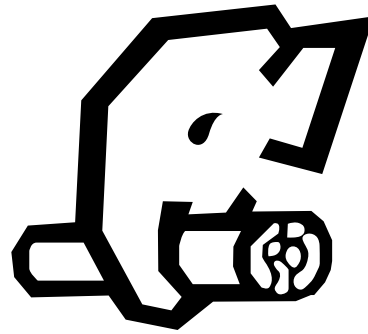




STATE TIMBER CORPORATION

ANNUAL
REPORT **2021**

True Leadership for Timber Market

1968-2021

Continuing the journey of 53 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.



OUR STORY

The State Timber Corporation is a state owned business organization which was established by the Gazette Notification 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 53 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. Or 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.

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.

A glance at the state timber corporation



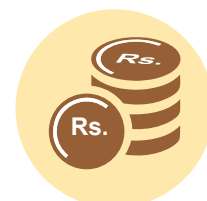
ASSETS
9208 Mn



EMPLOYEES
1606



REVENUE
5696 Mn



LIABILITIES
2451Mn

WHAT WE DO



We are financially sustainable



We provide sustainable materials to build homes and workplaces



We protect and enhance environment through applying SFM strategies



We pay Tax, Levy & Contribute to community development



We offer wide range of modern & traditional household furniture & office furniture





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STATE TIMBER CORPORATION



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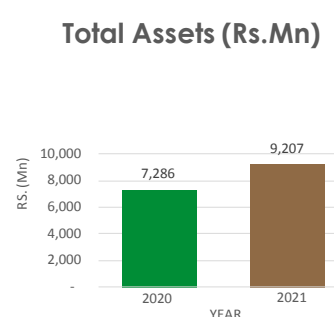
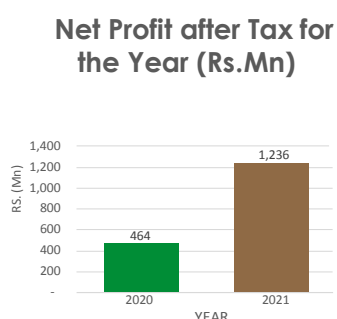
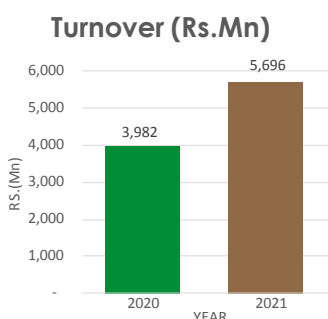
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FINANCIAL HIGHLIGHTS

For the year ended 31st December		2021	2020	Variance %
EARNINGS HIGHLIGHTS AND RATIOS				
Turnover	Rs. '000	5,695,663	3,981,688	43%
Profit before levy and tax	Rs. '000	1,496,156	569,521	163%
Levy paid to treasury	Rs. '000	100,000	511,026	-80%
Tax expenses	Rs. '000	259,944	105,615	146%
Profit before Tax	Rs. '000	1,236,212	463,907	166%
Return on equity [ROE]	%	18.0	8.0	125%
Return on assets [ROA]	%	13.0	6.0	117%

BALANCE SHEET HIGHLIGHTS AND RATIOS				
Total assets	Rs. '000	9,207,819	7,286,194	26%
Total equity	Rs. '000	6,757,207	5,464,633	24%
Total debts	Rs. '000	2,450,612	1,821,561	35%
Debt/ Equity	%	36.3	33.3	9%
Debt/ Total assets	%	26.6	25.0	6%
OTHER INFORMATION				
Total employees	No.	1,606	1,708	-6%
Revenue per employee	Rs. '000	3,546	2,331	52%
Profit per employee [before levy and tax]	Rs. '000	932	333	179%



CORPORATE INFORMATION - 2021

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

Mr. Somarathne Vidanapathirana – Secretary, Ministry of Wildlife and Forest Conservation

Board of Directors - 2021

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

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

Dr. K.M.A. Bandara – Director - Conservator General of Forest

Mr. B.A. Dharmarathne – Director

Mr. P.D. Gunathilaka – Director

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

Mr. G. Kapila Prasanna – Director

Ms. M.G. Dilani Sharika – Board Secretary

Audit & Management Committee

Mrs. B.N. Gamage – Chairperson

Mr. H.K.M.J.H. Kumarasinghe – Member

Mr. G.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 – 2021

General Manager / CEO	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. (Acc.Fin.Mgt), 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, Development & Training)	Dr. C.K. Muthumala	PhD. (Agri. Engineering) M.Sc. (Forestry), B.Sc. (Agri.) Sp. Hon.

MANAGERS

Manager (Sleepers & T. Poles)	Mr. D.M.N. Pushpakumara Nilmini	B.Sc.
Manager (Mechanical)	Mr. A.K. Lasitha Edmand	B.Sc. (Engineering)
Manager (Internal Audit)	Mr. H.M.S. Madawa	B.Com (Sp)
Manager (Security)	Mr. Chaminda Weeraman	
Manager (Finance)	Mrs. P.T.N. Bowatte	
Manager (Finance)	Mr. H.G.R. Wijenayake	
Manager (Legal) (Cover up)	Mrs. K.I.D.P. Kariyawasam	LLB, Attorney at Law
Manager (Finance) (Cover up)	Mr. U.S. Madawala	HNDA, MAAT
Manager (IT) (Cover up)	Mr. J.M.M.B. Jayasundara	B.Sc. (Sp) Hon.

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 (Head Office)	Mr. U.P.H. Uluwaduge	B.Sc
Reg.Manager (Head Office)	Mr. D.H. Rajapaksha	M.Sc. (Forestry), B.Sc.
Reg.Manager (Colombo) (Cover up)	Mr. H.A. Gamini Alwis	
Reg.Manager (Monaragala) (Cover up)	Mr. S.C. Jayamanna	B.Sc.
Reg.Manager (Anuradhapura) (Cover up)	Mr. D.L. Abenayake	
Reg.Manager (Ampara) (Cover up)	Mr. R.C. Saman Kumara	
Reg.Manager (Rathnapura)	Mr. H.L. Nandana	B.Sc.
Reg.Manager (Jaffna)	Mr. Sri Skandharasa	
Reg.Manager (Kurunegala)	Mr. H.P.S. Dissanayake	BA
Reg.Manager (Matara)	Mr. W.I.S aranga	B.Sc. (Hon.)
Reg.Manager (Minneriya) (Cover up)	Mr. M.W.W.B. Mudannayaka	
Reg.Manager (Kandy) (Cover up)	Mr. D.A. Hendavitharana	
Reg.Manager (Nuwareliya) (Cover up)	Mr. W.D.P.G. Jayasekara	
Reg.Manager (Bandarawela) (Cover up)	Mr. Sunil Jayarathna	

DEPUTY MANAGERS

Dy.Manager (Designing & Quality Assurance)	Mrs. E.M.M. Fernando	
System Analyst	Mr. W.H.A. Chandrakumara	B.Sc.
Dy.Manager (HR)	Mrs. H.P. Perera	
Dy. Manager (HR)	Mrs. K.S. Abeynayake	
Dy.Manager (Finance HO)	Mr. H.M.P.B. Herath	
Dy.Manager (Finance Boossa)	Miss. A.L.W. Thushari De Silva	HNDA, MAAT
Dy.Manager (Nuware-eliya)	Mr. N.T.S.K.P. Thilakawardana	HNDA, MAAT
Dy.Manager (Finance Kandy)	Mr. W.M.G.M. Wijesinghe	B.Sc. (Bus.Admin.) MAAT.
Dy.Manager (Finance Monaragala)	Mr. A.J. Pushpakumara	B.Sc. (Bus.Admin)
Dy.Manager (Finance Minneriya)	Mr. M.D.P.M. Dissanayake	B.Sc. (Acc)
Dy.Manager (Finance HO)	Mrs. D.N. Wijesuriya	B.Sc. (Acc), CTA.
Dy.Manager (Finance HO)	Mrs. S. Vithanage	
Dy.Manager (Finance Anuradhapura)	Mrs. W.K. Jayasinghe	
Dy.Manager (Finance Colombo)	Mr. S.P.A.J.C. Samarakoon	B.Sc. (Finance)
Dy.Manager (Finance Bandarawela)	Mr. S.M. Hewage	B.Sc. (Bus.Admin)
Dy.Manager (Finance Kurunegala)	Mr. S.H.I. Prasad	B.Sc. (Bus.Admin)
Dy. Manager (Finance 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.Des.(Hons), MBA in MOT
Dy. Manager (Timber sawmill)	Mr. M.P.N. Aruna Shantha	B.Sc. (Bus.Admin.)
Dy. Manager (Investigation)	Mr. S.A.D. Niroshan	B.Sc. (Bus.Mgt.)
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.I.S.K. Wickramasinghe	PgD.Fin. & Mathematics, B.Sc.
Dy. Manager (Purchasing & Shipping) (Cover up)	Mrs. H.D.S. Sandamali	B.B.Mgt.(HR) Sp.,

FURNITURE COMPLEX MANAGERS

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

DEPUTY REGIONAL MANAGERS

DRM (Minneriya)	Mr. K.M.P.T.C. Kapilarathna	
DRM (Ampara)	Mr. U.J.G. Ekanayaka	
DRM (Kandy)	Mr. W.A.S. Wijesekara	
DRM (Jaffna)	Mr. T.P. Ramesh	
DRM (Matara)	Mr. K. Chandrasena	
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	

CHAIRMAN REVIEW



I am pleased to report that State Timber Corporation delivered a commendable performance in what proved to be a challenging year. It should be stated, that the adaptability & flexibility of the workforce was key to maintaining our business throughout the year.

The performance of the Corporation during the year was resilient despite the numerous challenges encountered and it was the positive attitude of all our people that enabled the Corporation to navigate through this unprecedented and volatile period. I wish to, once again, recognize their contribution, particularly those who served and played a pivotal role in serving the people of our country in this very challenging time. Their commitment to proactively transition to new ways of working and embrace and support the Corporation in implementing a series of cost containment and productivity measures aided the corporation to remain resilient and maintain its position of financial stability. Despite the effect of the pandemic, our prudent and proactive measures have resulted in delivering a Profit before Tax of Rs. 1496 million with a profit growth of 163% for the financial year ended 31st December 2021.

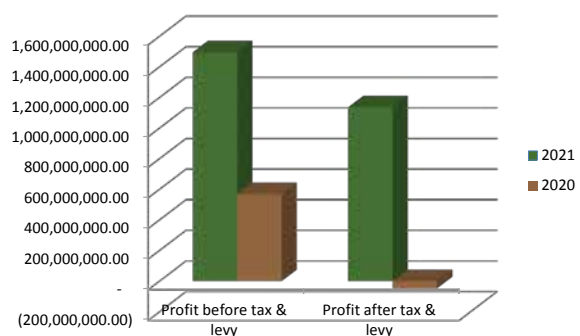
We have always placed great importance on safety measures and standards. During the year under review, they were further raised and expanded to include stringent COVID-19 safety procedures, maintaining guidelines stipulated by the Ministry of Health.

This was a year of focusing on our core strengths, manufacture of innovative and high quality products. Under the new normal conditions our operations carried out 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.

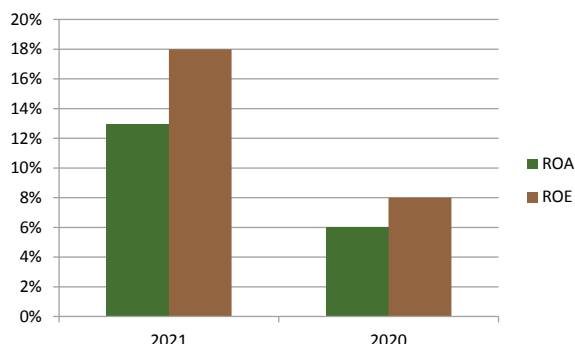
It is our belief that the most valued assets of the corporation is the human resource. During the financial year 2021 we continued to invest in our staff in the form of training and development programs aimed at improving skills and competency of employees who are committed in serving our customers at the highest possible level while achieving targets of the corporation.

Financial Performance

For the financial year 2021, the corporation recorded net revenue of Rs. 5,696 million which is 43% increase compared to Rs. 3,982 million in the previous year. Accordingly, State Timber Corporation was able to record a profit before treasury levy and tax of Rs.1,496 million and profit after tax of Rs.1,136 million in 2021. With this achievement, as a state owned corporation we are proudly contributed Rs.100 million 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 13% in 2021 from 6% in 2020, while Return on Average Equity (ROE) after tax increased from 8% in 2020 to 18% in 2021. This reveals that all the asset and equity has given the biggest contribution to generate the income & demonstrate efficiency of the corporation's 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 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. **I am humbly proud to have contributed to achieving the highest turnover and profit recorded in the history of 53 years of the institution for the year of 2021, during my period as the chairman of the State Timber Corporation.** Thus, I would also like to convey my heartfelt gratitude especially to the General Manager of STC, all the higher rankers of the institution, and each individual worker who were involved in achieving this magnificent goal.

