the period under review was Rs. 1,746 million which includes Rs. 511 million levy paid to treasury.

Production

The Corporation highly concern about the quality level of the production and the maintenance of higher production level in an environmental friendly manner for the operation process is vital to the subsistence and to the productivity as well as to the wellbeing of the organizational internal and external component

Accordance 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 desired goals and objects in a sustainable way. We are legitimately responsible for sustainable forest management

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

- Scientific timber extraction from plantations released by Forest Department and Wild life Department.
- Producing logs to the timber market, sleepers to the Railway Department, transmission poles to the Ceylon Electricity Board and Elephant poles to the Department of Wildlife as well as sawn timber to meets customer demand
- Purchasing commercially valuable trees from State Planation Corporation and private lands
- Obtaining donation and Forest offence timber
- Activity engage in reforestation and afforestation programs
- Conduct project of re-export of imported wooden Railway Sleepers after value addition.

Extraction of timber from state forests

The Forest Department has released forest plantation according to national forest management plan to extract timber such as Teak, Eucalyptus, Pinus, etc. The forest management areas released for extraction of trees in the year 2019 and 2020 are as follows.

Species	Clear Felling (Ha)		Thinning (Ha)	
	2020	2019	2020	2019
Teak	692.0	638.0	132.0	128.0
Eucalyptus	51.0	119.5	296.0	495.0
Pinus	109.4	86.2	-	-
Kaya	-	-	24.0	49.0
Akashiya	8.0	69.6	-	-

Conversion of logs into sawn timber

During the year 2020, 3,387m³ sawn timbers have been produced by the saw mills and 2,279m³ has been sold out by the island wide STC depots as against the 4,774m³ production of year 2019.

Treatment of transmission poles and sleepers

During the year under review 38,380 numbers of sleepers and 9,171 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 5% 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 8,660 and 11,837 units respectively.

Manufacturing of furniture

STC furniture plants at Ampara, Boossa and Kaldemulla have been produced Rs. 233 million worth furniture during the year 2020. Furniture worth Rs. 237 million (including taxes) has been sold during the year through STC showrooms located in Rathmalana, Kandy, Rathnapura, Thalalla, Ampara, Boossa, Bandaraela & Battaramulla.

Production, sales and revenue 2019-2020

		Production volume		Sale volume		Sale value (including tax)	
		2020	2019	2020	2019	2020 Rs.Mn	2019 Rs.Mn
Logs	M ³	106,609	123,206	103,955	113,922	3,299	3,445
Sawn Timber	M ³	3,387	4,774	2,279	3,459	222	307.9
Sleepers	No.	38,380	36,701	36,552	49,076	371.1	530.5
Trans. poles	No.	-	8,660	2,287	6,529	24	63.9
Elephant poles	No.	9,171	11,837	9,347	18,208	48	73.4
Round poles	No.	67,589	93,783	76,761	97,185	9.3	15.5
Fire wood	M ³	82,856	107,914	60,171	92,637	39.5	71.9
Fence post	No.	105,453	99,047	117,430	125,928	18.7	18.3

Review and monitoring targets with achievements

Management of STC takes all the necessary measures to ensure that the ongoing operations are in line with the pre-established goals, objectives & targets are met at the end of the year. In order to monitor the progress & to address all the prevailing & possible issues pertaining to each region, management of STC conducted monthly regional managers meeting headed by chairman with the participation of all the Regional Managers and Senior Managers of the Corporation.

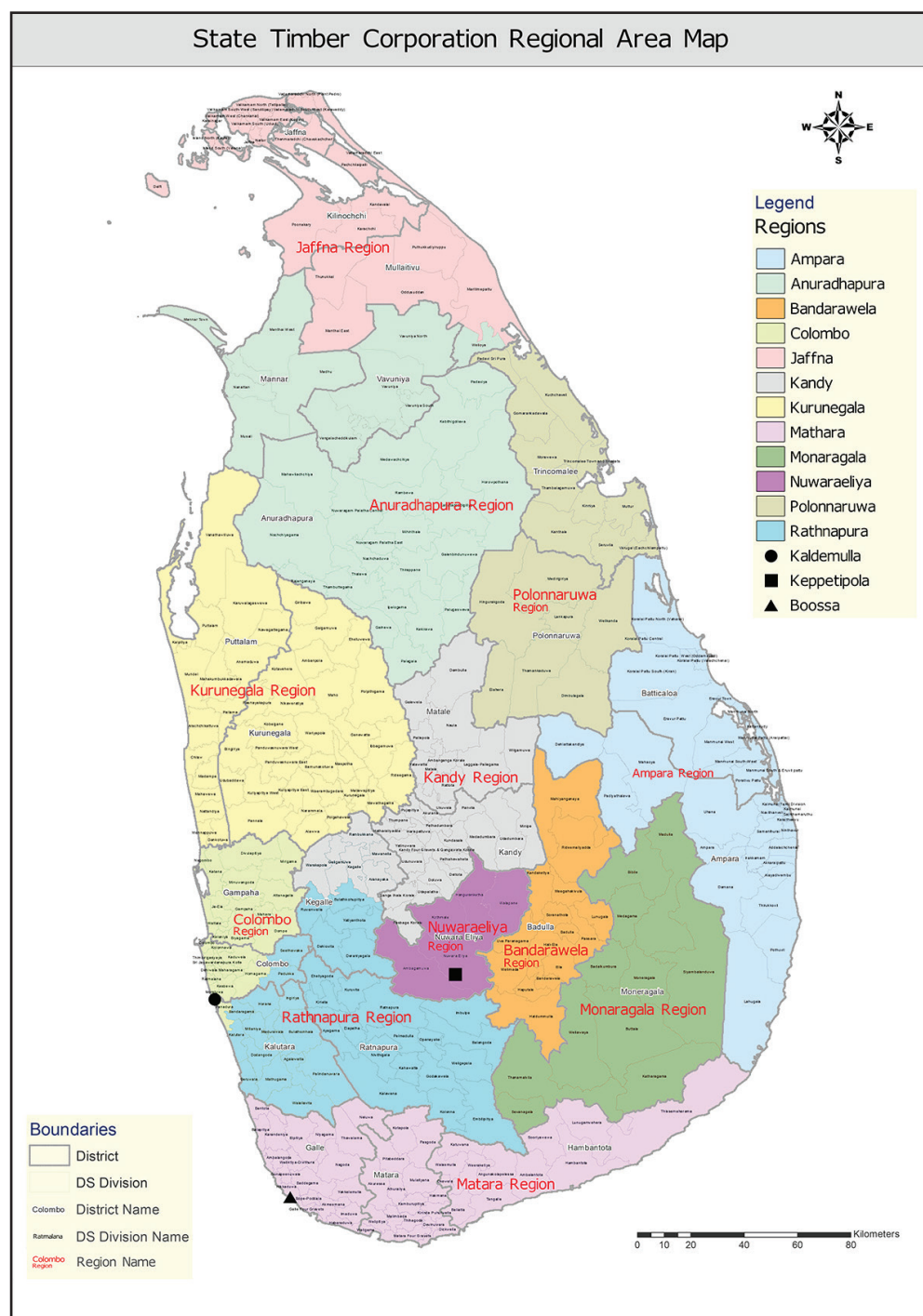
Sri Lanka is currently experiencing a rise in the number of cases of COVID-19. As we seek to move beyond the negative impacts of the pandemic and assist in rebuilding our nation, our corporate purpose has become more relevant than ever. We understand our responsibility towards our community, and we will continue to work with our stakeholders to deliver value and keep moving forward.

Signed on behalf of the Board of Directors



Mr. Udaya C. Walisinghe
Chairman
State Timber Corporation

OUR REACH



AUDIT AND MANAGEMENT COMMITTEE REPORT

Members of the Audit and Management Committee - 2020

Mrs. Biyanka N. Gamage - Chairperson
Mr. H.K.M.J.H Kumarasingha - Member
Mr. G. Kapila Prasanna – Member

Areas of focus in 2020



FINANCIAL
REPORTING



INTERNAL AUDIT,
RISKS AND
CONTROLS



EXTERNAL
AUDIT



COMPLIANCE

Purpose/objectives of the committee

The Audit Management Committee (AMC) was established to assist the Board in fulfilling its oversight responsibility through review of the Corporation's financial reporting process and integrity of financial statements, process adopted to ensure compliance with legal and regulatory requirements, system of internal controls and risk management process, internal audit function and review of independence and performance of external auditors with a view to safeguarding the interests all the stakeholders.

The role and responsibilities of the AMC continues to evolve to keep pace with emerging trends in the business environment and ensure the Committee's obligations are discharged with due care.

Key Responsibilities

- Review of controls in the preparation and presentation of the financial statements and ensuring the adequacy of disclosures in accordance with the Sri Lanka Accounting Standards
- Monitoring and review of the adequacy and effectiveness of the Corporation's internal control system and risk management function ensuring Corporation's assets are appropriately safeguarded.
- Monitoring the internal audit function including execution of the Audit Committee approved coverage plan

- Assessing the independence and performance of the external auditors
- Consider the findings arising from the annual financial statements audit.
- Recommend to the Board the approval of the Integrated Report, Audited Annual Financial Statements and Interim Report.

Activities in 2020

The Audit Committee engaged in the following activities during the financial year under review.

Financial Reporting

During the year, the Committee reviewed and discussed with Management the final audited financial statements, prior to them being recommended to the Board

The Committee continued to focus on the effectiveness of the controls and risks related to the information systems that are used to prepare the Financial Statements.

Regular going concern assessments were carried out by Management after considering the potential financial implications of COVID-19. During the year, the Committee regularly reviewed cash flow projections and funding arrangements.

