



STATE TIMBER CORPORATION

ANNUAL REPORT 2022

True Leadership for Timber Market.

1968 - 2022

Continuing the journey of 54 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 54 years of combined experience, State Timber Corporation's Furniture has become an automatic choice of hotel operators, government institutes, interior designers, architects & individual customers all of whom specify quality furnishings. From stunning "front of house" signature chairs to exclusive

bedroom ranges, STC will never compromise on quality, yet can still meet demanding budgets and challenging timescales. Our furniture is engineered to withstand the rigours of the market place and is constructed using quality timbers, complemented by rated fabrics.

How we assure the quality of our products?

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

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

WHAT WE DO



**We are
financially
sustainable**



**We provide
sustainable
materials to
build homes and
workplaces**



**We protect
and enhance
environment
through applying
SFM strategies**



**We pay
Tax, Levy &
Contribute to
community
development**



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



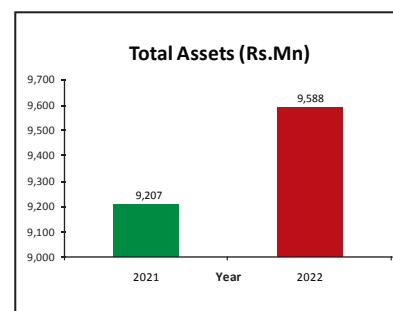
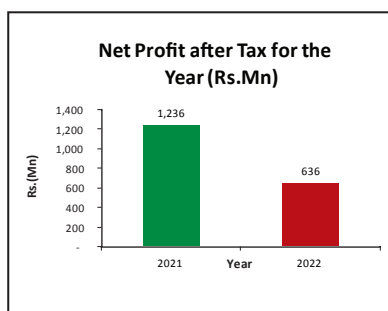
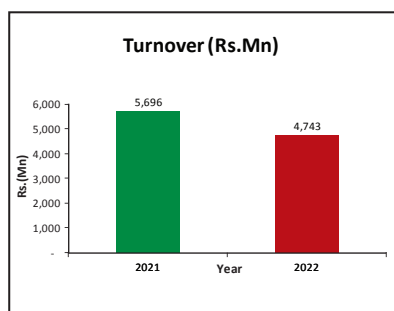


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FINANCIAL HIGHLIGHTS

For the year ended 31st December		2022	2021	Variance %
EARNINGS HIGHLIGHTS AND RATIOS				
Turnover	Rs. '000	4,743,049	5,695,663	-17%
Profit before levy and tax	Rs. '000	1,015,986	1,496,156	-32%
Levy paid to treasury	Rs. '000	320,000	100,000	220%
Tax expenses	Rs. '000	380,105	259,944	46%
Profit before Tax	Rs. '000	635,881	1,236,212	-49%
Return on equity [ROE]	%	8.3	18.3	-54.6%
Return on assets [ROA]	%	6.6	13.4	-50.5%
BALANCE SHEET HIGHLIGHTS AND RATIOS				
Total assets	Rs. '000	9,588,286	9,207,819	4.1%
Total equity	Rs. '000	7,665,155	6,757,207	13.4%
Total debts	Rs. '000	1,923,131	2,450,612	-21.5%
Debt/ Equity	%	25.1	36.3	-30.8%
Debt/ Total assets	%	20.1	26.6	-24.6%
OTHER INFORMATION				
Total employees	No.	1,500	1,606	-6.6%
Revenue per employee	Rs. '000	3,162	3,546	-10.8%
Profit per employee [before levy and tax]	Rs. '000	677	932	-27.4%



CORPORATE INFORMATION - 2022

Hon.Mahinda Amaraweera - Minister, Ministry of Wildlife and Forest Resources Conservation.

Mrs. R.M.C.M.Herath - Secretary, Ministry of Wildlife and Forest Resources Conservation.

BOARD OF DIRECTORS

Mr. M.S.Karunaratne	- Chairman - State Timber Corporation
Dr.K.M.A.Bandara	- Director - Conservator General of Forest
Mrs.S.A.C.Kulathilaka	- Director - Treasury representative
Mr.B.T.Bandara Dissanayake	- Director
Mr.M.R.Ajith Kumara Bandara	- Director
Mr. P.D.B.Basnayake	- Director
Mr.D.G.S.Dasanayake	- Director
Mrs.K.I.D.P.Kariyawasam	- Board Secretary

AUDIT & MANAGEMENT COMMITTEE

Mrs.S.A.C.Kulathilaka	- Chairperson
Dr.K.M.A.Bandara	- Member
Mr. B.T.Bandara Dissanayake	- Member

AUDITOR

Auditor General

Auditor General's Department

306/72, Polduwa Road, Battaramulla, Sri Lanka.