We do not expect 2022 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.

Udaya C. Walisinghe

Chairman
State Timber Corporation

GENERAL MANAGER / CEO REVIEW



I'm glad to review on the annual financial and audit statements of the State Timber Corporation for the year ended 31 December 2021, comprising with the statement of financial position, comprehensive income, changes of the cash flows, summary of significant accounting policies and other explanatory information which were carried out under my direction, my comments and observations throughout this annual report 2021. I believe that those considered operations led the Corporation to success the targeted outcomes as at the year ended.

RESILIENCE AMIDST A GLOBAL COVID PANDEMIC

The year 2021 has been a landmark year. At first, it seemed as though we were in the midst of the worst of times, but looking back I would say that the past times have also been the best of times. I say this because the past year was the year in which the STC set in motion long efforts for the progressive of the market. We had barely held our depots when an island wide COVID lockdown was imposed making it impossible for the country's market to open and function let alone operate in a fair and orderly manner. It was only in

retrospect that we realized that the year 2021 has been unique with its fair share of ups and downs. In the early months of the year 2021, prior to the first island-wide COVID lockdown, market for wood and wood based products was severely affected by the pandemic just as other markets around the world. STC staff worked thoughtfully and carefully at remarkable speed to enhance production as well as to keep the trustworthy market and to keep functioning within the lockdown and its associated difficult period. Those performing key frontline functions of the STC kept vital services running in rapidly changing circumstances. I thank all my staff on behalf of STC for giving best service through their utmost dedication and patient at that critical period of time. STC, with the support of the everyone, has done its best within the years which lead towards this enduring vision of being the nation's leader in providing most trusted and best quality timber and timber based products.

TURNING TO THE 53rd VICTORY YEAR OF EARNING LANDMARK PROFIT

Over the past 53 years we achieved our targets and expand the capacity levels. Currently STC consist with 12 regional offices, 53 sale centers, and 3 furniture factories with impregnation and seasoning plants as well as 9 furniture showrooms spread throughout the country. However the operating tasks in each and every category is challengeable to reach to the established targets with the country's political and economic background. However 2021 is a victory year with earning the highest profits while facing all the challenges.

OPERATING REVIEW

It is with much satisfaction that I review the operational work undertaken by the STC over the reporting period. State Timber Corporation is functioning under the Ministry of Wildlife and Forest Conservation. The main key role of State Timber Corporation is dealt with the Forest Department. They release

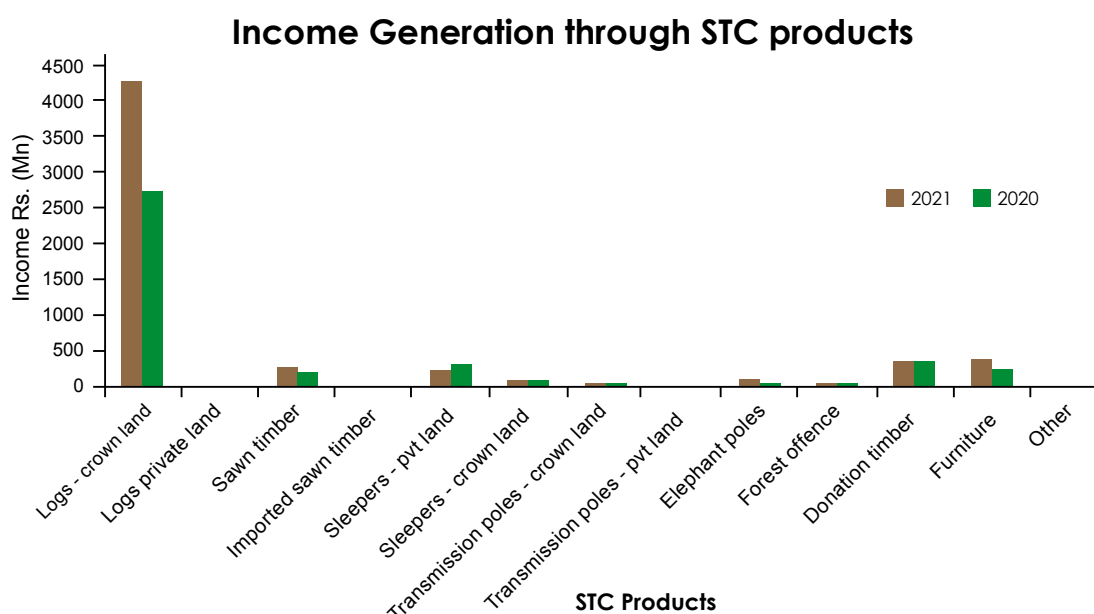
their forest plantations annually which are allocated to harvest according to their Forest Management Plan. As the leader of timber supplier to the whole country, State Timber Corporation take the responsibility to clear the released plantations by extracting timber and release the land on time to the Forest Department. In addition a certain quantity of timber is received from the lands owned by the Government institutions such as Divisional Secretariats, and Wild Life Department etc. STC convert the extracted timber as well as donated timber into value added products. Accordingly except to the logs, their main products are sawn timber, elephant poles, and fence poles, round poles, sleepers, transmission poles, firewood as well as most value added products like furniture. STC has passed 53 years of proud history.

RESPONSIBILITY FOR THE FINANCIAL STATEMENT

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

opinion on these financial statements with the manner in which financial assets and liabilities were classified and the nature and extent of financial and management risks arising from financial instruments. The net turnover of the year ended is 5696 million and the profit earned before paying tax and levies is 1496 million and the profit after paying tax and levies is 1136 million. The earned income and the profits are higher than the past year of 2020. However the highest income generates by selling logs than the other value added wooden products. The timber processing operating cost of Rs. 3,594 million and the administrative expenditure of Rs. 904 million in the STC is very high.

Compare to the year of 2020, STC shows its progress in 2021 than previous year. The correct guidance and the hardworking dedicated staff is the most powerful asset of STC to make big revenue by nourishing Rs. 100 million to the treasury as levy. In addition to that in 2021 we received Rs. 1,108 million worth trees from Forest Department which are planned to extract timber according to the Forest Management Plan of Forest Department as well as Rs. 36 million worth trees from Wild life Department. Therefore STC is responsible to pay Rs. 1,144 million as stumpage for these Departments as the state half to the government. However I was so proud to say we were able to earn remarkable profit over the corona pandemic as we were having collaborating and supportive staff.



NATIONS TRUST PRODUCTS

STC provides logs, sawn timber, sleepers, fence poles, transmission poles, elephant poles as well as furniture in top class quality products. Up to the date STC was being the prioritize leader in timber supply in Sri Lanka. Although it's a big challenge to compete with other timber industries, STC always win the hearts of the nations by providing high quality trustworthy products. As the state timber trading institute we mostly provide logs for the Moratuwa wood working industry. Railway Department, Wild Life Department and the Ceylon Electricity Board is our main trust worth customers who purchase our sleepers, elephant poles, fence poles and transmission poles over the past years. And our quality furniture still won the heart of our trustworthy customers. We got good feedback from them for the comfortable and well-furnished quality timber furniture items. And also we always try to provide our best service rather than earning profits.

A SOCIAL MISSION THROUGH CSR

A social mission that goes beyond earning income has performed through CSR activities. The Research Development & Training Division always engaged such tasks as they keen on the bind relationships with the institute as well as the society. The Research, Development and Training Division of the State Timber Corporation has spent total amount of Rs. 3,045,123 for training programs in 2021. Altogether 690 employers were engaged for 67 local training programs as well as 4 online foreign training programs for 36 employers. And also Research & Training Division of STC conducts research in accordance with the commercial needs of the Institute as well as new knowledge and timber required by the society to address the issues arising in this regard. In 2021 they published altogether about 12 articles including in research papers, book chapters, journal articles etc. One of the main tasks of Research Development and Training Division of the State Timber Corporation uses the latest technology to identify timber, examine the internal tissue parts of the timber and identify the timber by analyzing their tissue structure. About 150-200 certificates of timber identification and other reports are issued annually to government and non-government organizations under this. In addition to wood identification, MOR,

MOE, Compression test, Density tests, Tension tests, durability and preservation tests, Boron Test, CCB Test, etc. are performed to analyze the strength properties of the wood. In addition to those State Timber Corporation also maintains 25 nurseries across 14 locations and produces timber valuable plants. These plants are also issued free of charge to various governmental and non-governmental organizations by the Research Development and Training Division. Accordingly, by the end of the year 2021.12.31, about 31,268 plants have been issued last year with the aim of increasing the forest cover of the country.

FUTURE PLANS

Sri Lanka's economy contracted dramatically in 2021 as the impact of COVID 19 and business interruptions. 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 of timber products driven growth, agile management of teams, building on the experience and knowledge we acquired while navigating the business complexities of 2020 drove the State Timber Corporation to deliver a solid performance in the year under review. Treasury approvals sought for the machinery purchasing and the construction maintenance and also for the export market will precede the further actions. Pine and Ebony furniture will hope to export in future after expanding the staff by recruiting new employees. Therefore STC is currently focus 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. We have already sought the approval from the cabinet to ensure the local pine market and ensuring the monopoly of government forest land to harvest pine wood. In future plans we mainly focus on enhancement of the furniture sector with gaining more profits. Innovative pine wood products will enhance the economic, environmental and conservational benefits to the society. STC focus highly on harvesting protocols, seasoning and preserving techniques as well as grading procedures to uplift the quality products with novel image. Finger Joint Unit also needs to enhance and the products will try to export in near future as the most



countries are preferred for such products. Future plans suit STC for the changing market environment with adding new objectives to the action plan of STC combining with the ISO standards for the furniture factories.

ACKNOWLEDGEMENT

I take this opportunity to express my deep appreciation for the commitment put by Chairman, Board of directors, Management team, as well as working staff to keep in success. My sincere gratitude is expressed to our valued customers who laid foundation over the pathetic condition too. Being loyal to us their leading supplier of timber and timber based products; 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 & Forest Conservation, his State Minister, Secretary of our Ministry with his supportive staff and Conservator General of Forests and his staff of Forest Department for their unstinted support and cooperation given to us to achieve our goals and objectives during the challenging time of 2021.



Dr. N.D. Ruwanpathirana

General Manager / CEO
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 – 2021



Mr. Udaya C. Walisinghe

Chairman

State Timber Corporation

Mrs. B.N. Gamage

Director

Treasury representative

Mr. K.M.A. Bandara

Director

Conservator General of Forest

Mr.B.A. Dharmarathne

Director

Mr. B.D.Gunathilaka

Director

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

Director

Mr. G.K. Prasanna

Director

Ms.M.G. Dilani Sharika

Board Secretary



SENIOR MANAGEMENT TEAM – 2021



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

BOARD OF DIRECTORS' REVIEW FOR THE YEAR 2021

The Directors have pleasure in presenting their Report and the Audited Financial Statements of the State Timber Corporation for the year ended December 31, 2021.

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 the business in 2021. Thus, financial year under review was extremely challenging for State Timber Corporation as well, the impacts of which continue to be felt this year.

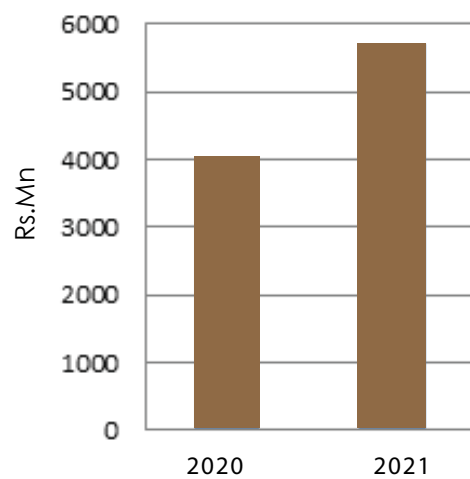
Notwithstanding these challenges, initiatives on cost optimization to maximize value, high focus on volume driven growth, agile management of teams, building on the experience and knowledge we acquired while navigating the business complexities of 2020 drove the State Timber Corporation to deliver a solid performance in the year under review.