Compliance

Audit committee has reviewed the regulatory and compliance statements including statutory tax compliance statements submitted by the management in order to monitor regulatory and legal compliance.

Internal Audit, Risks and Controls

The Committee continues to focus on obtaining the required assurance from the management that effective strategies are in place to capture and mitigate all significant risks that would impact the Corporation. During the year, management of STC discussed with the Committee the key risks and the process adopted by the corporation to identify, evaluate, and mitigate the risks and control lapses.

The Committee regularly investigated on the adequacy and effectiveness of internal controls within the corporation. These comprise updates on internal audits conducted. Further, this process includes an update on compliance with the established policies and procedures of the corporation and also compliance with laws and regulations.

The Committee reviewed the Internal Audit plan for the corporation at regular intervals and accommodated changes to suit the operating environment and business needs.

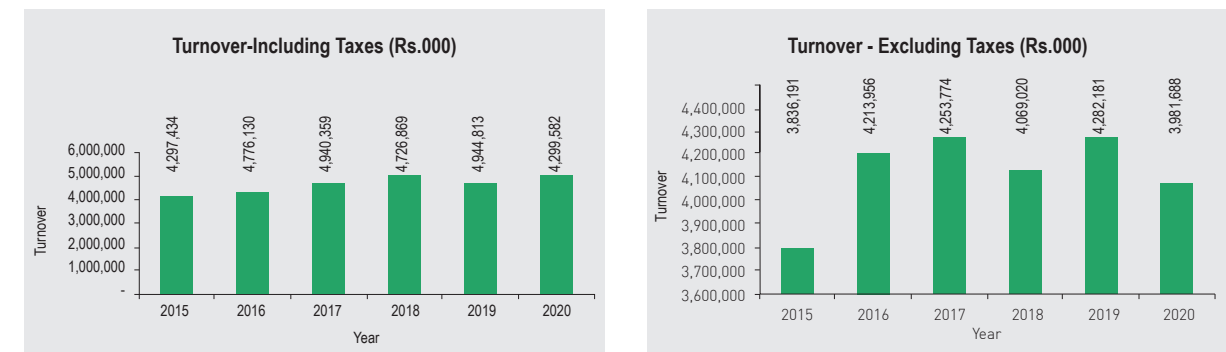
External Audit/Government audit

The Committee met the External Auditors regularly and monitored their independence, objectivity and performance. The AMC had meetings with the external auditors - review of the audit plan at the audit planning and scoping stage, discussion of the audit results report on completion of the audit prior to the AMC approving the financial statements and the Audit Completion Report which discussed the areas of improvements in internal controls and the other matters which in the opinion of the auditors require attention of the management in the ensuring financial reporting period. The Audit Management Committee also met the auditors on a needs basis to discuss specific matters. The Audit Committee reviewed the performance of External Auditors including inputs from Senior Management and discussed the review outcomes with External Auditors and Management.

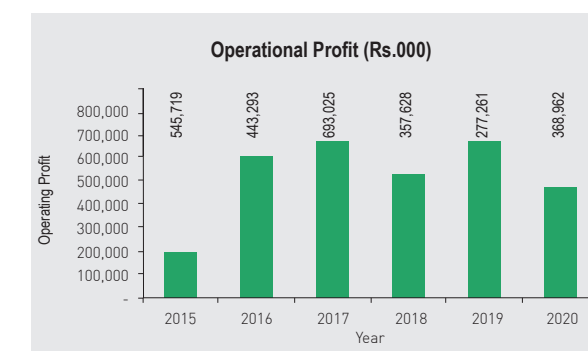
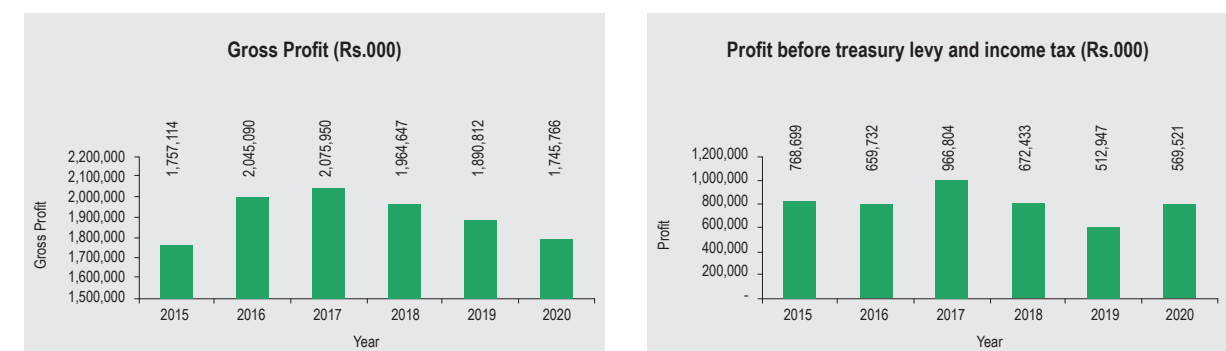
Mrs. Biyanka N. Gamage
Chairperson - AMC

Business Summary

Income growth trend analysis

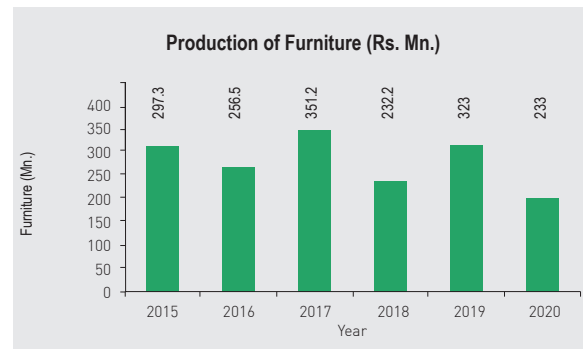
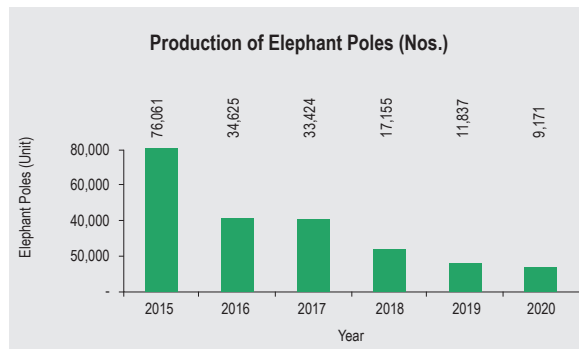
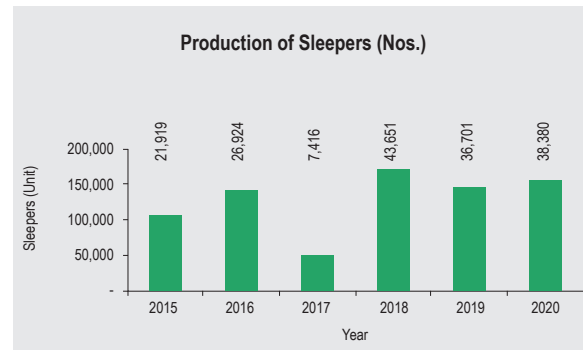
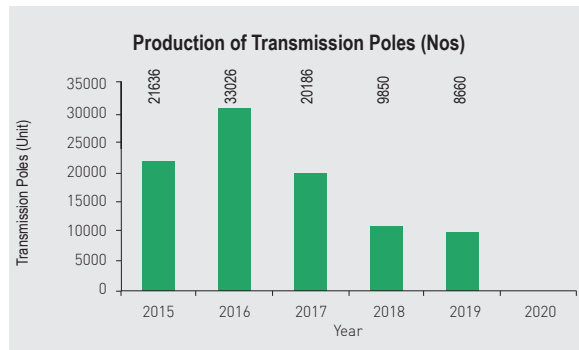


Profit growth trend analysis



Production growth trend analysis





Capital Expenditure - 2020

Description (more than 2mn)	Rs.
UD Qvester Trucks - Matara Region	19,800,000
Double Cab 03 nos - Head Office	27,750,000
Construction of the ARM & Depot office - Jaffna Region	7,924,533
Laying Floor Tiles - Head Office	4,375,980
Staking shed - Colombo Region	3,411,081
Concrete road - Rathnapura Region	2,649,199
Concrete road - Keppetipola Region	2,727,456
Concrete road - Anuradhapura Region	2,548,904

Investment

	31-12-2020	31-12-2019
Government ins. Temporary surplus trust fund	-	486,568,114
State mortgage and investment bank	219,691,174	203,624,016
Land reclamation and development (Pvt) Ltd	500,000	500,000
People's bank	785,754,782	526,885,770
Bank of Ceylon	1,486,003,969	861,011,950