PRINCIPAL BANKER

Bank of Ceylon

FINANCIAL CALENDAR

January 1st to 31st December

Telephone : 94112866600-5

Fax : 94112866623

Website : www.timco.lk

TEAM OF MANAGEMENT – 2022

General Manager/CEO

Dr.N.D.Ruwanpathirana

PhD (Forestry),
M.Sc. (Forestry), B.Sc.

DEPUTY GENERAL MANAGERS & ASSISTANT GENERAL MANAGERS

DGM (Finance)	Mr.G.D.S.Kumarasinghe	MBA, B.Sc. (Acc.Fin.Mgt), FCA, ACCA, 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., MBS.
DGM (Cover up) (Internal Audit)	Mr.H.M.S.Madawa	B.Com (Sp), (PGDipCom)
AGM (Zonal)	Mr.P.K.Ajith Chandana	B.Sc.,MBS.
AGM (Zonal)	Mr.H.B.Rajawaththa	BA, MBS.
AGM (Research, Training & Development)	Dr.C.K.Muthumala	PhD in Agricultural Engineering M.Sc. (Forestry), B.Sc. (Agri.) Hon.,

MANAGERS

Manager (Sleepers & T. Poles)	Mr.D.M.N.Pushpakumara Nilmini	B.Sc.MBS.
Manager (Mechanical)	Mr.A.K.Lasitha Edmand	B.Sc. (Engineering)
Manager (Security)	Mr.Chaminda Weeraman	
Manager (Finance)	Mrs.P.T.N.Bowatte	
Manager (Finance)	Mr.H.G.R.Wijenayake	



Act.Manager (Finance)	Mr.U.S.Madawala	HNDA, MAAT
Act.Manager (Finance)	Mr.H.M.P.B.Herath	HNDA, FM(ABE)UK, PgD.Fin MBA (UK)
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 (Boossa)	Mr.M.D.C.Sampath	BA
Reg.Manager (Ampara)	Mr.U.P.H.Uluwaduge	B.Sc
Reg.Manager (Bandarawela)	Mr.D.H.Rajapaksha	M.Sc. (Forestry), B.Sc.
Reg Manager (Kurunegala)	Mr. U.S.M Fernando	BA (sp)
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 (Rathnapura)	Mr.H.L.Nandana	B.Sc., MBS.
Reg.Manager (Jaffna)	Mr.Sri Skandharasa	
Reg.Manager (Minneriya)	Mr.H.P.S.Dissanayake	BA
Reg.Manager (Matara)	Mr.W.I.Saranga	B.Sc. (Hon.)
Reg.Manager (Kandy)(cover up)	Mr.D.A.Hendavitharana	
Reg.Manager (Nuwaraeliya)(cover up)	Mr.W.D.P.G.Jayasekara	
Reg.Manager (Nuwaraeliya)(cover up)	Mr.Sunil Jayarathna	

DEPUTY MANAGERS

Dy.Manager (Designing & Quality Assurance) K'mulla	Mrs.E.M.M.Fernando	
System Analyst	Mr.W.H.A.Chandrakumara	B.Sc.
Dy.Manager (HR)	Mrs.H.P.Perera	
Dy.Manager (Legal)	Mrs.K.I.D.P.Kariyawasam	LLB, Attorney at Law
Dy.Manager (Finance) Boossa	Miss.A.L.W.Thushari De Silva	HNDA, MAAT
Dy.Manager (F) N'-Eliya, K'Pola	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 (F) Monaragala, B'wela	Mr.A.J.Pushpakumara	B.Sc. (Bus.Admin), MA.
Dy.Manager (Finance) Minneriya	Mr.M.D.P.M.Dissanayake	B.Sc. (Acc), MBS.
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) HO	Mr.S.M.Hewage	B.Sc, Bus.Admin (Bus. Econ.sp), MBS.