Financial Highlights

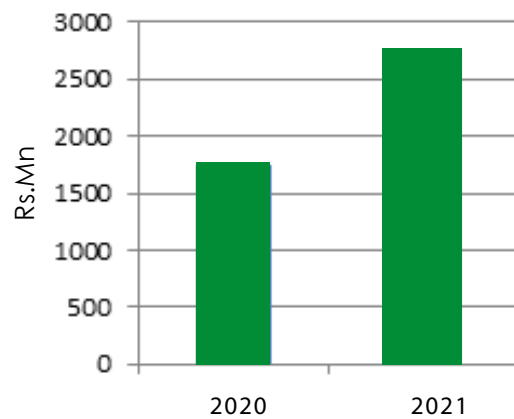
Covid-19 had a significant impact on consumer behavior and on the performance of our product categories & economic impact of the pandemic, lockdown travel bands, health & safety measures were adversely impacted on the operations of the State Timber Corporation. However, the State Timber Corporation recorded revenue of Rs. 5,696 Million, an increase of 43% over the previous year. Gross Profit of Rs. 2,754 Million was reported, reflecting an increase of 58% compared to previous year.

Performance	2021	2020
	Rs.Mn	Rs.Mn
Turnover	5,696	3,981
Gross profit	2,754	1,746
Profit on operation	1,245	369
Non-operating income	252	200
Net profit before tax & levy	1,496	569

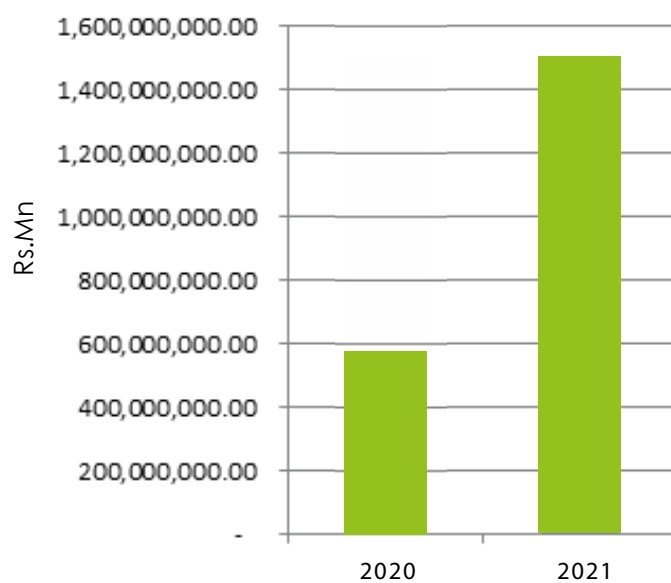
Turnover



Gross profit on operation



Profit before tax & levy



STC generated Rs. 1,496 million profits before tax (Net Profit) and levy for the year under review which is 163% 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.1,581 million was incurred as employment cost in 2021 even under economic recession assuring employment safety. Total no of employee in year 2021 was 1,606 and 1,708 in 2020.

Return on assets and return on equity for 2021 and 2020 are as follows,

	ROA	ROE
2021	13%	18%
2020	6%	8%

Return on Average Assets (ROA) before tax increased to 13% in 2021 from 6% in 2020, while Return on Average Equity (ROE) after tax increase from 8% in 2020 to 18% in 2021. The Corporation's contribution to the Government revenue for the period under review was Rs. 1,373 million which includes Rs. 100 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 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 2020 and 2021 are as follows.

Species	Clear Felling (Ha)		Thinning (Ha)	
	2021	2020	2021	2020
Teak	541	692	490	132
Eucalyptus	160	51	238	296
Pinus	265	109	-	-
Kaya	-	-	244	24
Akashiya	35	8	-	-

Conversion of logs into sawn timber

During the year 2021, 3,924m³ sawn timbers have been produced by the saw mills and 3,137m³ has been sold out by the island wide STC depots as against the 3,387m³ production of year 2020.

Treatment of transmission poles and sleepers

During the year under review 29,049 numbers of sleepers and 11,913 numbers of elephant poles treated in the STC treatment plants at Kaldemulla, Keppetipola and Boossa. Production of sleepers has been decreased during the year under review by 24% compared to last year.

Manufacturing of furniture

STC furniture plants at Ampara, Boossa and Kaldemulla have been produced Rs. 389 million worth furniture during the year 2021. Furniture worth Rs. 390 million (including taxes) has been sold during the year through STC showrooms located in Rathmalana, Kandy, Rathnapura, Thalalla, Ampara, Boossa, Bandarawela, Nuwara-eliya, Rajawasala & Battaramulla.

Production, sales and revenue 2020-2021

		Production		Sale volume		Sale value (including tax)	
		2021	2020	2021	2020	2021 Rs.Mn	2020 Rs.Mn
Logs	M3	127,698	106,609	141,556	103,955	4,929	3,299
Sawn Timber	M3	3,924	3,387	3,137	2,279	309	222
Sleepers	No.	29,049	38,380	29,002	36,552	287	371
Trans. poles	No.	2,624	-	2,729	2,287	30	24
Elephant poles	No.	11,913	9,171	17,412	9,347	104	48
Round poles	No.	97,846	67,589	101,880	76,761	12	9
Fire wood	M3.	86,971	82,856	70,075	60,171	49	40
Fence post	No.	151,893	105,453	164,913	117,430	22	19
Furniture	Rs. Mn	389	233			390	237

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

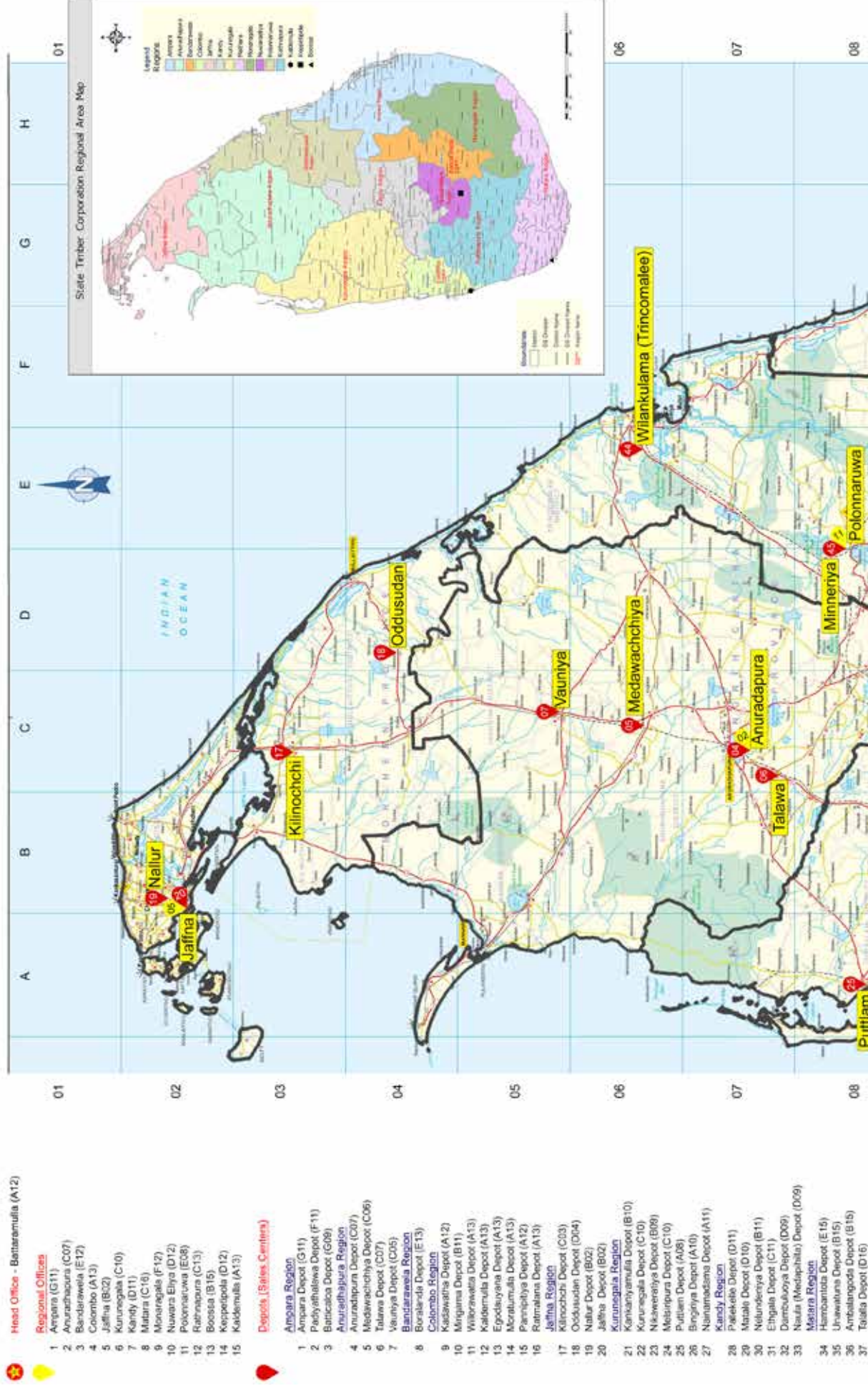


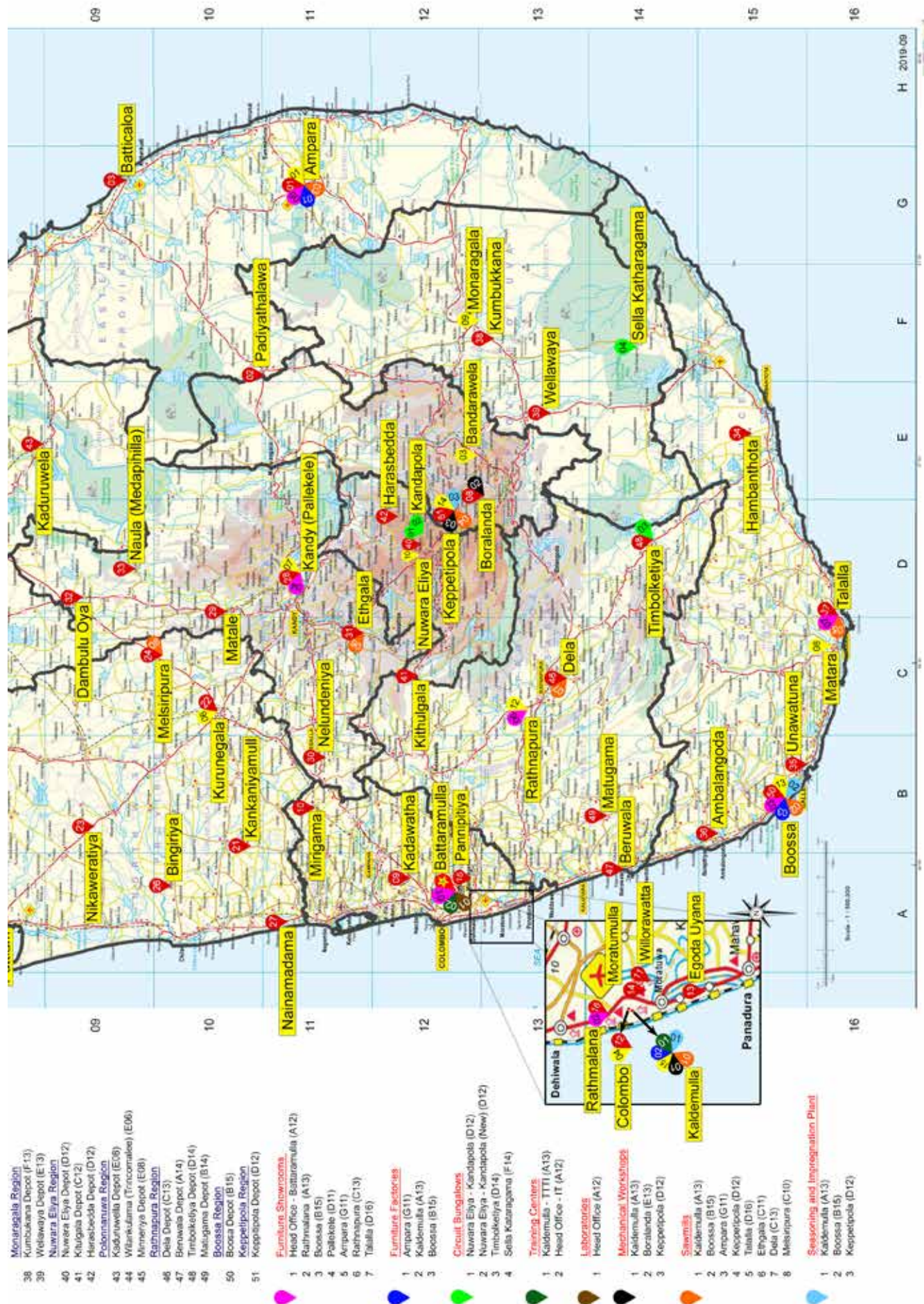
Udaya C. Walisinghe

Chairman
State Timber Corporation

OUR REACH

LOCATION MAP - STATE TIMBER CORPORATION





CORPORATE GOVERNANCE

The Board of Directors of State Timber Corporation is committed and takes responsibility to maintain the highest standards of Corporate Governance.