DECADE AT A GLANCE

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total revenue for the year	Rs. '000	3,103,744	3,563,390	3,213,644	4,132,052	4,522,238	4,630,718	4,457,024	4,608,413	4,372,033
Gross profit for the year	Rs. '000	1,237,640	1,546,107	1,197,518	1,453,450	1,757,115	2,045,090	1,964,647	1,890,812	1,745,766
Net profit before interest and tax	Rs. '000	603,499	801,681	382,337	427,222	768,699	659,732	966,804	672,433	512,947
Total cost of employment	Rs. '000	953,498	1,065,052	1,117,036	1,254,516	1,449,749	1,789,572	1,572,775	1,553,598	1,584,418
Capital expenditure for the year	Rs. '000	180,546	162,509	332,870	115,132	244,929	113,675	94,637	116,034	319,485
Non current assets as at end of the year	Rs. '000	1,739,893	1,479,880	1,658,535	1,654,908	1,732,640	1,894,597	1,978,855	2,581,165	1,966,637
Current assets as at end of the year	Rs. '000	2,177,892	2,929,185	3,153,777	4,004,860	4,115,259	3,652,116	4,423,105	4,541,610	4,640,889
Current liabilities as at end of the year	Rs. '000	497,229	804,102	1,050,258	1,591,991	1,480,966	897,087	1,234,716	1,047,668	967,481
Non current liabilities as at end of the year	Rs. '000	399,953	409,030	384,831	484,649	424,854	499,373	852,292	812,441	714,022
Equity as at end of the year	Rs. '000	3,020,602	3,195,933	3,377,223	3,583,129	3,953,019	3,988,297	4,230,694	4,660,357	5,540,551
Contribution to the consolidated fund	Rs. '000	75,000	600,000	50,000	25,000	50,000	175,000	100,000	100,000	50,000
No. of employees as at end of the year	NOS.	2,267	2,187	2,139	2,186	2,145	2,125	2,083	2,001	1,803
Investment of surplus fund as at end of the year	Rs. '000	764,328	298,546	338,010	360,227	382,550	405,727	431,404	457,962	486,568

Key performance indicators

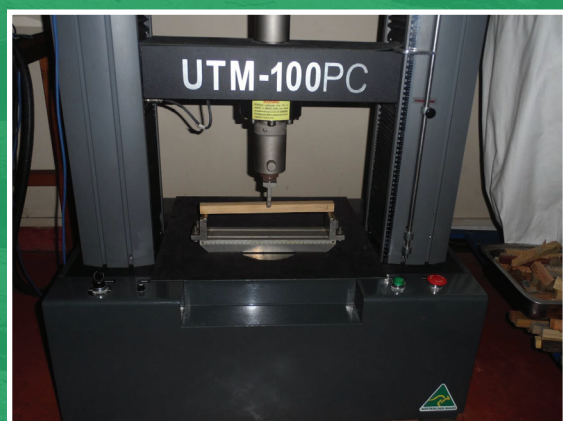
Net profit before tax to equity	%	19.98	25.08	11.32	11.92	19.45	16.54	22.85	14.43	9.26
Net profit before Fin. Changes & tax to total assets	%	15.40	18.18	7.94	7.55	13.12	12.25	15.30	10.31	7.10
Current ratio	Times	4.38	3.64	3.00	2.52	2.78	4.07	3.58	4.33	4.80
Equity : Asset ratio	Times	0.77	0.72	0.70	0.63	0.67	0.74	0.67	0.71	0.77
Return on assets	%	7.68	3.73	3.78	3.64	6.31	0.66	3.84	6.59	12.19
Total revenue growth	%	(14.17)	14.81	(9.81)	16.89	10.00	9.44	2.40	(3.75)	3.40
										(5.13)

Properties of pine wood

As a coniferous plant, the wood density of pine trees growing in Sri Lankan ecosystems is in the range of 400 – 650 kgm⁻³.

The wood working ability of pine wood is good and by preserving pine wood it can be kept for a long time without any damage caused by the wood decaying organisms. The ability to preserve is also very high.

The average modulus of Rapture of pine wood, which can be considered as a neutral wood, is 60 Nmm⁻² and the average elastic modulus (Modulus of Elasticity) is about 8,000 Nmm⁻². The compressive strength (parallel to the grain) is about 40 Nmm⁻². It is very easy to glue under pressure using suitable glue.



ANNUAL REPORT

State Timber Corporation

- Risk Management
- Corporate Social Responsibility

RISK MANAGEMENT

Managing business and financial risks are fundamentally important in maintaining sustainable growth and making steady progress towards the achievement of corporate goals and objectives. "Risk" being a factor which is not possible to "eliminate" completely, the Corporation ensures the "minimization" of risks by adopting various strategies for continuous reviewing of the operations. Various strategies are developed and implemented to achieve this goal.

Risk environment

The financial year 2020 had been a very challenging year, due to COVID-19 outbreaks. However, we believe that with the agile leadership & efficient management of timber resource we can overcome these uncertainties and grow strongly with our core business. Additionally, being in a diversified industry makes us stronger in terms of managing risk and we secured a steady recovery from the economic recession.

Risk Governance

Managing risks is a key responsibility of the Board of directors & the Board is assisted in this by the Audit Committee which has oversight responsibility for risk management. Each division head is responsible for the identification, measurement, management and mitigation of risks as well as monitoring and reporting risks to Internal Audit and to the Board.

The Risk Management process

STC's risk management is designed to ensure all business & financial risks are prudently identified, analysed, and responded. This will facilitate a structured risk governance system and ensure better evaluation, identification, and mitigation of risks promptly while developing higher levels of risk aware culture in every aspect of the business.

1. Risk identification

The purpose of risk identification is to find, recognize and describe risks that might help or prevent an organization achieving its objectives. Relevant, appropriate and up-to-date information is

important in identifying risks. The organization can use a range of techniques for identifying uncertainties that may affect one or more objectives.

2. Risk Analysis

The purpose of risk analysis is to comprehend the nature of risk and its characteristics including, where appropriate, the level of risk. Risk analysis involves a detailed consideration of uncertainties, risk sources, consequences, likelihood, events, scenarios, controls and their effectiveness. Risk analysis can be undertaken with varying degrees of detail and complexity, depending on the purpose of the analysis, the availability and reliability of information, and the resources available. Analysis techniques can be qualitative, quantitative or a combination of these, depending on the circumstances and intended use.

3. Risk Evaluation

The purpose of risk evaluation is to support decisions. Risk evaluation involves; comparing the results of the risk analysis with the established risk criteria to determine where additional action is required. This can lead to a decision to:

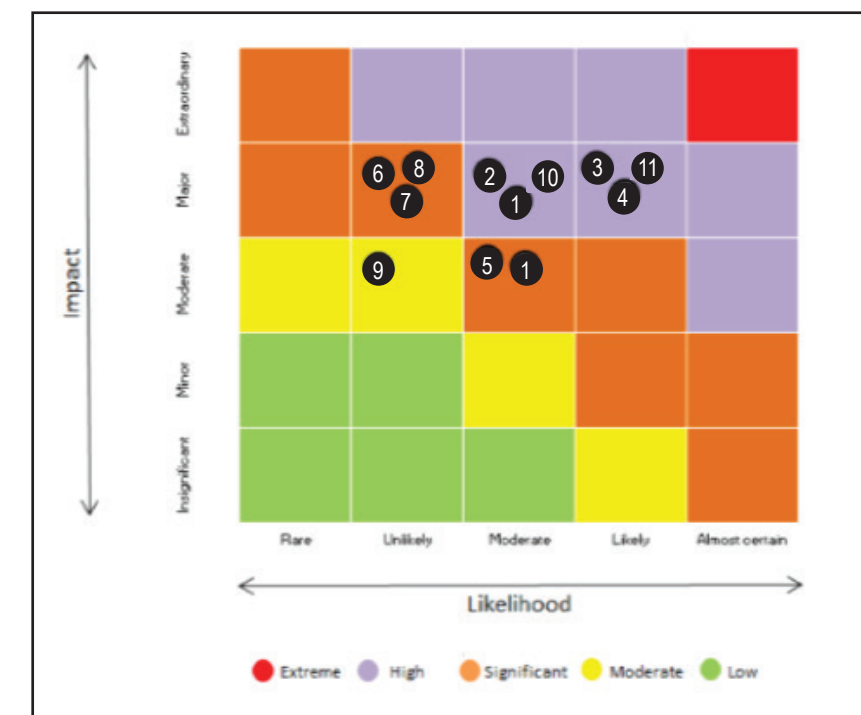
- Do nothing further
- Consider risk treatment options
- Undertake further analysis to better understand the risk
- Maintain existing controls
- Reconsider objectives

4. Risk Treatment

The purpose of risk treatment is to select and implement options for addressing risk. Risk treatment involves an iterative process of:

- Formulating and selecting risk treatment options
- Planning and implementing risk treatment
- Assessing the effectiveness of that treatment
- Deciding whether the remaining risk is acceptable
- If not acceptable, taking further treatment

Risk Heat Map



Risk Exposure	Objectives	Risk Minimisation Strategies
Financial Risk Management		
1. Liquidity and Cash Management	To ensure faster response to market opportunities by ensuring instant funding ability.	Funding of long term assets through long term loans.
	To maintain a 'sufficient' liquidity position at all times.	Availability of short term borrowing facilities to the Corporation at all times.
		Cash powers are divided on value in order to control expenditures
		The Corporation owns land and buildings with market values significantly in excess of its book values that can be offered as collateral for future funding requirements.
2. Interest Rate Risk	To minimise adverse effects of interest rate volatility.	Sourcing of funding requirements through many financial institutions.
		Negotiating with banks to obtain the best possible interest rate for corporation's investments.
	To ensure cost of borrowing is at minimum level.	Negotiating and taking supplier credit to mitigate the high cost and to avoid adverse fluctuations in local interest rates.
	To optimise the return on the equity	Maintaining low gearing rate & effective working capital Management
Business Risk Management		
3. COVID-19 Risk	To ensure healthy safety of the workforce	Strictly followed guidelines given by health authorities.
	To ensure continuous business operations	Educate in the workers about the virus impact.
		Carry out PCR tests on random samples.
		Maintain buffer stocks for both RM & FG.
4. Credit Risk	To minimise risks associated with debtor defaults	Developing and implementing Credit Policies
		Obtaining bank guarantees, deposits and collateral for all major customers.
		Following stringent assessment procedures to ensure credit worthiness of the customers prior to the granting of credit.
		Closely monitoring the debtor balances, laying action plans, and determining the same are under control