Dy.Manager (Finance) Kurunegala	Mr.S.H.I.Prasad	B.Sc.Bus.Admin (Bus. Econ.sp), MBS.
Dy.Manager (Finance) HO	Mr.D.K.G.G.Pushpakumara	B.Com., MBA, MAAT, PgD. Acc.& Fin.
Dy.Manager (Marketing)	Mr.W.D.A.S.Thilakarathne	
Dy.Manager (Timber grading & auction)	Mr.D.P.K.S.G.Samarawickrama	B.Sc. (Mkt.Mgt.)
Dy.Manager (Timber supply)	Mr.B.A.Nalin Desappriya	
Dy.Manager (Furniture Design)	Mrs.H.M.T.S.Abeyrathne	B.Desing (Hon.) MBA
Dy.Manager (Timber sawmill)	Mr.M.P.N.Aruna Shantha	B.Sc. (Bus.Admin.)
Dy.Manager (Investigation)	Mr.S.A.D.Niroshan	B.Sc. (Bus.Mgt.)
Dy.Manager (Mechanical Engineering) K'mulla	Mr.M.K.M.Athhar	B.Tech.
Dy.Manager (Quality Assurance)Boossa	Mr.H.M.L.E.Gunasekara Herath	B.Sc.
Dy.Manager (Quality Assurance), Ampara	Mr.W.M.I.H.Weerasooriya	B.Sc.
Dy.Manager(Production) (HO)	Mr.I.M.I.S.K.Wickramasinghe	PgD.Fin.& Mathematics, B.Sc.
Dy.Manager (Purchasing & Shipping)	Mrs.H.D.S.Sandamali	B.B.Mgt.(HR) Sp., DIP PCA.

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 (Matara)	Mr.K.Chandrasena	
DRM (Colombo)	Mr.E.M.A.K.Edirisinghe	
DRM (Colombo)	Mr.S.B.Udagedara	BA
DRM (Matara)	Mr.P.Hettiarachchi	B.Sc.
DRM (Rathnapura)	Mr.S.A.Manoj Thushara	
DRM (Kurunegala)	Mr.R.P.P.D.Jayasinghe	
DRM (Anuradhapura)	Mr.S.M.Siriwardana	
DRM (Ampara)	Mr.R.C.Saman Kumara	
DRM (Minneriya)	Mr.M.W.W.B.Mudannayaka	
Act.DRM (Rathnapura)	Mr.H.R.M.S.Gunasekara	



CHAIRMAN'S REVIEW



M.S.KARUNARATHNE

Chairman.

I am pleased to report that State Timber Corporation delivered strong financial results in what was yet another tough year. Despite facing severe external shocks back-to-back over the past three years, I am deeply proud of how the State Timber Corporation has navigated its way towards delivering significant performance. This I believe is a testament to our dynamic strategy, the resilience and agility of our business, as well as the ability and willingness of our people to push ahead against all odds.

Our prudent actions and measures across the financial year have resulted in Corporation revenue of Rs. 4,743 million followed by a profit before tax & levy of Rs.1,016 million for the financial year ended 31st December 2022. Furthermore, business functions of State Timber Corporation remained resilient amidst the macroeconomic and monetary challenges. The exceptional financial performance of the Corporation is despite the COVID-19

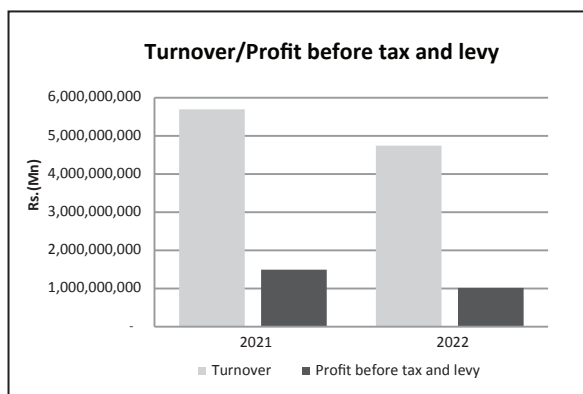
pandemic and the economic crisis in Sri Lanka. The recent economic upheaval is the worst calamity the country has experienced: a result of fast depleting foreign exchange reserves, currency devaluation, severe inflation, and higher interest rates amidst the country's struggles to repay its external debt obligations.