State Timber Corporation has designed its' Corporate Governance policies and practices to ensure that the Corporation is focused on its responsibilities to its stakeholders. The Corporation recognizes the interests of all its stakeholders including employees, customers, suppliers, consumers and the other communities in which it operates. This statement sets out the Corporate Governance policies, practices and processes adopted by the Board.

The Board and its Operations

The Corporation is governed by its Board of Directors, who directs and supervises the business and affairs of the Corporation.

The Board comprises seven Directors, of which five directors are officially appointed by the Minister of the Line Ministry whilst two are officially appointed. One director from officially appointed directors is appointed from treasury, ensuring an independent outlook to temper the expediency of the experts.

Prior to each meeting, the Directors are provided with all relevant management information and background material relevant to the agenda to enable informed decisions. Board Papers are submitted in advance on corporation performance, new investments, capital projects and other issues which require specific Board approval.

The Chairman, is responsible for matters relating to policy, maintaining regular contact with the other Directors, and external stakeholders of the Corporation. He is responsible for all aspects of the corporation's overall commercial, operational and strategic development and assisted by the other directors & the top management. The top management members present by invitation at Board meetings when matters related to them are discussed.

The main functions of the Board are to:

- Direct the business and affairs of the Corporation.
- Formulate short and long term strategies, as a basis for the operational plans of the Corporation and monitor implementation.
- Identify the principal risks of the business and ensure adequate risk management systems are in place.
- Ensure internal controls are adequate and effective.
- Approve the annual capital and operating budgets and review performance against budgets.
- Approve the final Financial Statements of the Corporation.
- Ensure compliance with laws and regulations.
- Approve all material contracts, acquisitions or disposal of assets and approve capital projects.

Director appointed from treasury is independent with no direct or indirect material relationship with the corporation & wide range of expertise and significant experience in commercial corporate and financial activities bring an independent view and judgment to the Board.

Sub Committees of the Board

The Board is responsible for the establishment and functioning of all Board Committees, the appointment of members to these committees. The Board has delegated responsibilities to those Board Sub Committees.

Audit Committee

The Audit Committee is comprised of three directors namely Mrs. Biyanka N. Gamage – Chairperson, Mr. H.K.M.J. Kumarasinghe – Member and Mr. G.Kapila Prasanna – Member. All the Deputy General Managers and functional heads attend meetings by invitation. The Audit Committee Report on page 116 describes the activities carried out by the Committee during the financial year.

Internal Controls

The Board is responsible for instituting an effective internal control system to safeguard the assets of the Corporation and ensure that accurate and complete records are maintained from which reliable information is generated. The system includes all controls including financial, operational and risk management. Strategies adopted by the Corporation to manage its risk are set out in its report on Risk Management on pages 118 to 122.

Apart from the strategic plans covering a five year time horizon, a comprehensive budgetary process is in place, where annual budgets, identifying the critical success factors and functional objectives, prepared by all divisions are, approved by the Board, at the commencement of a financial year, and its achievement monitored monthly, through a comprehensive monthly management reporting system.

The Corporation's Internal Audit Division regularly evaluates the internal control system across the corporation and its findings are reviewed first by the Audit Committee and significant issues are thereafter reported to the Board. The Board reviewed the internal control procedures in existence and are satisfied with its effectiveness.

Relationship with Other Stakeholders

The Board identifies the importance of maintaining a healthy relationship with its key stakeholders and ensures the corporation as a whole inculcates this practice. Internal communication is mainly conducted through e-mails, memos and circulars.

The Board also ensures that the Corporation policies and practices are in line with the Corporation's values and its social responsibilities. The Corporation promotes protection of the environment, health and safety standards of its employees and others within the organization. The relevant measures taken are given in detail in the Corporate Social Responsibility report on pages 123 to 130.

Compliance

The Board places significant emphasis on strong internal compliance procedures. The Financial Statements of the Corporation are prepared in strict compliance with the guidelines of the Sri Lanka Accounting Standards (LKAS and SLFRS) and other statutory regulations.

Going Concern

The Directors have continued to use the 'Going Concern' basis in the preparation of the Financial Statements, after careful review of the financial position and cash flow status of the Corporation. The Board of Directors believes that the Corporation has adequate resources to continue its operation for the foreseeable future.

AUDIT AND MANAGEMENT COMMITTEE REPORT

Members of the Audit and Management Committee - 2021

Mrs. Biyanka N. Gamage – Chairperson

Mr. H.K.M.J.H Kumarasinghe – Member

Mr. G. Kapila Prasanna – Member

Areas of focus in 2021



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 2021

The Audit Committee met during the year and 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 of Directors.

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 ensuing 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

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 2021 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:

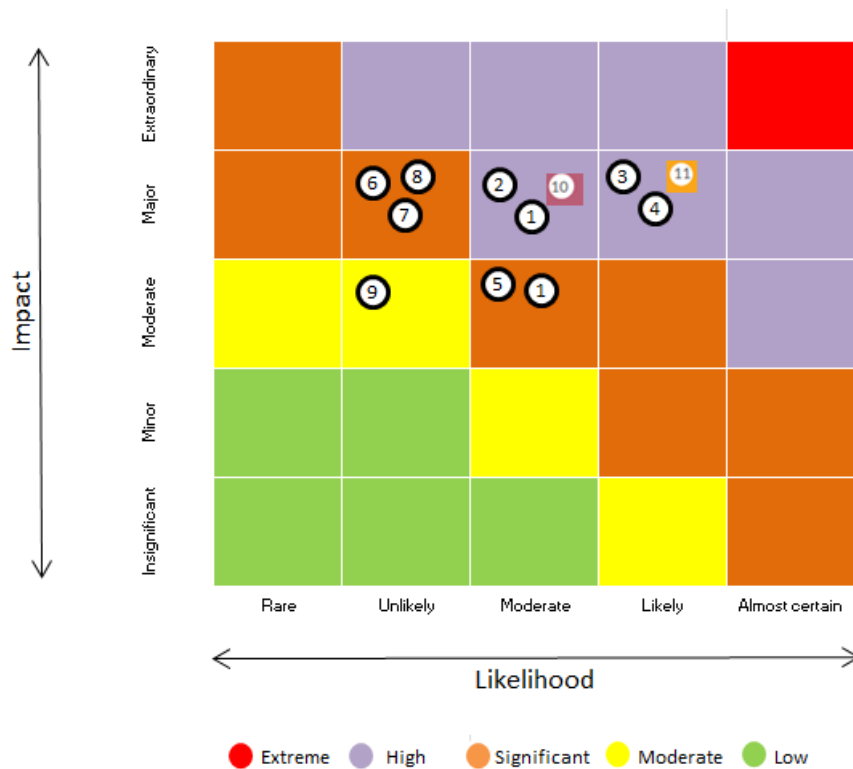
- Do nothing further
- Consider risk treatment options
- Undertake further analysis to better understand the risk
- Maintain existing controls
- Reconsider objectives

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.
		Sourcing of funding requirements through many financial institutions.
2. Interest Rate Risk	To minimise adverse effects of interest rate volatility.	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.
	To minimize the impact if, despite our best endeavors, a reputation crisis should occur.	Internal and external quality inspection.
		Ongoing investment and improvement initiatives in manufacturing facilities
		Obtaining certifications from external governing bodies.
		Standardized manufacturing processes.

8. Human Capital and Labour Ris	To ensure a smooth flow of operations without any undue disruptions.	Improving employee benefits by way of incentives and welfare activities.
	To project ourselves as a human employer, successful in motivating, developing, retaining and attracting the best of human capital.	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.

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 2021.

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.



Kithulgala



Midalana

Sapling production in STC nurseries in Kithulgala and Midalana depots

In the year 2021, about 120,000 saplings have been produced by the nurseries of State Timber Corporation. 31,268 saplings have been distributed free of charge for tree planting programs.



Tree planting programme in Godakumbura, Balangoda – Rathnapura region



Tree planting programme in Waga, Padukka - Colombo region

(Jointly organized with Rotract Club - Alumni of University of Moratuwa)

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 2021 is as follows.

Institute	Programme/Workshop	No of programmes/ workshops	Number of trained employees
Timber Technology Training Institute of the State Timber Corporation, Kaldemulla/ Association with other institutes	Forest Inventory and GPS Technology	05	182
	Showroom System	01	25
	Financial Regulations	01	70
	Sawmilling – saw blade preparation	01	32
	Procurement	01	57
	Selection of External Consultants	01	47
	Credit Sale system	01	25
	Allegations of Bribery Act	02	105

External institutes (SDFL, SLSI, NIBM, CETRAC, PRAG, SLIDA, Universities)	Human resource management	52	137
	Marketing		
	Finance		
	Procurements		
	Boiler training		
	Disciplinary action		
	Hospitality		
	Postgraduate Studies in Forestry		
	Teamwork		
	Internal Audit		
	Transport Management		
	Conflict Management		
	English		
Forest College	Diploma course	01	03
	Certificate course	01	07
Total number of employees		690	

Total number of training programmes/ workshops in year 2021 - 67

Total number of employees - 690

Total cost – Rs. 3,045,123 /=-

Additionally, Research, development, and Training division collaborated with NAFGA (National Academy of Forestry and Grassland Administration) in China to obtain training programmes for STC officers. All programmes were conducted on an online platform as follows.

Institute	Programme	No of programmes	Number of employees
NAFGA - China (National Academy of Forestry and Grassland Administration)	Seminar on Forest Law Enforcement and Governance for Officials from Developing Countries	01	03
	Seminar on the Implementation of United Nations Forest Instrument (UNFI) and Sustainable Forest Management for Developing Countries	01	10
	Seminar on Natural Protected Areas Management and Biodiversity Conservation for the Belt and Road Initiative Countries	01	06
	Seminar on Climate Change and Sustainable Development for the Belt Road Initiatives	01	17
Total		04	36



Workshop on Financial Regulations



Workshop on Allegations of Bribery or Corruption Act



Training on sawmilling in Malsiripura sawmill



Training on Forest inventory and GPS applications in Bandarawela region

Moreover, Training programmes are consistently conducted to educate employees on health and safety measures at the workplace including factory & coupes. 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.

Timber-related research studies in 2021

The Research Development and Training Division carried out several timber-related research studies which were published as research articles, conference abstracts, extended abstracts Lecture notes, etc. The followings are the published studies.

Journal papers

- Muthumala, C. K., Sudhira De Silva, P.L. A. G. Alwis, and K. K. I. U. Arunakumara 2021. Failure Modes and Compression Strength of Seven Finger-Jointed Wood Species from Sri Lanka, J Fail. Anal. and Preven. <https://doi.org/10.1007/s11668-021-01274-9> springer journal
- Muthumala, C.K., De Silva, S., Alwis, P.L.A.G. and Arunakumara, K.K.I.U. 2021. Identification of the best finger joint configuration for Sri Lankan wood species based on the flexural strength. J Indian Acad Wood Sci (2021). <https://doi.org/10.1007/s13196-021-00284-2>. Springer journal
- Muthumala, C.K., Arunakumara, K.K.I.U., De Silva, Sudhira. and Alwis, P.L.A.G. 2021. Assessment of finger-joint efficiencies in Sri Lankan timber species, The Sri Lanka Forester, Forest Department, Sri Lanka. Vol. 40, 2021 pp.57 – 70.
- Muthumala, C.K., Arunakumara, K.K.I.U., De Silva, Sudhira. and Alwis, P.L.A.G. 2021. Investigation of the strength parameters and physical properties of timber species in Sri Lanka, The Sri Lanka Forester, Forest Department, Sri Lanka. Vol. 40, 2021 pp.57 – 70.
- Muthumala, C.K., De Silva Sudhira., Arunakumara K.K.I.U. and Alwis P.L.A.G. 2021. Evaluation of the failure modes of the finger-jointed timber species for utilization of waste timber. International Conference On Innovations in Energy Engineering & Cleaner Production, 2021, San Francisco, CA – USA.
- W.V. Tharindu Amarasinghe, Toru Terada, and Hirokazu Yamamoto (2021). Enhancing the carbon sequestration of high-elevation Eucalyptus plantations in Sri Lanka for future carbon market activities. Journal of Forest Research, 26(1):1-7. DOI: 10.1080/13416979.2021.1927501

Abstract papers in symposia and conferences

- Muthumala C.K., 2021. Identification of Jack (*Artocarpus heterophyllus*) and Bedidel (*Artocarpus nobilis*) timber species using anatomical features, International Symposium on Agriculture and Environment 2021 University of Ruhuna, Sri Lanka, p.84.
- Muthumala, C.K., De Silva Sudhira., Arunakumara K.K.I.U. and Alwis P.L.A.G. 2021. Assessment of the mix timber combination effect of finger-jointed timber species using flexural and tensile strength, International Conference on Structural Engineering and Construction Management, Kandy, Sri Lanka.
- Amarasinghe W.V.T.D. and Muthumala C.K. (2021). Assessment of the Wastage in the Sawmilling Industry of Sri Lanka, a Case Study of STC Sawmills. International Conference on Environmental Good Governance, Colombo, Sri Lanka
- Balasooriya L.S., Amarasinghe W.V.T.D., Weerakkody J. and Muthumala C.K. (2021). A New Bucking Approach to Improve Teak (*Tectona grandis*) Grading: A Case Study In Kurunegala District. Open University Research Sessions 2021 (OURS 2020).
- Jinadari W.M., Weerakkody J, Amarasinghe W.V.T.D. and Muthumala C.K. (2021). Above Ground Carbon Stock Estimation of Intermediate Zone Teak (*Tectona grandis*) Grown in Sri Lanka. Open University Research Sessions 2021 (OURS 2020).