5. Asset Risk	To minimize risk from fire, theft and machinery and equipment breakdown.	Obtaining comprehensive insurance covers for all tangible assets.
		Carrying out mandatory preventive maintenance programs.
		Carrying out frequent employee training programs in areas such as fire prevention
6. Internal Controls	To maintain a sound system of internal control to safeguard Corporation assets.	Carrying out of system audits and other control mechanisms such as inventory and cash counts by Audit division.
		Having in place a budgetary process and a budgetary control mechanism to ensure that the corporation's performance is in line with its targets
7. Reputation Risk	To prevent the causes that damages our reputation.	Continuous training, quality management and assurance programs to strengthen the product quality.
		Internal and external quality inspection.
	To minimize the impact if, despite our best endeavors, a reputation crisis should occur.	Ongoing investment and improvement initiatives in manufacturing facilities
		Obtaining certifications from external governing bodies.
8. Human Capital and Labour Risk	To ensure a smooth flow of operations without any undue disruptions.	Standardized manufacturing processes.
		Improving employee benefits by way of incentives and welfare activities.
		Improving the Human Resource function of the cooperation with regards to employee recruitment, performance appraisals and in-house as well as external training programs.
		Promoting Performance driven culture
9. Technological Risk	To keep pace with the current technological developments and safeguard against obsolescence.	Continuous investment in new technologies and automation.
		Investing in Research and Development activities throughout the year.
10. Risk of Competition	To maximise our market share	Ensuring high standards of quality.
	To increase revenue from key products	Increasing productivity and efficiency in order to ensure our prices remain competitive

		Carrying out market research to identify needs.
		Further strengthening STC brand through advertising campaigns and target marketing.
		The introduction of a CRM programme in our showrooms.
11. Environmental, Political and Regulatory Risk	To minimise the negative impact from the changes in the external environment which are beyond our control.	Complying with the standards set by the relevant authorities and ensuring the compliance
	To comply with the regulatory requirements.	Complying with the requirements of statutory and regulatory bodies.

Preservation and seasoning of pine wood

Pine wood is susceptible to Blue-stain fungus and should be preserved as soon as it is cut down as well as when it is converted into sawn wood. Therefore, as soon as it is cut, it should be sprayed with suitable fungicide on all the exposed areas. Since the if preservative is water soluble, the coating washes off after heavy rain and if it exposed to heavy rain, preservative should be reapplied.

1.5 L of fungicide should be dissolved in 100 L of water to prepare the treatment solution. According to this ratio, the required amount can be prepared.

The boron reagent used for this is the soluble in water. Therefore, pine wood can be used for preservation without long-term pre-seasoning. Vacuum treatment is more effective but more expensive. This requires a special vacuum pressure system, boron conservation units, and also trained employees. Immersion technique also can also be used for preservation.



CORPORATE SOCIAL RESPONSIBILITY

As a responsible state organization, we believe the presence of all the entities today and in the future are pivotal for our existence. We aim to pioneer new solutions to enhance sustainability while continuing to shape our business responsibly and increasing our economic success.



Our commitment towards the Environment

As a government entity engaged in forest plantations, we are committed to environmental sustainability development while making efforts to ensure that all activities carried out are in harmony with the environment. We take maximum efforts to protect, conserve and improve the environment in line with our operations and developments.

Succeeding that objective, State Timber Corporation conducted following programs during the financial year 2020.

- Distributions of saplings free of charge through nurseries run by the State Timber Corporation

The State Timber Corporation maintains 26 nurseries in 14

Regionals and produces saplings of valuable timber species. The saplings are also distributed free of charge to various government and non-government organizations by the Research Development and Training Division



By the year 2020, about 120,000 saplings have been produced in the State Timber Corporation's nurseries and 78,207 saplings have been distributed free of charge for tree planting programs.

In addition, 450 saplings were planted in Jaffna, Polonnaruwa and Anuradhapura areas under the Aramaropa, Wanaropa Programmes.

Our commitment towards employees

The Corporation conducts various types of training and development programmes for employees, having identified the value of training and development. Training sessions across the Corporation has supported the employees to perform better and has also helped to manage their work life balance.

The Timber Technology Training Institute of the State Timber Corporation, Kaldemulla conducts training programmes and directs the employees to specific trainings in external institutions to improve their knowledge in the field and to impart further required knowledge.

Accordingly, the recruitment of employees for the training programs conducted by Timber Technology Training Institute and other external institutes for the year 2020 is as follows.

Institute	Programme/Workshop	No of programmes/ workshops	Number of trained employees
Timber Technology Training Institute of the State Timber Corporation, Kaldemulla or association with other institute	Marketing and Motivation training on Depot officers	02	120
	Computer training	03	43
	Training on imported timber	01	19
	Development of furniture sector	03	22
	Timber grading	02	75
	NVQ	01	17
	Timber polishing	01	22
Productivity programmes of regionals	Boossa	01	72
	Polonnaruwa	01	30
	Moneragala	01	40
	Anuradhapura	01	30

External institutes (SDFL, SLSI, NIBM, CETRAC, PRAG, Planining, SLIDA, Universities)	Human resource managemnt		
	Marketing		
	Finance		
	Procuments		
	Boiler training	44	164
	Disciplinary action		
	Employee Motivation		
	Postgraduate Training in Forestry		
	Training Course on Office Equipment Maintenance		
	Training Course on Internal Audit		
Total number of employees			654

Total number of training programmes/workshops in 2020 - 61

Total number of employees - 654

Total cost - Rs. 2,359,705.00



Moreover, Training programmes are consistently conducted to educate employees on health and safety measures at the workplace including factory & coups. Employees are encouraged to follow health and safety guidelines and to maintain standards. Being a prudent employer, we have obtained necessary insurance covers to pay medical bills & compensate losses.

The Corporation is committed to protect the employees and engage in educating them regarding the prevention of secondary transmission and spread of the COVID-19 virus. Information regarding infection, how to reduce exposure risk, symptoms of the virus, general treatments and other important information were shared with the audience. Face masks and hand sanitizer packs were distributed to the workers through these COVID-19 control efforts.



Our commitment towards community Development

Community is a key stakeholder of the corporation and essential for success and survival in the industry. As a producer of timber product which is coming under durable product category, we have a greater responsible to provide high quality products at a fair price to satisfy customers while giving back benefits to the society as a whole.

As a community development programme 150 numbers of sceince teachers were trained for Environmental Science at Kalegana, Galle by collaborating with Ministry of Environemnt. Additionally, STC donated one day salary of its each employee to the 'covid 19' fund with the purpose of assisting government to carryout covid 19 preventing programme.

Timber related research studies in 2020

The Research Development and Training Division carried out several timber related research studies which were publised as reserch articles, conference abstracts, extended abstracts and book chapters etc.Followings are the publised studies.

N.D. Ruwanpathirana, W.V.T.D. Amarasinghe, C.I.M. Archchi. 2020. Estimation of carbon retention potential in timber logs of State Timber Corporation, Sri Lanka Neela Haritha, vol.03, climate change secretariat, Ministry of Environment, Sri Lanka. pp 147-152.

Muthumala, C.K. 2020. Investigation of the strength parameters and physical properties of dry zone timber species, The Sri Lanka Forester, Forest department, Sri Lanka. Vol.40, pp, 27-36

Muthumala, C. K., Sudhira, De Siva, Arunakumara, K.K.I.U. and Alwis, P.L.A.G. 2020. Identification of Joint Efficiencies in 13 mm Finger jointed timber species in Sri Lanka, ICSBE2018 - LNCE 44 Springer nature.pte, ltd. Singapore. pp. 261-267.

Muthumala, C. K., De Siva, Sudhira, Arunakumara, K.K.I.U. and Alwis, P.L.A.G., 2020. Investigation of the relationship between densities vs. mechanical properties of Sri Lankan timber species, ,ICSECM 2019 - LNCE Vol. 94, Springer nature.

Muthumala C.K, G S Y De Silva, Arunakumara K.K.I.U and Alwis P.L.A.G. 2020. Investigation of the best joint type for combining of the finger jointed timber panel in board production.. International Conference on Sustainable Build Environment, Kandy, Sri Lanka.

C.K. Muthumala, Sudhira De Silva, K.K.I.U. Arunakumara and P.L.A.G. Alwis., 2020. Finger-joint technique to mitigate climate change, NeelaHaritha Vol.3, 2020, Climate Change Secretariat, Ministry of Environment, Sri Lanka. pp. 147-152.

Balasooriya B.M.L.S., Amarasinghe, W.V.T.D., Weerakkody, W.J.S.K. and Muthumala C.K. (2020). Development of Bucking Techniques to improve timber grading of Teak (*Tectona grandis*). Proceedings of 19 th Agricultural Research Symposium, Faculty of Agriculture and Plantation Management, Wayamba University of Sri Lanka, ISBN 978-955-8746.

Jinadari W.M., Weerakkody, W.J.S.K., Amarasinghe, W.V.T.D. and Muthumala C.K. (2020). Estimation of Above Ground Carbon Stock of Teak (*Tectona grandis*) Stands in Intermediate Zone of Sri Lanka. Proceedings of 19 th Agricultural Research Symposium, Faculty of Agriculture and Plantation Management, Wayamba University of Sri Lanka, ISBN 978-955- 8746.

Muthumala CK, WVT D Amarasinghe, TS Mudalige. 2020. Assessment of Wood Properties in Lesser-Known Shorea Spp. in Sri Lanka. 11th International Conference on Sustainable Built Environment (ICSBE), Kandy, Sri Lanka. p. 82.