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 2022 we continued to invest in our staff in the form of training and development programs aimed at improving skills and competency of employees who are committed in serving our customers at the highest possible level while achieving targets of the corporation.

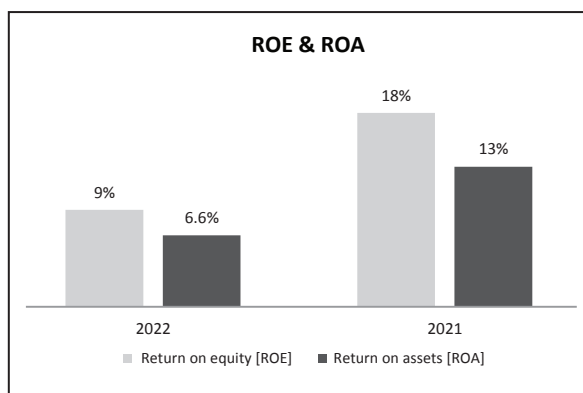
FINANCIAL PERFORMANCE

Under the economic recession in 2022, the corporation recorded revenue of Rs. 4,743 million during the financial year 2022 which is 17% decrease compared to Rs. 5,696 million in the previous year. However, It is remarkable that even in this backdrop; State Timber Corporation was able to record a profit before treasury levy and tax of Rs.1,016 million and profit after tax of Rs.636 million in 2022. Thus, profit before treasury levy and tax and profit after tax decreased by 32% and 48% respectively, compared to the figures reported in 2021. However, as a state owned corporation we are proudly contributed Rs.320 million levy to the treasury during this hard time period.





Similarly, Return on Average Assets (ROA) before tax declined to 6.6% in 2022 from 13% in 2021, while Return on Average Equity (ROE) after tax declined from 18.3% in 2021 to 8.3% in 2022. Main reasons behind this drop are significant difficulties arose due to the economic crises. Nevertheless, all the asset and equity has given the biggest contribution to generate the income. It reveals that the corporation maintains an appropriate working capital management policy.



THE ROAD AHEAD

The outlook for Sri Lanka in the short to medium term is likely to remain volatile, whilst long term stability will be predicated on an enabling political environment, and the implementation of a debt restructuring program with the support of the International Monetary Fund. Nonetheless, I remain cautiously optimistic about the future, as we hope that recent events will usher in a new political culture and

sound economic management principles which would augur well for Sri Lanka's long-term prosperity.

Whilst the defensive nature of our business portfolio should insulate us to a certain extent, I am confident that our strong balance sheet and organisational capabilities would give us opportunities to gain share through inorganic expansion. Whilst we will continue to have a growth mindset, we are clear eyed about the challenges we face and will take proactive measures to ensure we remain competitive.

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, 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. Special thanks are also go to the General Manager/CEO and all the staff members on behalf of the Board of Director for their contributions, their knowledge, and skill and, above all their unstinted loyalty and dedication on our voyage to success. We do not expect 2023 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



M.S.Karunaratne

Chairman.

State Timber Corporation.



GENERAL MANAGER/CEO REVIEW



Dr.N.D.RUWANPATHIRANA
General Manager / CEO

Presenting to you the State Timber Corporation Annual Report for 2022 gives me tremendous pleasure as it did for the years before. Despite the ambiguity and difficulties brought by the outside environment, the year under review saw consistent performance. Similar to previous year, State Timber Corporation has shown that it is ready for challenging circumstances and ability to overcome them. Amid unmanageable debt, rising inflation, fluctuations in the rupee, and fast declining foreign exchange reserves, Sri Lanka's economy remained unstable while the nation dealt with the epidemic. At this time, Sri Lankans from every socioeconomic class have to deal with hardships that never before seen. We will continue to support our country's citizens in their demand. We think that starting an IMF program, supported by a stable political and policy environment, will lead Sri Lanka toward economic recovery. However the nation's economy will face hurdles in the short- and medium-term.

AS A TRUE LEADER IN THE TIMBER INDUSTRY

As a prioritize leader in the timber industry, our dedicated teams stepped up and worked together to ensure the trust of our nation by offering our services at the best level. We strengthened our system by collaborating more closely and effectively with the employees of State Timber Corporation as well as our esteemed customers over the 54 years of time period from the beginning.