Lecture Notes in Civil Engineering

- Muthumala, C.K., Amarasinghe W.V.T.D. and Mudalige T.S. (2021). Assessment of Wood Properties in Lesser-Known Shorea spp. in Sri Lanka. ICSBE 2020 - Lecture Notes in Civil Engineering Chapter: Sustainable Material and Manufacturing Publisher: Springer Nature Singapore Pte Ltd. DOI: 10.1007/978-981-16-4412-2_36

Magazines

- සී. කේ. මුතුමාල (2021). අධිවේගය මන්දගාමී කළ පණුකරද ශාකය. සොබා, පරිසර ප්‍රකාශනය, පළමු කලාපය, xxx වන වෙළුම, පරිසර අමාත්‍යාංශය.

New series of research studies were initiated to investigate pine wood preservation techniques to improve its life span. These studies are still ongoing.



Conducting research on the effectiveness of different dipping periods of Boron for pine wood



Conducting research on the effectiveness of different dipping concentrations of Boron for pine wood

Awareness of utilization of Pinewood

The government of Sri Lanka took a policy decision to complete the removal of selected pine plantations. Therefore, the local market is filled with pine wood while local vendors and consumers do not aware of the properties or application of the wood. The RDT division actively engaged with popular pine wood for domestic purposes and encouraged exporters to trade in the global market. STC conducted several awareness programmes and printed a leaflet to distribute to the public.



Technical support for External parties

The Research Development and Training Division provides technical support for external institutes to solve timber-related matters. For instance, procurements of purchasing furniture; setting up specifications for wooden articles; consultation for use of timber, etc. Thus, in 2021, STC assisted the following institutes.

- University of Visual Arts and Performance, University of Colombo
- Sri Lanka Institute of Advanced Technological Education (SLITE)
- Ministry of Education
- National Science Foundation



Timber identification and issuing timber reports

The Research Development and Training Division utilizes modern technology to use wood anatomy to identify timber through anatomical features. About 150-200 timber identification certificates and other reports are issued annually to government and non-government organizations under this process. In addition to wood identification, tests of strength properties tests such as MOR, MOE, Compression test, Density tests, and timber preservation tests (Boron, CCB) were conducted. Accordingly, the following reports have been issued in year 2021.



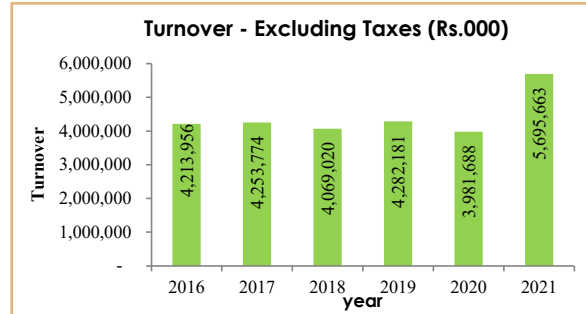
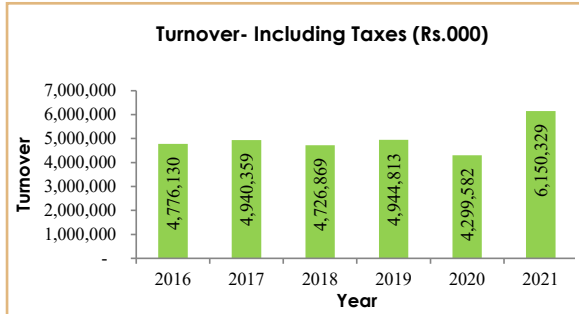
Timber identification by anatomical features

The number of tested samples for timber identification was 205 and total number of issued reports were 193.

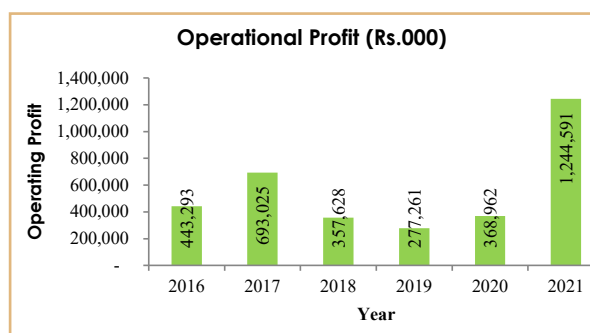
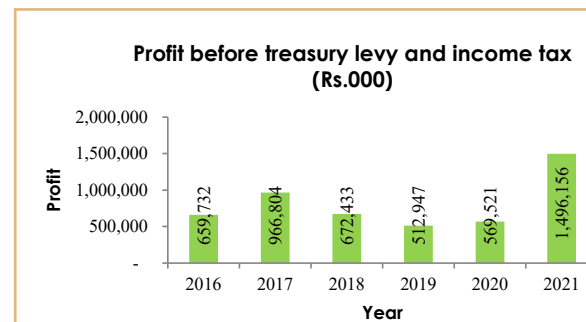
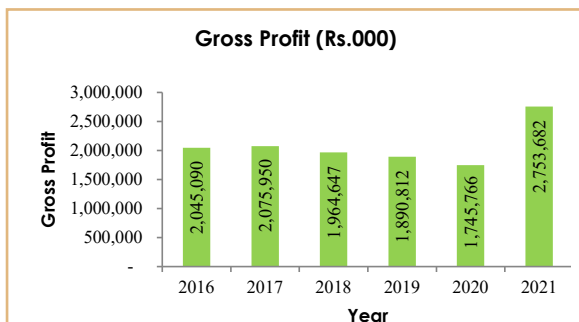
Description of the reports	Number of reports
Timber identification	96
Timber Moisture inspection	30
Wood density test	16
Boron test	12
CCB test	05
Strength properties of timber	13
Others (Technical reports and by field visits)	21
Total	193

BUSINESS SUMMARY

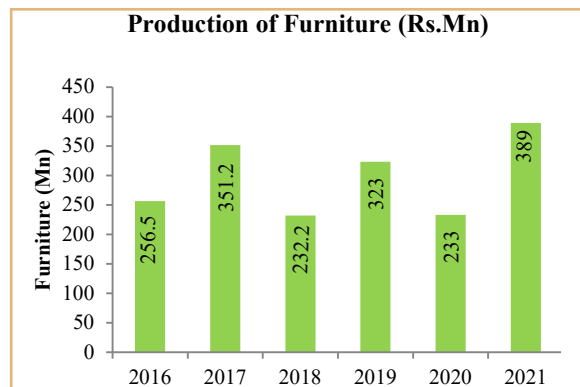
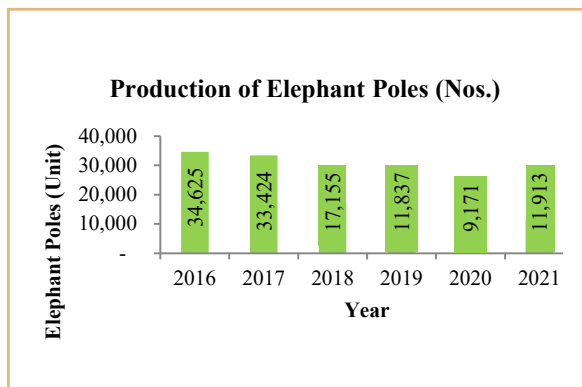
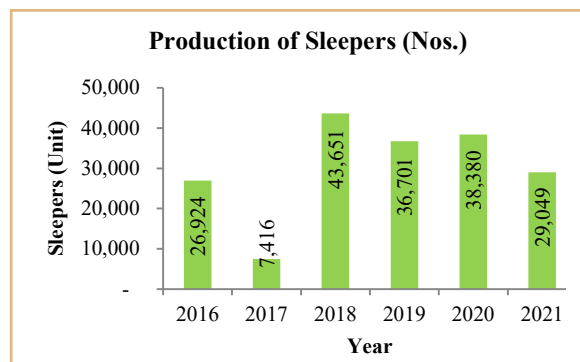
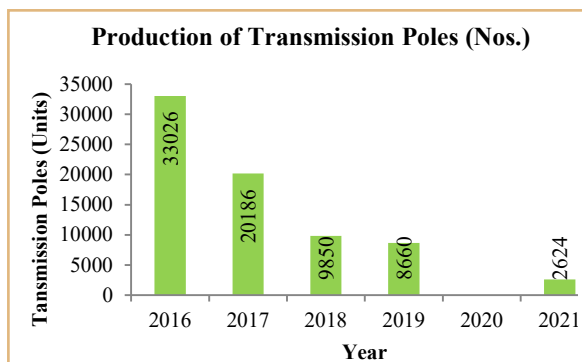
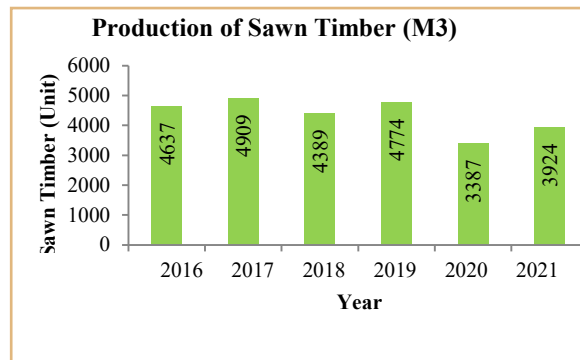
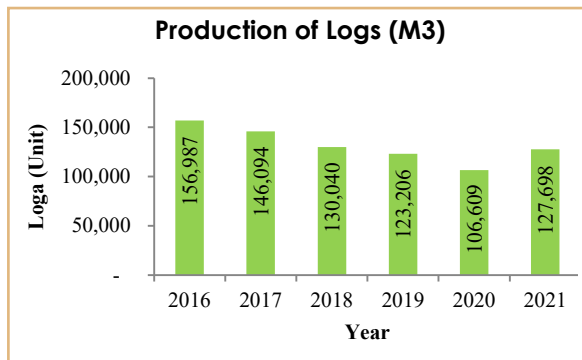
Income growth trend analysis



Profit growth trend analysis



Production growth trend analysis



Capital Expenditure - 2021

Description (more than 02 million)	Rs.
Land - Kurunagala Region	32,600,472
Log Loader- Ampara Region	27,930,000
Staking shed - Kandy Region	9,371,094
Clamp Carrier Machine - Kaldemulla Furniture Factory	4,524,100
Rectangular Tononer - Kaldemulla Furniture Factory	4,060,000
Rectangular Tononer - Boossa Furniture Factory	4,060,000
Graffle Unit – Anuradhapura Region	3,240,000
Concrete road - Ampara Region	3,054,850
CCTV System - Head Office	2,999,625
Concrete road - Melsiripura Depot	2,982,945
Concrete road - Kankaaniyamull Depot	2,823,208

Investment	31-12-2021 (Rs.)	31-12-2020 (Rs.)
Treasury Bond	346,843,350	-
State mortgage and investment bank	232,747,814	219,691,174
Land reclamation and development (Pvt) Ltd	500,000	500,000
People's bank	1,828,073,777	785,754,782
Bank of Ceylon	2,606,347,769	1,486,003,969



DECADE AT A GLANCE (ABSOLUTE VALUES)