- Findings of these studies are vital for students and researchers in wood and forest sciences, as well as in STC practices for field applications.



Preservatives are not essential to apply for the furniture or ceilings or wall panels made up from even high moisturized pine wood according to the locations where used as interior of a building which does not contain moisture. (If sleepers are manufactured, they should be vacuumed using creosote or ACQ preservatives).

Approximately 3 mm (thread) of wood is removed in manufacturing furniture and other timber items since it using the process of (yathugama). Therefore it is required to implant preservatives for more than 3 mm in the wood. During vacuum treatment, up to 19 x 150 mm, 25 x 150 mm, 31 x 150 mm and 50 x 125 mm cross-sections of the wood are fully impregnated.



When using the dipping method for the preservation, it is sufficient to immerse 19 x 150 mm cross sectioned timber about 6 hours but for other cross sections it should be immersed for at least 24 hours to implant the preservative to 3 mm above levels.

Benefits of pine wood

- The stems of these plants use long fibers to produce pulp and paper.
- Used in the manufacture of civil panels.
- Used for transmission poles used for telephones and power lines.
- Used in foreign countries as sleepers on railways.
- Used in the production of oleoresin.
- Significant amounts are used in foreign countries for the production of furniture.
- Pine wood is also used in the manufacturing the plywood and pallette production.



ANNUAL REPORT

State Timber Corporation

Report of Auditor General

29 July 2021

My No.IEN/C/STC/A/2020/01

The 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 2020 in terms of Section 12 of the National Audit Act, No. 19 of 2018.

1. Financial Statements

1.1 Qualified Opinion

The audit of financial statements of the State Timber Corporation for the year ended 31 December 2020 comprising the statement of Financial Position as at 31 December 2020 and the statement of comprehensive income, statement of changes in equity and statement of cash flows 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 the 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 State Timber Corporation as at 31 December 2020 and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

- (a) Even though assets and liabilities could not be offset as required by Section 32 of Sri Lanka Accounting Standards, on the contrary, out of share equity of Rs.1,143,231,084 payable to the Forest Conservation Department in respect of totally felled all forest cultivations, a sum of Rs.53,384,642 receivable to the Corporation for removing old and new teak roots had been offset and shown in the financial statements.
- (b) According to Sri Lanka Accounting Standard 02, the closing stock should be valued either at the cost or net realizable value, whichever is less, and when the net realizable value is less than the cost of the closing stock, that difference should be written off from the profit as an expenditure. Nevertheless, contrary to the above Standard, the Corporation had deducted an allocation of 15 per cent or Rs.244,674,912 in respect of destruction of trade stock from the closing stock and shown in the statement of financial position. Similarly, due to adjusting Rs.44,165,123 as overprovision and Rs.54,329,480 as underprovision to the profit, the profit had been understated by a net value of Rs.10,164,357 in the account.
- (c) In terms of Paragraph 28 of Sri Lanka Accounting Standard 37, the contingent liabilities should be disclosed in the financial statements. Nevertheless, 05 cases filed against the Corporation claiming compensation of Rs.5,328,908 had not been disclosed in the financial statements. Further, contingent liabilities amounting to Rs.294,000 had not been disclosed in the financial statements as stipulated in Paragraph 34 of Sri Lanka Accounting Standard 37.

- (d) In the Cash Flow Statement, the cash out flow of Rs.8,564,544 relating to payment of lease installments had been stated as a cash inflow of Rs.12,150,297, transfer of Rs.13,570,520 to the Employees' Loan Revolving Fund from the retained earnings had been stated as a cash inflow though there was no either a cash inflow or cash outflow, instead of stating the payment of gratuity of Rs.71,813,395 as a cash outflow, the difference between the opening balance and the closing balance of Rs.42,882,621 had been stated as a cash inflow, payment of employees loan of Rs.151,863,773 and recovery of employees loan of Rs.122,712,917 had not been stated as a cash outflow and cash inflow respectively and the other interest income of Rs.17,855,947 to be included as a cash inflow under the investment activities had been stated under the operating activities.
- (e) In the computation of taxable income, the gratuity expenses in the year of Rs.17,291,991 included in the unpermitted expenditure and payment of gratuity of Rs. 12,892,329 included in the permitted expenses had been understated in their adjustments. Due to the difference in the adjustment of gratuity caused in this computation of income tax, the audit observed an underestimation of income tax of the year by Rs. 1,005,918.
- (f) The stocks worth Rs.2,064,022 relating to the concluded 14 court cases on crime related timber existed in the Kaduruwela Timber Stores had not been entered in the closing stock as at 31 December 2020. Accordingly, the stock of the year 2020 had been understated by that amount.
- (g) As the stock books of the Polonnaruwa Regional Office had not been balanced and some timber logs had been severely decayed and a large amount of timber logs could not be identified according to the numbers, it was observed in the audit that the stock verification could not be properly carried out. Accordingly, the closing stock value of Rs. 133,120,313 included in the board of survey reports is not correct

and the accuracy of the value of the timber stock amounting to Rs.1,855,504,860 could not be confirmed.

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 Other Information Included in the Annual Report 2020 of the Corporation

The other information means the information included in the 2020 Annual Report of the Corporation, which I obtained prior to the date of this report, but not contained in the Financial Statements and my audit report thereon. Management is responsible for this other information. My opinion on financial statements does not cover the other information and I do not express any assurance or opinion about them.

My responsibility in connection with my audit of financial statements is to study the above identified other information and evaluate whether the other information is substantially mismatched with the financial statements or my knowledge gained in auditing or another manner.

In the study of Annual Report of the Corporation for the year 2020, if I conclude that there are substantial misstatements, I should communicate that matter to the governing body. If there are misstatements further to be corrected, those will be included in the report which I table in parliament in accordance with Article 154 (6) of the Constitution in due course.

1.4 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 Public Sector 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 intend 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 Sub-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 Institute.

1.5 Auditor's Responsibility for 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 Corporation'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. 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 identify during my audit.

2. Report on Other Legal and Regulatory Requirements

-
- 2.1 National Audit Act, No. 19 of 2018 includes specific provisions for following requirements.
- 2.1.1. 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.
- 2.1.2 The financial statements presented by the Corporation are consistent with the preceding year as per the requirement of section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- 2.1.3 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 except for the observations included in Paragraph 1.2 (b) of this report.
- 2.2 Based on the procedures performed and evidence obtained were limited to matters that are material, nothing has come to my attention;

- 2.2.1 to state that any member of the governing body has any direct or indirect interest in any contract entered into by the Corporation 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.
- 2.2.2 to state that the Corporation has not complied with any applicable written law, general and special directions issued by the governing body of the Corporation as per the requirement of section 12 (f) of the National Audit Act, No. 19 of 2018, except for the following observations.

Reference to Laws, Rules, Regulations and Management Decisions etc.	Description
Department of Management Services Circular No.02/2020 dated 26 October 2020.	On the approval of the Board of Directors, an outside person had been recruited on an assignment basis to the Post of Secretary to the Board of Directors, which is not included in the cadre of the Corporation approved by the Director General of Management Services and a sum of Rs.337,000 had been paid under the “Consultancy Services and Special Payments” for the year 2020.
2.2.3 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 the following observation.	
The Corporation had not taken measures to achieve the objectives of the export of agricultural productions and cane crafts out of the objectives of the Corporation, and timber byproducts and their sale had not been carried out as expected. Further, although it was an objective of the Corporation to export timber-related finished and partly finished items, the Corporation had not taken steps to achieve that objective.	

2.2.4 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, except for the following observations.

3. Other Audit Observations

- (a) The loan balance that remained receivable by the end of the year under review was Rs.1,009,459,934 of which Rs.6,797,675 remained outstanding for more than one year and Rs.1,490,500 remained outstanding for more than 05 years. Nevertheless, action had not been taken to recover those balances. The balance due from the Department of Forest Conservation amounted to Rs.38,451,121 of which, Rs.38,451,121 continued to exist for more than one year.
- (b) The crime-related timber relating to the period from 2014 to 2018 stored at the Kaduruwela Stores had been assessed at Rs.421,102 and no necessary steps thereon had been taken even by April 2021 by taking into account the court proceedings pending thereon.
- (c) There are 30 official quarters belonging to the Minneriya Regional Office and only 07 of them had been used. Ten official quarters are being used for the purposes of the Bio Diversity Park and 13 quarters remained idle. Except for two of those houses, 11 remained unusable.
- (d) Out of 170 court cases pending on the Minneriya Stores, 32 cases were timber-related crime cases pertaining to the years 2011 and 2012 and the value of those timbers was Rs.1,667,882. The old timbers were severely destroying and it was not possible whether such timbers are available physically.

- (e) The panel of independent inquiry that conducted the inquiry on misplacing 69 trees at the Halmillewa 03/006 Teak Site belonging to the Minneriya Regional Office in the year 2015 had made a recommendation on 17 November 2018 to recover the loss from the responsible parties. Contrary to the above recommendation, the former Chairman of the Corporation had suspended the implementation of that directive, thus causing a loss of Rs.2,994,536 to the Corporation.
- (f) The Corporation had suffered a loss of Rs.3,938,791 comprising a loss of Rs.2,725,541 incurred due to not taking steps to award the contract for felling 2172 trees under 4 sections at the Robgil Site belonging to the Nuwara Eliya Regional Office at the agreed prices of the contractors who had been selected without tender valuation and lately quit the contract, a sum of Rs.253,250 that had been paid in terms of Tender Condition 36 by the Corporation to the Department of Forest Conservation in respect of damages to the site, but not recovered from the contractor, and fines and late fees of Rs.960,000 that remained receivable to Corporation due to not completing the work on the due date as per the conditions of the agreements.