		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total revenue for the year	Rs. '000	3,563,390	3,213,644	3,756,482	4,132,052	4,522,238	4,630,718	4,457,024	4,608,413	4,372,033	5,996,789
Gross profit for the year	Rs. '000	1,546,107	1,197,518	1,453,450	1,757,115	2,045,090	2,075,950	1,964,647	1,890,812	1,745,766	2,753,682
Net profit before interest and tax	Rs. '000	801,681	382,337	427,222	768,699	659,732	966,804	672,433	512,947	569,521	1,496,156
Total cost of employment	Rs. '000	1,065,052	1,117,036	1,254,516	1,449,749	1,789,572	1,572,775	1,553,598	1,584,418	1,640,020	1,580,855
Capital expenditure for the year	Rs. '000	162,509	332,870	115,132	244,929	113,675	94,637	116,034	319,485	104,712	126,547
Non current assets as at end of the year	Rs. '000	1,479,880	1,658,535	1,654,908	1,743,580	1,732,640	1,894,597	1,978,855	2,581,165	1,966,637	2,158,971
Current assets as at end of the year	Rs. '000	2,929,185	3,153,777	4,004,860	4,115,259	3,652,116	4,423,105	4,541,610	4,640,889	5,319,557	7,048,847
Current liabilities as at end of the year	Rs. '000	804,102	1,050,258	1,591,991	1,480,966	897,087	1,234,716	1,047,668	967,481	985,365	1,791,411
Non current liabilities as at end of the year	Rs. '000	409,030	384,831	484,649	424,854	499,373	852,292	812,441	714,022	836,197	659,200
Equity as at end of the year	Rs. '000	3,195,933	3,377,223	3,583,129	3,953,019	3,988,297	4,230,694	4,660,357	5,540,551	5,464,633	6,757,207
Contribution to the consolidated fund	Rs. '000	600,000	50,000	25,000	50,000	175,000	100,000	100,000	50,000	511,026	100,000
No. of employees as at end of the year	NOS.	2,187	2,139	2,186	2,145	2,125	2,083	2,001	1,803	1,708	1,606
Key performance indicators											
Net profit before tax to equity	%	25.08	11.32	11.92	19.45	16.54	22.85	14.43	9.26	10.42	22.14
Net profit before Fin. Changes & tax to total assets	%	18.18	7.94	7.55	13.12	12.25	15.30	10.31	7.10	7.82	16.25
Current ratio	Times	3.64	3.00	2.52	2.78	4.07	3.58	4.33	4.80	5.40	3.93
Return on assets	%	3.73	3.78	3.64	6.31	0.66	3.84	6.59	12.19	8.00	16.25
Total revenue growth	%	14.81	(9.81)	16.89	10.00	9.44	2.40	(3.75)	3.40	(5.13)	37.16



ජාතික විගණන කාර්යාලය

தேசிய கணக்காய்வு ஆலுவலகம்

NATIONAL AUDIT OFFICE



My No.FWL/A/STC/FA/2021/01

17 June 2022

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 2021 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 2021 comprising the statement of Financial Position as at 31 December 2021 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 2021 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) Sri Lanka Accounting Standards 07

- i. Even though Rs.5,561,222 of the Capital Work in Progress Account had been capitalized for non-current assets during the year and neither a cash inflow nor cash outflow had resulted therefrom, it had been stated as a cash inflow in the cash flow statement.
 - ii. The Corporation had granted employees loan of Rs.136,086,521 for the year under review and recovered Rs.146,979,660 as the employees loan. However, that cash outflow and cash inflow had not been adjusted to the cash flow under the investments activities.
 - iii. Although Rs.232,435,163 had been adjusted under the investment activities as cash inflows from the investment income, it had included Rs.3,624,266 to be received from the Scamp project for the year 2021 that had not so far been received in cash.
- (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 allocated 15 per cent in respect of destruction of trade stock from the closing stock. That erroneous accounting policy which had been following from the previous years had not been adopted in the year 2021 and without being adjusted the allocation of Rs.244,674,913 made for the destruction of stocks in the previous years, it had been deducted from the stock in the financial statements of the year under review.
- (c) In terms of Section 42(b) Sri Lanka Accounting Standard 08, the previous years' opening balances of the assets, liability and equity accounts should be restated when correcting material errors in the preceding years. Nevertheless, due to not properly corrected the error relating to the stocks by the Corporation, the net profit of the Corporation in 10 preceding years had been understated by Rs.182,376,560.
- (d) A partly completed stock of furniture worth Rs.114,258,780 belonging to 5465 items of the Ampara furniture complex had been added to the closing stock without carrying out stock verifications.
- (e) Even though the amount receivable from short-term and long-term investments relating to the year 2021 was Rs.122,957,700 for the year under review, it had



- been accounted for as Rs.124,495,091. Accordingly, interest income of the year under review had been overstated by Rs.1,537,391 in the account.
- (f) Even though advances of Rs. 103,246,849 out of the sales advance of Rs.131,176,540 contained in the other creditors included in the trade and other payables had been settled, it had been debited to the ready cash sales control account without being debited to the sales advance account. As a result, sales income and sales advances had been overstated by that amount.
- (g) As the useful life of the Property, Plant and Equipment items had not been reviewed in terms of Paragraph 51 of Sri Lanka Accounting Standard-16, the error in the estimation of Property, Plant and Equipment costing Rs.796,253,922 which were in use despite being fully depreciated, had not been revised in accordance with Sri Lanka Public Sector Accounting Standard 08 and stated in the financial statements.

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 2021 of the Corporation

The other information means the information included in the 2021 Annual Report of the Corporation, which I expect to submit after 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 thereon.

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 2021, if I conclude that there are substantial misstatements, I should communicate that matters to the governing body for correction. 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 Corporation.

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:

- Appropriate audit procedures were designed and performed identify and assess the risks of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.



- An understanding of internal control relevant to the audit was obtained 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

1.1.1 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.

1.1.2 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.





- 1.1.3 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.
- 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.
- 1.1.2 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

Section 8 (1) of the Employees Provident Fund Act, No.15 of 1958.	In terms of Section 8 (1) of the Employees Provident Fund Act, No.15 of 1958, action should be taken to make deductions for the Employees' Provident Fund and Employees' Trust Fund from the wages of the temporary recruited employees and remit it along with the contribution of the institute. Nevertheless, action had not been taken accordingly in respect of 192 employees recruited by the State Timber Corporation on daily wages basis.
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- 1.1.3 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.
- 1.1.4 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.



3. Other Audit Observations

- (a) Although the Corporation had duly recovered the building rent from the year 2007 to 2013, no action had been taken to recover the building rent of Rs. .89,502,660 due from the Department of Forest Conservation from the year 2014 to 2021.
- (b) The advance paid to the timber suppliers as at the end of the year under review was Rs. .21.823.345, and a sum of Rs. 9.843.560 of the above amount was the advances elapsed for 02 to 05 years. The Corporation had not taken steps to recover the advances.
- (c) The amount receivable from the Ministry of Mahaweli Development and Environment was Rs. 1,731,821 of which Rs.1,661,488 had been carried forward for more than a period of 03 years.
- (d) Out of the advances given by the Ratnapura regional office for various purposes, the amount due as at the end of the year under review was Rs.2,588,632 of which the balance that remained outstanding for more than 02 years was Rs. 1,953,882.
- (e) The sales of the Ampara furniture showroom had been carried out in cash as well as on credit. Accordingly, the amount due from the sales on credit as at 31 December 2021 was Rs.13,091,111 and Rs. 7,767,938 of that sum had continued to exist for more than 02 years. No action had been taken to recover this amount.
- (f) There existed 717 vacancies relating to 67 posts by the end of the year under review and acting appointments had been made for 76 of those vacancies. Without obtaining approval of the Secretary to the Ministry to act in the posts, an acting allowance of Rs.4,694,492 had been paid to 44 employees.
- (g) Action had not been taken to conduct an investigation regarding the loss of income amounting to Rs.6,851,081 to the Corporation due to irregularities that took place in the felling and sale of 2172 Eucalyptus trees at the Robgil Site in the year 2018 and to take disciplinary actions against the officers involved in the incident.
- (h) The 03 furniture manufactories at Kaldemulla, Bussa and Ampara had received 395 orders during the year under review of which, 99 orders or 25 per cent had not been completed during the year. Further, the orders received by the Kaldemulla, Bussa and Ampara showrooms amounted to 147,158 and 90 respectively and 135, 143 and 81 of those orders had been carried out by private contractors respectively. The number of orders brought by the employees of the showrooms was 36 and a sum of Rs.70,466,547 had been paid as salaries and allowances to the employees attached to the showrooms.





(h) Physical Stock Verification

- i. Due to increasing production during the year without being considered the annual average sale and the market price, a stock of furniture worth Rs.440,349,304 had been piled up at the Kaldemulla, Bussa and Ampara manufactories as at 31 December 2021. Out of the stock, 464 items worth Rs.14,265,277 had been identified as the items with defects and it included the items older than a period of 10 years.
 - ii. It was observed at the audit test check that 3040 logs containing 400,808 cubic decimeters had been piled up at various locations of the Ampara timber depot and some stocks had been so piled up there since the year 2014.
- (j) Without focusing attention on the main functions legally assigned by the State Industrial Ordinance No.49 of 1957 which established the Corporation, the officials of the Corporation had taken steps to purchase and sale of a stock of ornamental items worth Rs.511,875 manufactured by outside parties.
- (k) Items worth Rs.145,961,150 comprising uncompleted 90 items worth Rs.109,587,380 existed at the welding section of the Ampara manufactory since the period before 2018 and completed items worth Rs.36,374,180 had remained idle.
- (l) A stock of ebony wood containing 286,168 cubic decimeters worth Rs.8,830,974 had been retained in the timber depots of the Corporation without being taken action to hand over it to the manufactories of the Corporation or to the National Crafts Council.
- (m) Out of 08 air-conditioners available in the Boossa furniture showroom, 07 air-conditioners worth Rs.1,154,944 were out of order and remained unused since the year 2018. Nevertheless, necessary action had not been taken to dispose of them.
- (n) A stock of 1,112,166 cubic meters of sawn timber worth Rs.114,056,534 received as forest crimes and logs containing 3,586,873 cubic decimeters worth Rs.65,601,485 had been retained in the stores. The Corporation had not taken action either to sell this timber stock and deposit the sales money in the court until the court case is concluded by obtaining a court order after informing the court in this connection as per the guidance of the Circular No.422 dated 10 October 2018 of the Judiciary Services Commission or to include the value of the timber in the stock books after calculating the value.
- (o) The timber saw mill affiliated to the Ampara Regional Office had obtained 679,749 cubic decimeters of sawn timber as the output from the logs containing 1,061,904 cubic decimeters worth Rs.27,403,059 used to convert into the sawn timber in the year 2021. Accordingly, the waste that had occurred in converting logs into the



sawn timber was 542,719.17 cubic decimeters and it was 51 percent of the total quantity of timber.

- (p) There existed 1,030,981 cubic decimeters of sawn timber worth Rs.82,947,618 in the timber stores affiliated to the Ampara Regional Office as at 31 December 2021 and 71,989 cubic decimeters of timber worth Rs.3,951,682 were the stocks that continued to exist since the period before 2019. Further, 366,112 cubic decimeters of timber logs valued at Rs.7,136,534 were decaying. No action had been taken to auction 124,928 cubic decimeters of timber of various types worth Rs.33,251,000 from the year 2017 to 2019. A stock of Teak logs containing 570,530 cubic decimeters worth Rs.17,634,441 existed at the Batticaloa store from the year 2018 remained idle without being used.

W.P.C.Wickramaratne

Auditor General.



ANNUAL ACCOUNTS

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31st December

	Notes	2021 Rs.	2020 Rs.
Turnover	2	5,695,663,163	3,981,688,028
Less-Cost of sales	3	(2,941,981,641)	(2,235,922,452)
Gross profit on operation		2,753,681,522	1,745,765,576
Other income	6		
Operating	6.3	46,897,556	187,156,251
Non-operating	6.1	26,284,246	11,254,590
Total net income		2,826,863,324	1,944,176,417
Selling and distribution expenses	4	(652,350,206)	(695,762,455)
Administration expenses	5	(903,637,745)	(868,197,159)
Finance Expense		(2,663,074)	(2,629,259)
Finance Income	6.2	227,943,565	191,933,650
Profit before tax		1,496,155,864	569,521,194
Taxation for the year	7	(259,944,164)	(105,614,520)
Levy paid to treasury		(100,000,000)	(511,025,803)
Profit for the year		1,136,211,699	(47,119,129)
Other comprehensive income			
Retirement benefit surplus/(deficit) for the year	18	156,362,663	(28,798,768)
Other comprehensive income for the year		156,362,663	(28,798,768)
Total comprehensive income for the year		1,292,574,362	(75,917,897)

STATEMENT OF FINANCIAL POSITION

For the year ended 31st December

	Notes	2021 Rs.	2020 Rs.
ASSETS			
Non-current assets			
Property plant and equipment	8	1,475,219,895	1,560,609,739
Right of used assets	10	370,021	4,810,252
Intangibles assets	9	213,922	501,278
Biological assets	11	7,735,659	7,735,659
Deposits with treasury		2,966,000	2,966,000
Security deposits - staff		78,322,465	71,738,627
Investments	12.1	580,091,164	220,191,174
Prepaid staff benefit		-	78,470,806
Capital work in progress		14,052,217	19,613,439
Total non-current assets		2,158,971,343	1,966,636,973
Current assets			
Inventories	13	1,194,553,641	1,817,201,433
Trade and other receivables	14	1,175,568,840	1,009,459,934
Investments in fixed deposits	12.2	4,434,421,546	2,271,758,751
Cash and cash equivalents	15	244,303,348	221,136,821
Total current assets		7,048,847,375	5,319,556,939
TOTAL ASSETS		9,207,818,718	7,286,193,911
EQUITY AND LIABILITIES			
Capital and reserves			
Authorized		75,000,000	75,000,000
Contributed capital	16	41,503,668	41,503,668
Revenue reserves		6,282,683,017	5,055,637,127
		6,324,186,685	5,097,140,795
Staff loan revolving fund	17	433,020,533	367,492,061
Total equity		6,757,207,218	5,464,632,856
Non current liabilities			
Retirement benefit obligation	18	508,978,707	668,235,659
Security deposits - staff		78,322,465	71,738,627
Lease Liability - Operating		452,453	5,491,621
Interest bearing loans and borrowings	22	12,720,535	17,667,732
Deferred tax liability	7.2	58,726,137	73,062,908
Total non-current liabilities		659,200,298	836,196,548
Current liabilities			
Income tax liabilities	19	152,984,309	84,925,974
Interest bearing loans and borrowing	22	4,947,196	4,416,258
Trade and other payables	20	1,633,479,696	896,022,276
Total current liabilities		1,791,411,202	985,364,508
Total liabilities		2,450,611,500	1,821,561,055
TOTAL EQUITY AND LIABILITIES		9,207,818,718	7,286,193,911

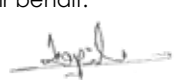
This statement of the activities of the State Timber Corporation is submitted in terms of the Finance Act No. 38 of 1971.


General Manager / CEO
State Timber Corporation


Deputy General Manager (Finance)
State Timber Corporation

The Accounting policies on pages 148 to 154 and Notes on pages 155 to 165 from and integral part of these Financial Statements. The Board of Directors is responsible for the preparation and presentation of these Financial Statements. These Financial Statements were approved by the Board of Directors and signed on their behalf.


Chairman
State Timber Corporation


Director

Date: 03.03.2022

STATEMENT OF CHANGES IN EQUITY

	Contributed Capital	Staff loan revolving fund	Revenue Reserves	Revaluation Reserve	Total
	Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at 1st January 2020	41,503,668	353,921,541	4,692,018,923	453,106,621	5,540,550,753
Profit for the year			(47,119,129)		(47,119,129)
Staff loan interest for the year		13,570,520	(13,570,520)		-
Other comprehensive income			(28,798,768)		(28,798,768)
Balance as at 1st January 2021	41,503,668	367,492,061	4,602,530,506	453,106,621	5,464,632,856
Fund Transfer during the year		50,000,000	(50,000,000)		-
Profit for the year			1,136,211,699		1,136,211,699
Staff loan interest adjustment		15,528,472	(15,528,472)		-
Other comprehensive income		-	156,362,663		156,362,663
Balance as at 31st December 2021	41,503,668	433,020,533	5,829,576,396	453,106,621	6,757,207,218

STATEMENT OF CASH FLOWS

For the year ended 31st December

	2021 Rs.	2020 Rs.
Cash flows from operating activities		
Cash receipts from customers	5,722,646,799	4,491,821,014
Cash paid to suppliers and employees	(2,985,491,312)	(3,561,603,631)
Cash generated from operating activities	2,737,155,487	930,217,383
Income tax paid	(206,222,600)	(124,863,194)
Special levy paid to the treasury	(100,000,000)	(511,025,803)
Net cash inflow/(outflow) from operating activities	2,430,932,887	294,328,385
Cash flows from investing activities		
Acquisition of property, plant & equipment	(126,546,711)	(104,712,062)
Biological assets	-	(266,000)
Investments	(2,522,562,785)	(413,360,075)
Income from investments	232,435,163	206,027,564
Proceeds from sales of property, plant and equipment	15,465,252	126,122
Work in progress	5,561,221	(782,426)
Net cash from/(used in) investing activities	(2,395,647,859)	(312,966,877)
Cash flows from financing activities		
Proceeds from Interest Bearing loans and Borrowings	(12,118,500)	(8,564,544)
Net cash from/(used in) financing activities	(12,118,500)	(8,564,544)
Net increase/(decrease) in cash and cash equivalents	23,166,528	(27,203,037)
Cash and cash equivalents at the beginning of the year (Note-15)	221,136,821	248,339,857
Cash and cash equivalents at the end of the year (Note 15)	244,303,348	221,136,821



NOTES TO THE FINANCIAL STATEMENTS

1.1 Reporting Entity

1.1.1 Legal Form

State Timber Corporation is a Corporation which was incorporated in 04th 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 2021 were authorized for issue in accordance with a resolution of the Board of Directors on 03rd March 2022.

1.1.3 Number of Employees

The employees' strength of the Corporation as at 31st December 2021 is 1,606 (2020-1,708).

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 2021 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 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 recognized 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 revaluation, is recognized in other comprehensive income and accumulated in the revaluation reserve in equity. The increase is recognized in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit or loss.

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

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

The asset's residual value, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year.

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

1.3.1.4 Biological Assets

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

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

The entity recognize the biological assets when, and only when, the entity controls the assets as a result of past event, it is probable that future economic benefits associated with the assets will flow to the entity and the fair value or cost of the assets can be measured reliably.

Life span of Teak Tree to maturity is expected to be 35 years from the date of planting. It is assumed that one teak tree takes 10 year period from the date of planting for its biological transformation. The cost is treated as approximation to fair value of immature plants as the impact on biological transformation of such plants to price during this period is immaterial. The managed timber trees are measured on initial recognition and at the end of each reporting period at its fair value less cost to sell in terms of LKAS 41 (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. A stock deterioration reserve of Rs.244,674,912 has been kept 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 2021. The defined benefit obligation is calculated annually using the Formula method.

1.3.2.3 Provisions, Contingent Assets and Contingent Liabilities

Provisions are recognized, 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. Further following cases have been filed against The State Timber Corporation, Case No: 1225/M (Rs. 1,000,000), Case No: 4/SPL (Rs. 500,000), Case No: 15404/M (Rs. 1,578,908), Case No: 11651/MR (Rs. 1,250,000), 5897/M (Rs. 600,000), Case No: 3377/M (Rs. 1,000,000) & Case No: 55857 (Magistrate Court Theldeniya). Following cases have been filed by The State Timber Corporation, Case No: 38804 (Rs. 2,185,483), Case No: 7036 (Magistrate Court Colombo) & 5271/M (Rs. 294,275).

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 recognized 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 recognized in profit or loss except to the extent that it relates to items recognized 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 18% for manufacturing income and 24% for other income.

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

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

1.3.4.2 Stumpage Payment

The stumpage payment for the year 2021 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.

1.3.8 Prepaid Staff Benefits

Staff Loan has been restated to the nominal value in 2021.

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 2021. Accordingly, the comparative information presented for 2021 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	2021	2020
	Rs.	Rs.
Logs - crown lands	4,263,168,636	2,744,508,435
Logs - private lands	15,935,012	13,894,651
Sawn timber	250,264,064	184,395,433
Imported sawn timber	7,760,973	5,113,020
Sleepers - private lands	210,926,113	291,357,607
Sleepers - crown lands	70,546,942	70,703,320
Transmission poles - crown lands	24,358,769	24,672,997
Transmission poles - private lands	1,849,841	421,366
Elephant poles	95,848,438	41,302,161
Others	17,094,249	17,916,107
Forest offence received timber	36,889,560	27,183,319
Donation of timber	339,079,059	337,396,037
Furniture	361,941,506	222,823,575
Net turnover	5,695,663,163	3,981,688,028

03. Cost of Sales	2021	2020
	Rs.	Rs.
Depots	1,716,182,782	1,368,878,205
Impregnation plants	328,568,486	287,714,160
Furniture plants	237,631,914	199,176,777
Wayside sales	659,598,459	380,153,309
Total	2,941,981,641	2,235,922,452

04. Selling and Distribution Expenses	2021	2020
	Rs.	Rs.
Depots	582,852,827	652,466,891
Impregnation plants	84,463	97,031
Furniture plants	61,067,523	36,360,111
Regional managers' office and head office	8,345,393	6,838,422
Total	652,350,206	695,762,455

05. Administration Expenses	2021	2020
	Rs.	Rs.
Impregnation plants	19,400,979	19,215,317
Furniture plants	84,317,363	75,703,423
Regional managers' office and head office	791,517,502	768,245,529
Circuit bungalows	8,401,902	5,032,890
Total	903,637,745	868,197,159

06. Other Income	2021	2020
	Rs.	Rs.
Non-operating income - (6.1)		
Foreign exchange gains	1,112	1,112
House rent	26,283,134	11,253,478
Total	26,284,246	11,254,590
Finance income - (6.2)		
Interest Income from Investment	209,150,787	174,077,703
Staff loan Interest	18,792,778	17,855,947
	227,943,565	191,933,650
Operating income - (6.3)		
Miscellaneous income	19,100,793	39,198,201
Fines-contractors and suppliers	289,792	1,857,170
Disposal income	11,062,237	-
Over provision of stock	-	44,165,123
Debtors over provision	11,307,530	99,816,708
Recovery on shortages and losses	1,408,895	618,114
Non refundable tender deposits	3,728,308	1,500,936
	46,897,556	187,156,251
Total	301,125,367	390,344,491

Analysis of other income for the year 2021

Income source	Units					Total
	Depots	Impregnation plants	Furniture plants	Regional offices & head office	Circuit Bungalows	
Non-operating income 6.1						
Foreign exchange gains				1,112		1,112
House rent			56,000	26,227,134		26,283,134
	-	-	56,000	26,228,246	-	26,284,246
Finance Income 6.2						
Interest income - investments				209,150,787		209,150,787
Staff loan interest				18,792,778		18,792,778
	-	-	-	227,943,565	-	227,943,565
Operating income 6.3						
Miscellaneous income	314,347			18,076,718	709,728	19,100,793
Fines from contractors and supplies				289,792		289,792
Dispol income				11,062,237		11,062,237
Over provision in doubtful debtors	1,442,610	7,644,929	2,219,992	-		11,307,530
Recovery on shortage and losses				1,408,895		1,408,895
Non refundable tender deposits	1,756,957	7,644,929	2,219,992	3,728,308		3,728,308
Total	1,756,957	7,644,929	2,275,992	288,737,761	709,728	301,125,367



07. Taxation Expenses	2021	2020
	Rs.	Rs.
Current tax expenses		
Income tax on profit for the year - (7.1)	279,506,150	12,275,048
Over/under provision of previous year	(5,225,215)	(14,654,903)
	274,280,935	(2,379,855)
Deferred tax expense - (7.2)		
Origination and reversal of temporary differences	(14,336,771)	107,994,375
	(14,336,771)	107,994,375
Tax charge for the year	259,944,164	105,614,520

7.1 Income tax on profit for the year	2021	2020
	Rs.	Rs.
Profit before taxation	1,496,155,864	569,521,194
Aggregate disallowable expenses	314,880,517	268,368,559
Aggregate allowable expenses	(497,194,849)	(478,906,155)
Profit from business	1,313,841,532	358,983,598
Non business income	254,227,811	203,188,240
Assessable income	1,568,069,343	562,171,838
Qualifying Payment	(100,000,000)	(511,025,803)
Taxable income	1,468,069,343	51,146,035
Income tax	279,506,150	12,275,048
Total	279,506,150	12,275,048

7.2 Deferred tax	Temporary difference	Tax effect (assets)/ liability
	Rs.	Rs.
Balance as at 31st december 2020	405,905,047	73,062,908
Amount origination during the year	(79,648,728)	(14,336,771)
Balance as at 31st December 2021	326,256,319	58,726,137
Temporary difference of property plant and equipment	835,235,025	150,342,305
Temporary difference of retirement benefit obligations	508,978,706	91,616,167
Balance as at 31st December 2021	326,256,319	58,726,137