W.P.C.Wickramaratne
Auditor General.

Also, pine as a softwood is used in many countries for the production of finger joints. The Finger Joint Unit, located at the Boossa Complex of the State Timber Corporation, manufactures pine wood furniture and wood boards.

Pine wood is used in the manufacture of furniture, light construction, fences, door and window frames, ceiling boards, as well as sleepers in foreign countries. Low dense pine wood can be used in manufacturing of toys, as well as various packaging and wall panels.

Seasoned pine wood can also be used to make furniture. It is more suitable for transmission poles which used for telephones and power lines as it has a straight body. Currently among the above benefits, oleoresin production is focused on highly. Even today, a significant portion of the pine plantations owned by the Forest Department, are leased annually to several private companies for oleoresin extraction. Pine plantations produce about 300-400 cubic meters of timber per hectare and have a market value of around Rs. 10 million per hectare.



ANNUAL REPORT

State Timber Corporation

- Annual Accounts
- Notes to the Financial Statements

STATEMENT OF PROFIT OR LOSS
For the year ended 31st December

	Notes	2020 Rs.	2019 Rs.
Turnover	2	3,981,688,028	4,282,180,939
Less-Cost of sales	3	(2,235,922,452)	(2,391,369,247)
Gross profit on operation		1,745,765,576	1,890,811,692
Other income	6		
Operating	6.3	187,156,251	87,824,390
Non-operating	6.1	11,254,590	11,057,320
Total net income		1,944,176,417	1,989,693,402
Selling and distribution expenses	4	(695,762,455)	(742,594,548)
Administration expenses	5	(868,197,159)	(958,780,970)
Finance Expense		(2,629,259)	(2,721,433)
Finance Income	6.2	191,933,650	227,350,832
Profit before tax		569,521,194	512,947,283
Taxation for the year	7	(105,614,520)	(195,523,628)
Profit for the year		463,906,674	317,423,655

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31st December

	Notes	2020 Rs.	2019 Rs.
Profit for the year		463,906,674	317,423,655
Levy paid to treasury		(511,025,803)	(50,000,000)
Other comprehensive income			
Retirement benefit surplus/(deficit) for the year	18	(28,798,768)	159,663,864
Revaluation reserve			453,106,621
Other comprehensive income for the year		(28,798,768)	612,770,485
Total comprehensive income for the year		(75,917,897)	880,194,140

STATEMENT OF FINANCIAL POSITION
As at 31st December

	Notes	2020 Rs.	2019 Rs.
ASSETS			
Non-current assets			
Property plant and equipment	8	1,560,609,739	1,654,290,912
Right of used assets	10	4,810,252	9,250,483
Intangibles assets	9	501,278	904,151
Biological assets	11	7,735,659	7,469,659
Deposits with treasury		2,966,000	2,966,000
Security deposits - staff		71,738,627	70,063,718
Investments	12.1	220,191,174	690,692,130
Prepaid staff benefit		78,470,806	91,765,387
Deferred tax asset			34,931,466
Capital work in progress		19,613,439	18,831,013
Total non-current assets		1,966,636,973	2,581,164,919
Current assets			
Inventories	13	1,817,201,433	1,723,681,045
Trade and other receivables	14	1,009,459,934	1,280,970,001
Investments in fixed deposits	12.2	2,271,758,751	1,387,897,720
Cash and cash equivalents	15	221,136,821	248,339,857
Total current assets		5,319,556,939	4,640,888,623
TOTAL ASSETS		7,286,193,911	7,222,053,542
EQUITY AND LIABILITIES			
Capital and Reserves			
Authorized		75,000,000	75,000,000
Contributed capital	16	41,503,668	41,503,668
Revenue reserves		5,055,637,127	5,145,125,544
		5,097,140,795	5,186,629,212
Staff loan revolving fund	17	367,492,061	353,921,541
Total equity		5,464,632,856	5,540,550,753
Non current liabilities			
Retirement benefit obligation	18	668,235,659	625,353,038
Security deposits - staff		71,738,627	70,063,719
Lease Liability - Operating		5,491,621	9,876,015
Interest bearing loans and borrowings	22	17,667,732	8,729,062
Deffered tax liability	7.2	73,062,908	-
Total non-current liabilities		836,196,548	714,021,833
Current liabilities			
Income tax liabilities	19	84,925,974	212,169,023
Interest bearing loans and Borrowing	22	4,416,258	1,260,469
Trade and other payables	20	896,022,276	754,051,464
Total current liabilities		985,364,508	967,480,956
Total liabilities		1,821,561,055	1,681,502,790
TOTAL EQUITY AND LIABILITIES		7,286,193,911	7,222,053,542

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

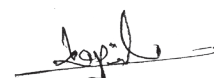


Deputy General Manager (Finance)
State Timber Corporation

The accounting policies and notes on pages 171 through 188 form an 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 : 09.03.2021

STATEMENT OF CHANGES IN EQUITY

	Contributed capital Rs.	Staff loan revolving fund Rs.	Revenue reserves Rs.	Revaluation Reserve Rs.	Total Rs.
Balance as at 1st January 2019	41,503,668	341,506,845	4,277,346,100	-	4,660,356,613
Adjustments during the year					
Profit for the year			267,423,655		267,423,655
Staff loan interest adjustment		12,414,696	(12,414,696)		-
Other comprehensive income			159,663,864	453,106,621	612,770,485
Balance as at 1st January 2020	41,503,668	353,921,541	4,692,018,923	453,106,621	5,540,550,753
Adjustments during the year					
Profit for the year			(47,119,129)		(47,119,129)
Staff loan interest adjustment		13,570,520	(13,570,520)		-
Other comprehensive income			(28,798,768)		(28,798,768)
Balance as at 31st December 2020	41,503,668	367,492,061	4,602,530,506	453,106,621	5,464,632,856

CASH FLOW STATEMENT
For the year ended 31st December

	2020 Rs.	2019 Rs.
Cash flows from operating activities		
Cash receipts from customers	4,491,821,014	4,267,710,115
Cash paid to suppliers and employees	(3,595,888,992)	(4,022,543,615)
Cash generated from operating activities	895,932,021	245,166,500
Income tax paid	(124,863,194)	(302,603,341)
Special levy paid to the treasury	(511,025,803)	(50,000,000)
Net cash flow from / (used in) operating activities	260,043,024	(107,436,841)
Cash flows from investing activities		
Acquisition of property, plant & equipment	(104,712,062)	(319,484,947)
Biological assets	(266,000)	(408,370)
Investments	(413,360,075)	140,174,909
Income from investments	206,027,564	236,665,875
Proceeds on sale of property, plant and equipment	126,122	95,026
Work in progress	(782,426)	66,922,837
Staff loan revolving fund	13,570,520	12,414,696
Net cash from/(used in) investing activities	(299,396,357)	136,380,026
Cash flows from financing activities	-	-
Proceeds from Interest Bearing Loans & Borrowings	12,150,297	6,174,832
Net cash from / (used in) financing activities	12,150,297	6,174,832
Net increase/(decrease) in cash and cash equivalents	(27,203,036)	35,118,017
Cash and cash equivalents at the beginning of the year (Note-15)	248,339,857	213,221,840
Cash and cash equivalents at the end of the year (Note 15)	221,136,821	248,339,857

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 2020 were authorized for issue in accordance with a resolution of the Board of Directors on 09th March 2021.

1.1.3 Number of Employees

The employees' strength of the Corporation as at 31st December 2020 is 1,708. (2019-1,803).

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 2020 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, Act No. 24 of 2017 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 Revaluation Model

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting year.

When vehicle (except motor bikes) are revalued, the gross carrying amount is adjusted consistently with the revaluation of the carrying amount. The accumulated depreciation at that date is adjusted to equal the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

Any increase in an asset's carrying amount, as a result of a revaluation, is recognised in other comprehensive income and accumulated in the revaluation reserve in equity. The increase is recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in profit or loss in the current year. The decrease is recognised in other comprehensive income to the extent that any credit balance existing in the revaluation reserve in respect of that asset. The decrease recognised in other comprehensive income reduces the amount accumulated in the revaluation reserve in equity.

The revaluation reserve related to vehicles is transferred directly to retained income when the asset is derecognised.

1.3.1.1.3 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.

1.3.1.1.4 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.

1.3.1.1.5 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.

1.3.1.1.6 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 amortization and any accumulated impairment losses. Subsequent expenditure is capitalized 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.

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. (Agriculture)

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 2020. 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.

Bank guarantees were issued against Bank of Ceylon fixed deposits A/C number 82509320 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 24 % .

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

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

1.3.4.2 Stumpage Payment

The stumpage payment for the year 2020 has been calculated on actual felled timber volume basis.

1.3.4.3 Cost Allocation

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

1.3.5 Events Occurring After the Reporting Date

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

1.3.6 Staff Loan Revolving Fund

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

1.3.7 Statement of Cash Flows

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

1.4. Changes in significant accounting policies

1.4.1. Leases

The Company applied SLFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2020 is not restated – i.e. it is presented, as previously reported, under LKAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in SLFRS 16 have not generally been applied to comparative information.