08. Property, Plant & Equipment

08. Property, Plant & Equipment									
Description	Balance as at 01.01.21	Cost			Depreciation			Carrying amount as at 31.12.21	Carrying amount as at 31.12.20
		Balance as at 01.01.21	Additions	Disposals	Balance as at 31.12.21	Disposals	Charge for the year		
Lands	59,057,146	32,600,471.50			91,657,617	-	-	-	59,057,146
Land Improvement	52,822,312	203,850			53,026,162	28,801,103	3,728,636	32,529,739	24,021,209
Buildings	988,893,025	9,314,309			998,207,334	261,970,915	22,591,208	284,562,123	726,922,110
Stacking sheds and other buildings	59,388,283	9,371,094			68,759,377	46,935,432	7,199,577	54,135,009	12,452,852
Roadways and railway lines	34,352,071	8,861,004			43,213,075	11,302,461	1,782,477	13,084,938	23,049,610
Plant and machinery	740,678,720	45,841,748	19,556,323		766,964,145	596,346,292	29,016,900	605,806,879	144,332,427
Leasehold land and building	148,311				148,311	148,311		148,311	-
Road construction mach. and equi.	60,450				60,450	60,450		60,450	-
Tools & implements	7,434,974	580,193			8,015,167	6,254,149	342,514	6,596,663	1,180,825
Electrical equipments	28,533,471	1,153,085			29,686,556	16,488,550	2,142,960	18,631,510	12,044,921
Vehicles	642,411,214	761,150	7,140,000		636,032,364	135,145,629	2,737,000	257,888,406	507,265,585
Furniture and fittings	81,094,817	8,698,159			89,792,976	53,720,457	6,809,405	60,529,862	27,374,360
Office equipments	39,318,224	1,215,805			40,534,029	34,594,005	1,347,190	35,941,195	4,724,220
Computers and accessories	84,598,977	7,304,586	217,600		91,685,963	70,424,324	5,622,878	75,829,607	14,174,653
Miscellaneous assets	33,878,008	641,258			34,519,266	29,868,186	1,470,012	31,338,198	4,009,822
Pre fabricated structure	4,938,333				4,938,333	4,938,333		4,938,333	-
Leasehold land-Rathnapura	680,300				680,300	680,300		680,300	-
Total	2,858,288,635	126,546,713	26,913,923		2,957,921,423	1,297,678,896	207,533,533	1,482,701,528	1,560,609,738

* The Corporation owns the cost of Rs. 796,253,922 fully depreciated Property, Plant and Equipments at the reporting date.

* The Corporation does not the carrying amount of temporarily idle property, plant and equipment.

* The Corporation does not the carrying amount of property, plant and equipment retired from active use and not classified as held for sale.

09. Intangible assets

09. Intangible assets									
Description	Cost			Amotization			Carrying amount as at 31.12.21	Carrying amount as at 31.12.20	
	Balance as at 01.01.21	Additions	Disposals	Balance as at 31.12.21	Disposals	Charge for the year			
Computer software	5,413,211	-	-	5,413,211	4,911,933	287,357	5,199,290	501,278	
Total	5,413,211	-	-	5,413,211	4,911,933	287,357	5,199,290	501,278	

10. Right of used assets

10. Right of used assets									
Description	Cost			Amolization			Carrying amount as at 31.12.21	Carrying amount as at 31.12.20	
	Balance as at 01.01.21	Additions	Disposals	Balance as at 31.12.21	Disposals	Charge for the year			
Operation Leased - Vehicle	13,690,714	-	-	13,690,714	8,880,462	-	13,320,693	370,021	4,810,252
Total	13,690,714	-	-	13,690,714	8,880,462	-	13,320,693	370,021	4,810,252



11. Biological Assets	2021	2020
As at 31st December	Rs.	Rs.
Balance at the beginning of the year	7,735,659	7,469,659
Increase due to replantation	-	266,000
Balance at the end of the year	7,735,659	7,735,659

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 09 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	2021	2020
As at 31st December	Rs.	Rs.
Investment in fixed deposits - long term		
Government - Tresuary Bond	346,843,350	
State mortgage and investment bank	232,747,814	219,691,174
	579,591,164	219,691,174
Investment in shares		
Land reclamation and development (pvt) ltd	500,000	500,000
	500,000	500,000
Total	580,091,164	220,191,174

12.2 Investments in fixed deposits - short term		
People's bank	1,828,073,777	785,754,782
Bank of Ceylon	2,606,347,769	1,486,003,969
Total	4,434,421,546	2,271,758,751

13. Inventories	2021	2020
As at 31st December	Rs.	Rs.
Stock-in-trade (13.1)	1,241,746,652	1,855,504,860
Stock deteriorations	(244,674,912)	(244,674,912)
	997,071,740	1,610,829,948
Work in progress	50,697,909	43,965,955
Stores and spares	109,581,397	106,816,039
Preservatives	12,912,460	34,847,429
Fuel and oil	5,122,054	4,565,359
Stationary stock	19,168,080	16,176,703
Total	1,194,553,641	1,817,201,433

13.1 Analysis of inventories	2021	2020
As at 31st December	Rs.	Rs.
Crown land logs	569,516,977	1,134,121,880
Crown land sawn timber	322,325,921	326,123,256
Imported sawn timber	6,814,623	14,693,539
Crown land sleepers	6,434,416	6,372,149
Private land sleepers	5,606,678	17,494,274
Crown land transmission poles	7,027,408	9,074,147
Private land transmission poles	657,968	761,396
Wayside	12,575,341	105,166,865
Others	14,674,223	17,358,576
Furniture	296,113,096	224,338,779
Total	1,241,746,652	1,855,504,860

14. Trade and Other Receivables	2021	2020
As at 31st December	Rs.	Rs.
Trade debtors	581,533,142	547,251,573
Allowance for impairment	(111,377,120)	(103,336,866)
	470,156,022	443,914,707
Staff debtors (14.2)	382,626,133	297,948,905
Other debtors (14.1)	47,297,923	45,150,488
Deposits and prepayments		
Advances local purchases	1,680,739	1,733,671
Advances for imports	288,757	-
Advances pre -payment	41,759,392	38,233,735
Advances timber supplies	21,823,345	13,558,785
Interest receivable -deposits	124,495,091	102,703,556
Returned cheques	36,579	25,423
Kataragama astapala funds	760,200	760,200
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	70,198,323	45,007,462
Escamp project	3,624,266	8,617,473
Bio Safety	312,000	
Total	1,175,568,840	1,009,459,934



14.1 Other debtors	2021	2020
As at 31st December	Rs.	Rs.
Sundry Debtors	7,340,930	14,081,525
Deposits- general	40,323,614	31,435,583
Provision	(366,620)	(366,620)
Total	47,297,923	45,150,488

14.2 Staff debtors	2021	2020
As at 31st December	Rs.	Rs.
Staff receivables		
Vehicle loan	14,654,364	13,080,719
Distress loan	301,738,469	244,932,239
Electrical equipment loan	30,404	33,014
Bicycle loan	949,793	1,186,187
Laptop loan	24,935,677	26,734,714
Furniture loan	2,978,671	2,207,374
	345,287,378	288,174,249

Advances and other receivables		
Salaries and wages advance	29,800	
Special salary advance		4,825
Travelling advance	7,500	9,912
Advance festival	3,407,345	681,970
Internal debit notes	174,642	2,227,203
Staff recoveries	3,535,258	873,914
Site Clearing Expenses Receivable	25,570,452	
Salusala textile loan	4,613,758	5,976,832
	37,338,755	9,774,656
Total	382,626,133	297,948,905

15. Cash and Cash Equivalents	2021	2020
As at 31st December	Rs.	Rs.
Cash in hand	1,094,000	1,033,000
Bank of ceylon	24,930,186	43,412,200
Bank of ceylon - call deposit	218,079,162	176,691,621
Bank of ceylon - Debit Card	200,000	
Total	244,303,348	221,136,821

16. Contributed Capital	2021	2020
As at 31st December	Rs.	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	2021	2020
As at 31st December	Rs.	Rs.
Balance at the beginning of the year	367,492,061	353,921,541
Staff loan interest received	50,000,000	13,570,520
Fund transfer during the year	15,528,472	-
Total fund at the end of the year	433,020,533	367,492,061
Nominal value of utilized fund balance as at 31st December	334,266,833	358,259,680
Unutilized fund balance as at 31st December	98,753,700	9,232,381

18. Retirement Benefit Obligation	2021	2020
As at 31st December	Rs.	Rs.

The amounts recognized in the Statement of Financial position are determined as follows.

Balance at the beginning of the year	668,235,659	625,353,038
Charge for the year	25,428,270	47,270,727
Interest for the year	53,232,021	38,626,524
Surplus/ deficit charge for the year	(156,362,663)	28,798,768
Payment/payable during the year	(81,554,581)	(71,813,398)
Balance at the end of the year	508,978,706	668,235,659

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

Charge of the year	25,428,270	47,270,727
Interest for the year	53,232,021	38,626,524
Recognized in the statement of profit or loss	78,660,291	85,897,251

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

(Surplus)/deficit charge for the year	(156,362,663)	28,798,768
Recognized in the statement of comprehensive income	(156,362,663)	28,798,768

As at December 31, 2021 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 .

	2021	2020
Discount interest rate	9.70%	6.66%
Salary increment rate	2.87%	3.62%
Staff turnover rate	6.15%	5.66%
Retirement age	62	60

19. Income Tax Payable	2021	2020
As at 31st December	Rs.	Rs.
Balance at the beginning of the year	84,925,974	212,169,023
Withholding tax on deposits		
Economic service charge	-	(5,989,927)
Payment during the year	(206,222,600)	(118,873,267)
Under/(over) provision of tax for previous year	(5,225,215)	(14,654,903)
Provision for income tax	279,506,150	12,275,048
Balance at the end of the year	152,984,309	84,925,974

20. Trade and Other Payables	2021	2020
As at 31st December	Rs.	Rs.
Central bank- EPF	21,830,600	20,967,018
Labour department-ETF	2,532,431	2,516,468
Accrued expenses	118,670,929	128,101,313
Refundable tender deposits	27,103,739	7,353,633
Security deposits - except staff	110,725,546	83,366,077
Audit fees payable	4,000,000	8,000,000
Retention money	11,446,031	10,284,274
Other creditors	151,225,212	65,395,251
Conservator of Forests	1,100,597,119	532,055,113
Stumpage - Wild Life Department	38,320,077	1,810,796
Stumpage - Agriculture Department	112,802	41,511
Value Added Tax	46,915,213	36,130,821
Total	1,633,479,698	896,022,276

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. 1,108,132,434 trees from forest department during the year. The Corporation has received the worth of Rs. 36,509,281 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	2021 Rs.	2020 Rs.
Payable to related parties		
Department of Forest	1,100,597,119	532,055,113
Department of Wildlife	38,320,077	1,810,796
	1,138,917,196	533,865,909
Receivable from related parties		
Department of Forest	70,198,323	45,007,462
Department of Wildlife	-	3,480,547
ESCAMP Project	3,624,266	8,617,473
Ministry of mahaweli development and environment	1,731,821	1,731,821
Ministry of Wildlife and Forest Conservation	-	1,295,460
	75,554,410	60,132,763

22. Interest Bearing Loans and Borrowings	2021 Rs.	2020 Rs.
Finance Lease		
Balance as at 1st January	27,753,039	13,055,031
On Acquisition	-	17,769,780
Repayment	(6,625,728)	(3,071,772)
	21,127,311	27,753,039
Lease interest in suspense	(3,459,579)	(5,669,049)
Balance at the end of the year	17,667,732	22,083,990
Current portion of Interest-bearing Borrowings	4,947,196	4,416,258
Non-current portion of Interest-bearing Borrowings	12,720,535	17,667,732
	17,667,732	22,083,990

GLOSSARY OF FINANCIAL TERMS

A

Accounting Policies

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

Amortization

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

Accrual Basis

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

B

Biological Asset

A living animal or plant.

C

Cash and Cash Equivalents

Liquid investments with original maturities of three months or less.

Current Ratio

Current assets divided by current liabilities.

D

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.

Depreciation

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

GLOSSARY OF FINANCIAL TERMS

F

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.

1. 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.

G

Gearing

Proportion of borrowings to capital employed.

R

Revenue Reserves

Reserves available for investments.

Return on Assets (ROA)

Net income expressed as a percentage of total assets, used as a measure of profit ability and as a basis of intra-industry performance comparison.

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.

Related Parties

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

V

Value Addition

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