Notes to the Financial Statements

02.Turnover	2020	2019
	Rs.	Rs.
Logs - crown lands	2,744,508,435	2,763,995,029
Logs - private lands	13,894,651	11,056,304
Sawn timber	184,395,433	258,876,458
Imported sawn timber	5,113,020	11,966,709
Sleepers - private lands	291,357,607	191,992,731
Sleepers - crown lands	70,703,320	274,640,794
Transmission poles - crown lands	24,672,997	48,945,736
Transmission poles - private lands	421,366	12,063,336
Elephant poles	41,302,161	57,453,646
Others	17,916,107	18,333,057
Forest offence received timber	27,183,319	36,676,590
Donation of timber	337,396,037	316,801,521
Furniture	222,823,575	358,020,601
Gross turnover	3,981,688,028	4,360,822,512
Less: Nation building tax		(78,641,573)
Net turnover	3,981,688,028	4,282,180,939

03. Cost of Sales	2020	2019
	Rs.	Rs.
Depots	1,368,878,205	1,448,439,028
Impregnation plants	287,714,160	375,928,591
Furniture plants	199,176,777	273,714,418
Wayside sales	380,153,309	293,287,210
Total	2,235,922,452	2,391,369,247

04. Selling and Distribution Expenses	2020	2019
	Rs.	Rs.
Depots	652,466,891	633,188,845
Impregnation plants	97,031	53,320,425
Furniture plants	36,360,111	41,998,460
Regional managers' office and head office	6,838,422	14,086,818
Total	695,762,455	742,594,548

05. Administration Expenses	2020	2019
	Rs.	Rs.
Impregnation plants	19,215,317	22,875,283
Furniture plants	75,703,423	77,906,550
Regional managers' office and head office	768,245,529	850,926,972
Circuit bungalows	5,032,890	7,072,165
Total	868,197,159	958,780,970

06. Other Income	2020	2019
	Rs.	Rs.
Non-operating income	6.1	
Foreign exchange gains	1,112	1,383
House rent	11,253,478	11,055,937
Total	11,254,590	11,057,320

Finance income	6.2	
Interest Income from Investment	174,077,703	209,661,729
Staff loan Interest	17,855,947	17,689,103
	191,933,650	227,350,832

Operating income	6.3	
Miscellaneous income	39,198,201	33,147,789
Fines-contractors and suppliers	1,857,170	686,501
Over provision of stock	44,165,123	27,692,131
Debtors over provision	99,816,708	23,512,703
Recovery on shortages and losses	618,114	832,349
Non refundable tender deposits	1,500,936	1,952,917
	187,156,251	87,824,390
Total	390,344,491	326,232,542

Analysis of other income for the year 2020

Income source	Depots	Impregnation plants	Furniture plants	Regional offices & Head office	Circuit Bungalows	Total
Non-operating income 6.1						
Foreign exchange gains				1,112		1,112
House rent				11,253,478		11,253,478
	-	-	-	11,254,590	-	11,254,590
Finance Income 6.2						
Interest income - investments				174,077,703		174,077,703
Staff loan interest				17,855,947		17,855,947
	-	-	-	191,933,650	-	191,933,650
Operating income 6.3						
Miscellaneous income	177,928			38,358,959	661,314	39,198,201
Fines from contractors and supplies				1,857,170		1,857,170
Over provision on stock deterioration	37,416,326	747,797	816	6,000,184		44,165,123
Over provision in doubtful debtors	9,953,625	68,060,924	21,802,159	-		99,816,708
Recovery on shortage and losses				618,114		618,114
Non refundable tender deposits				1,500,936		1,500,936
	47,547,878	68,808,721	21,802,975	48,335,362	661,314	187,156,251
Total	47,547,878	68,808,721	21,802,975	251,523,603	661,314	390,344,491

07. Taxation Expenses	2020 Rs.	2019 Rs.
Current tax expenses		
Income tax on profit for the year 7.1	12,275,048	152,946,862
Over/under provision of previous year	(14,654,903)	267,476
	(2,379,855)	153,214,338
Deferred tax expense 7.2		
Origination and reversal of temporary differences	107,994,375	42,309,290
	107,994,375	42,309,290
Tax charge for the year	105,614,520	195,523,628

7.1 Income tax on profit for the year	2020 Rs.	2019 Rs.
Profit before taxation	569,521,194	512,947,283
Aggregate disallowable expenses	268,368,559	262,425,936
Aggregate allowable expenses	(478,906,155)	(467,542,579)
Profit from business	358,983,598	307,830,640
Non business income	203,188,240	238,408,152
Assessable income	562,171,838	546,238,792
Qualifying Payment	(511,025,803)	
Taxable income	51,146,035	546,238,792
Income tax at 24%	12,275,048	152,946,862
Total	12,275,048	152,946,862

7.2 Deferred tax	Temporary difference Rs.	Tax effect (asset)/ liability Rs.
Balance as at 31st december 2019	(124,755,237)	(34,931,466)
Amount origination during the year	530,660,284	107,994,374
Balance as at 31st December 2020	405,905,047	73,062,908
Temporary difference of property plant and equipment	1,074,140,706	193,345,327
Temporary difference of retirement benefit obligations	668,235,659	120,282,419
Balance as at 31st December 2020	405,905,047	73,062,908

08. Property, Plant and Equipment

Description	Cost			Depreciation			Carrying amount as at 31.12.19
	Balance as at 01.01.20	Additions	Disposal	Balance as at 31.12.20	Charge for the year	Balance as at 31.12.20	
Land	59,057,146			59,057,146	-	59,057,146	59,057,146
Land Improvement	50,060,598	2,761,714		52,822,312	24,914,709	28,801,103	24,021,209
Buildings	973,418,068	16,158,802	683,844	988,893,025	240,027,644	261,970,915	726,922,110
Stacking sheds and other buildings	52,409,291	6,978,993		59,388,283	39,689,930	46,935,432	12,452,852
Roadways and railway lines	25,819,561	8,532,510		34,352,071	9,902,899	11,302,461	23,049,610
Plant and machinery	733,951,002	6,727,718		740,678,720	568,140,876	596,346,292	144,332,427
Leasehold land and building	148,311			148,311			-
Road construction mach. and equi.	60,450			60,450		60,450	-
Tools & implements	6,233,047	1,201,927		7,434,974	6,022,365	231,784	1,180,825
Electrical equipments	26,164,064	2,391,907	22,500	28,533,471	14,585,783	16,488,550	12,044,921
Vehicles	594,861,214	47,550,000		642,411,214	17,562,479	135,145,629	507,265,585
Furniture and fittings	75,335,162	5,925,547	165,892	81,094,817	47,346,335	53,720,457	27,374,360
Office equipments	38,117,532	1,238,450	37,758	39,318,224	33,246,430	34,594,005	4,724,220
Computers and accessories	80,696,167	3,902,810		84,598,977	64,579,942	70,424,324	14,174,653
Miscellaneous assets	32,537,059	1,341,673	725	33,878,008	28,349,595	29,868,186	4,009,822
Pre fabricated structure	4,938,333			4,938,333		4,938,333	-
Leasehold land-Raithnapura	680,300			680,300		680,300	-
Total	2,754,487,305	104,712,049	910,719	2,858,288,635	1,100,196,381	1,297,678,896	1,654,290,912

* The Corporation owns the cost of Rs. 775,293,479 fully depreciated Property, Plant and Equipments at the reporting date.

09. Intangible assets

Description	Cost			Amortization			Carrying amount as at 31.12.19
	Balance as at 01.01.20	Additions	Disposal	Balance as at 31.12.20	Charge for the year	Balance as at 31.12.20	
Computer software	5,413,211	-	-	5,413,211	402,873	4,911,933	501,278
Total	5,413,211	-	-	5,413,211	402,873	4,911,933	904,151

10. Right of used assets

Description	Cost			Amortization			Carrying amount as at 31.12.19
	Balance as at 01.01.20	Additions	Disposal	Balance as at 31.12.20	Charge for the year	Balance as at 31.12.20	
Operation Leased - Vehicle	13,690,714	-	-	13,690,714	4,440,231	8,880,462	4,810,252
Total	13,690,714	-	-	13,690,714	4,440,231	8,880,462	9,250,483

11. Biological Assets	2020	2019
As at 31st December	Rs.	Rs.
Balance at the beginning of the year	7,469,659	7,061,289
Increase due to replantation	266,000	408,370
Balance at the end of the year	7,735,659	7,469,659

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 date of planting are treated as approximate to fair value particularly 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 08 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, Vineethagama.

12. Investment

12.1 Investment - Long term	2020	2019
As at 31st December	Rs.	Rs.
Investment in fixed deposits - long term		
Government ins.temporary surplus trust fund		486,568,114
State mortgage and investment bank	219,691,174	203,624,016
	219,691,174	690,192,130
Investment in shares		
Land reclamation and development (pvt) ltd	500,000	500,000
	500,000	500,000
Total	220,191,174	690,692,130

12.2 Investments in fixed deposits - short term	2020	2019
As at 31st December	Rs.	Rs.
People's bank	785,754,782	526,885,770
Bank of Ceylon	1,486,003,969	861,011,950
Total	2,271,758,751	1,387,897,720

13. Inventories	2020	2019
As at 31st December	Rs.	Rs.
Stock-in-trade	1,855,504,860	1,761,567,352
Stock deteriorations	(244,674,912)	(234,503,762)
	1,610,829,948	1,527,063,590
Goods in transit		23,294
Work in progress	43,965,955	42,611,857
Stores and spares	106,816,039	96,863,025
Preservatives	34,847,429	34,810,572
Fuel and oil	4,565,359	4,332,468
Stationary stock	16,176,703	17,976,239
Total	1,817,201,433	1,723,681,045

13.1 Analysis of inventories As at 31st December	2020 Rs.	2019 Rs.
Crown land logs	1,134,121,880	1,114,456,182
Crown land sawn timber	326,123,256	291,210,086
Imported sawn timber	14,693,539	19,203,828
Private land logs		20,080
Crown land sleepers	6,372,149	6,550,970
Private land sleepers	17,494,274	16,278,369
Crown land transmission poles	9,074,147	29,589,726
Private land transmission poles	761,396	2,162,205
Wayside	105,166,865	77,785,864
Others	17,358,576	6,078,078
Furniture	224,338,779	198,231,966
Total	1,855,504,860	1,761,567,352

14. Trade and Other Receivables As at 31st December	2020 Rs.	2019 Rs.
Trade debtors	547,251,573	990,137,668
Allowance for impairment	(103,336,866)	(202,424,834)
	443,914,707	787,712,834
Staff debtors 14.2	297,948,905	262,597,255
Other debtors 14.1	45,150,488	26,673,201
Deposits and prepayments		
Advances local purchases	1,733,671	1,413,580
Advances for imports	-	4,544,070.00
Advances pre -payment	38,233,735	5,408,736
Advances timber supplies	13,558,785	13,779,350
Interest receivable -deposits	102,703,556	123,399,939
Returned cheques	25,423	-
Kataragama astapala funds	760,200	808,000
Deposit courts	8,778,248	8,778,248
Ministry of mahaweli development and environment	1,731,821	1,731,821
Ministry of Wildlife and Forest Conservation	1,295,460	
Forest department	45,007,462	38,451,121
Escamp project	8,617,473	5,671,846
Total	1,009,459,934	1,280,970,001

14.1 Other debtors As at 31st December	2020 Rs.	2019 Rs.
Sundry debtors	14,081,525	5,495,415
Deposits- general	31,435,583	21,544,407
Provision	(366,620)	(366,620)
Total	45,150,488	26,673,202

14.2 Staff debtors As at 31st December	2020 Rs.	2019 Rs.
Staff receivables		
Vehicle loan	13,080,719	11,616,798
Distress loan	244,932,239	201,970,916
Electrical equipment loan	33,014	33,014
Bicycle loan	1,186,187	1,173,009
Laptop loan	26,734,714	31,206,612
Furniture loan	2,207,374	1,995,983
	288,174,249	247,996,334
Advances and other receivables		
Special salary advance	4,825	2,976,590
Travelling advance	9,912	19,186
Festival advance	681,970	3,668,744
Internal debit notes	2,227,203	1,736,688
Staff recoveries	873,914	808,078
Salusala textile loan	5,976,832	5,391,636
	9,774,656	14,600,921
Total	297,948,905	262,597,255

15. Cash and Cash Equivalents As at 31st December	2020 Rs.	2019 Rs.
Cash in hand	1,033,000	1,006,500
Bank of ceylon	43,412,200	42,678,701
Bank of ceylon - call deposits	176,691,621	204,654,656
Total	221,136,821	248,339,857

16. Contributed Capital As at 31st December	2020 Rs.	2019 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

17. Staff Loan Revolving Fund As at 31st December	2020 Rs.	2019 Rs.
Balance at the beginning of the year	353,921,541	341,506,845
Staff loan interest received	13,570,520	12,414,696
Total fund at the end of the year	367,492,061	353,921,541
Nominal value of utilized fund balance as at 31st December	358,259,680	337,482,082
Unutilized fund balance as at 31st December	9,232,381	16,439,459

18. Retirement Benefit Obligation As at 31st December	2020 Rs.	2019 Rs.
The amounts recognized in the Statement of Financial position are determined as follows.		
Balance at the beginning of the year	625,353,038	744,492,569
Charge for the year	47,270,727	46,130,341
Interest for the year	38,626,524	68,169,919
Surplus/ deficit charge for the year	28,798,768	(159,663,864)
Payment/payable during the year	(71,813,398)	(73,775,928)
Balance at the end of the year	668,235,659	625,353,037

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

Charge of the year	47,270,727	46,130,341
Interest for the year	38,626,524	68,169,919
Recognized in the statement of profit or loss	85,897,251	114,300,260

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

(Surplus)/deficit charge for the year	28,798,768	(159,663,864)
Recognized in the statement of comprehensive income	28,798,768	(159,663,864)

"As at December 31, 2020 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 ."

	31.12.2020	31.12.2019
Discount interest rate	6.66%	9.87%
Salary increment rate	3.62%	6.86%
Staff turnover rate	5.66%	4.37%
Retirement age	60	60

19. Income Tax Payable As at 31st December	2020 Rs.	2019 Rs.
Balance at the beginning of the year	212,169,023	361,558,026
Withholding tax on deposits	-	(9,750,959)
Economic service charge	(5,989,927)	(21,912,699)
Payment during the year	(118,873,267)	(270,939,683)
Under/(over) provision of tax for previous year	(14,654,903)	267,476
Provision for income tax	12,275,048	152,946,862
Balance at the end of the year	84,925,974	212,169,023

20. Trade and Other Payables As at 31st December	2020 Rs.	2019 Rs.
Central bank- EPF	20,967,018	19,460,190
Labour department-ETF	2,516,468	2,335,223
Accrued expenses	128,101,313	229,046,713
Refundable tender deposits	7,353,633	6,429,531
Security deposits - except staff	83,366,077	56,066,078
Audit fees payable	8,000,000	11,313,580
Retention money	10,284,274	9,586,860
Other creditors	65,395,251	82,694,332
Conservator of Forests	532,055,113	324,433,735
Stumpage - Wild Life Department	1,810,796	1,277,883
Stumpage - Agriculture Department	41,511	722,648
Nation Building Tax	-	376,697
Value Added Tax	36,130,821	10,307,993
Total	896,022,276	754,051,464

21. 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. 1,071,679,122 trees from forest department during the year. The Corporation has received the worth of Rs. 1,810,796 trees from Wildlife department during the year.

	No. of Sq.Feet	Rental value(Rs.)
Department of Forest-01st Phase	22,040	550,000
Department of Forest-02nd Phase	6,480	300,000
ESCAMP Project	5,649	300,000

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

As at 31st December	2020 Rs.	2019 Rs.
Payable to related parties		
Department of Forest	532,055,113	324,433,735
Department of Wildlife	1,810,796	1,277,883
	533,865,909	325,711,618
Receivable from related parties		
Department of Forest	45,007,462	38,451,121
Department of Wildlife	3,480,547	1,992,753
ESCAMP Project	8,617,473	5,671,846
Ministry of mahaweli development and environment	1,731,821	1,731,821
Ministry of Wildlife and Forest Conservation	1,295,460	
	60,132,763	47,847,541

22. Interest Bearing Loans and Borrowings	2020	2019
Finance Lease	Rs.	Rs.
Balance as at 1st January	13,055,031	-
On Acquisition	17,769,780	15,358,860
Repayment	(3,071,772)	(2,303,829)
	27,753,039	13,055,031
Lease interest in suspense	(5,669,049)	(3,065,500)
Balance at the end of the year	22,083,990	9,989,531
Current portion of Interest-bearing Borrowings	4,416,258	1,260,469
Non-current portion of Interest-bearing Borrowings	17,667,732	8,729,062
	22,083,990	9,989,531





The future of pine plantations

Pines are not planted currently and the remaining pine forests are mature. Most of the pine plantations in the lowland wet zone have about 5700 hectares under natural regeneration and are becoming natural forests. There is no undergrowth in upcountry and mid country forest plantations and natural regeneration is poor. This is due to lack of soil water, poor soil nutrient status and frequent fires in the upcountry and central highlands.

Annually, mature pine forests are cleared by the State Timber Corporation and converted into local or commercial forest plantations. The Department of Forest Conservation is currently in the process of clearing the pine forests and restoring the forests using native plant species.

At the present, Matured pine plantations owned by the Department, are expected to be converted into broadleaf forests. Thus, special project has been proposed by the government to remove pre identified pine plantations; the felling of trees is scheduled to begin in 2021 and end in 2028. After the completion of the pine felling, the land should be replaced from woody native plant species of having an economic and an environmental importance.



ANNUAL REPORT

State Timber Corporation

- Glossary of Financial Terms

GLOSSARY OF FINANCIAL TERMS

1. Accounting Policies

Specific principles, bases, conventions, rules and practices adopted by the Corporation in preparing and presenting financial statements.

2. Amortization

The systematic allocation of the depreciable amount of an intangible asset over its useful life.

3. Accrual Basis

The principle that revenues and costs are matched with one another, irrespective of the period of receipt or payment.

4. Biological Asset

A living animal or plant.

5. Cash and Cash Equivalents

Liquid investments with original maturities of three months or less.

6. Current Ratio

Current assets divided by current liabilities.

7. 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.

8. Depreciation

The systematic allocation of the depreciable amount of an asset over its useful life.

9. Fair value

A fair value measurement is assumes that the asset or liability is exchanged in an orderly transaction between market participant to sell the asset or liability at the measurement date under current market condition.

10. Finance Lease

A finance lease is leases that transfer substantially all the risk and reward incidental to ownership of an asset. Title may or may not eventually be transferred.

11. Gearing

Proportion of borrowings to capital employed.

12. Revenue Reserves

Reserves available for investments.

13. Return on Assets (ROA)

profit before treasury levy & after income tax a percentage of total assets, used as a measure of profitability and as a basis of intra-industry performance comparison.

14. Right-of-Use Asset

The right-of-use asset is a lessee's right to use an asset over the life of a lease. The asset is calculated as the initial amount of the lease liability, plus any lease payments made to the lessor before the lease commencement date, plus any initial direct costs incurred, minus any lease incentives received.

15. Related Parties

A person or entity that is related to the entity that is preparing its Financial Statements.

16. Value Addition

The quantum of wealth generated by the activities of the Corporation and its distribution.



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