In addition, STC continued its efforts to support and uplift the timber production and sale by addressing the response needs of changing environment. Therefore still STC is the absolute leader providing most trusted and best quality timber and timber based products in the country. We are still managing island wide operational network with 12 regional offices, 51 depots, 9 showrooms, 3 timber complexes and 3 Furniture factories.

Recently, STC committed at the best to face all the hardship raised as a result of the economic and fuel crisis. Despite the challenging year, State Timber Corporation was able to execute its strategic initiatives effectively whilst continuing its action plan to adapt for changing market conditions with continuous barriers.

A RESILIENT PERFORMANCE

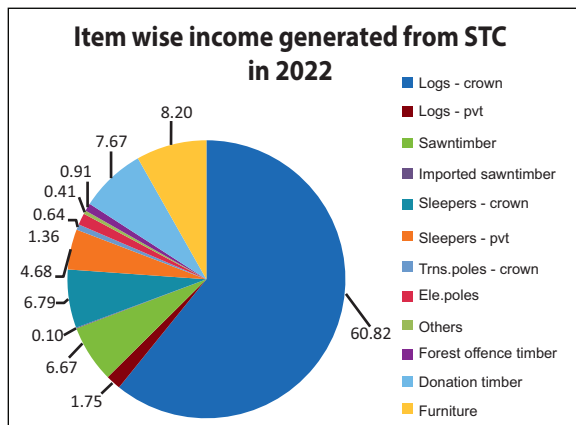
STC was able to adapt its portfolio on changing market conditions. Results of the strategic focus of STC is evident in the resilient performance delivered over the current financial year.

End of the year 2022, we achieved our targets and expanded capacity levels. 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. STC declared cumulative revenue of Rs. 4743 million at the financial year ended in 2022. However 2022 is a victory year with earning the highest profit of 1016 million while facing all the challenges.

On our success of completion the year 2022, we were able to earn this year with a net profit before tax of Rs. 1016 million whereas the previous year recorded a profit of Rs. 1496 million. Although we were unable to chase more extra profit as per the previous year we did due to the facing current obstacles, we were able to bear our cost of expenses such as administration expenses and finance expenses. STC have to bear Rs. 1039 million as the administration expenses and Rs. 955 million as the selling and distribution expenses.

The main reason for the decrement of the profit is the transportation cost raised due to the high fuel prices. Not only that but also the prevailing economic crisis is highly influenced to institutional cash flow in the considerable time period of 2022. When considering the item-wise turnover of the year 2022, logs provided the highest income than others.



NATIONS TRUST PRODUCTS

STC offers top quality timber and timber products of logs, sawn wood, sleepers, fence poles, transmission poles, elephant poles, and furniture. STC was the main provider of state timber supplier in Sri Lanka up to the

date. Although competing with other wood companies is difficult, STC consistently wins the hearts of the nation by offering reliable, high-quality goods. We generally supply logs to the Moratuwa woodworking sector as the state timber trading institute. Over the years, our primary reliable clients who have bought our sleepers, elephant poles, fence poles, and transmission poles have been the Railway Department, Wild Life Department, and the Ceylon Electricity Board. And our dependable consumers are still drawn to our high-quality furniture. We got favorable comments for our furniture products.

ACHIEVEMENTS

State Timber Corporation is an organization comprising permanent staff with 1500 employees and earn about 4.7 billion rupees as annual revenue. In the reporting year, during the fuel and economic crisis, corporation can be able to achieve a profit before tax of Rs.1016 million. Appreciating these types of achievements, the State Timber Corporation was able to receive the best awards at award ceremonies organized by the National Chamber of Industry of Ceylon and National Chamber of Commerce for the manufacturing and service industries at the national level. STC has been awarded with National Business Excellence Gold Awards for many years throughout the past 54 years of history.

COMMITMENT TO CSR

Through CSR initiatives, a social goal that extends beyond generating the revenue has been accomplished. The Research Development & Training Division has consistently taken on these activities because they are committed build strong partnerships with both our institute and the community.

A total of Rs. 3,855,849 was spent on training programs in 2022 by the State Timber Corporation's Research, Development, and

Training Division. 861 employers in all were hired for 70 training programs and 3 online international training programs have offered for 16 officials. And also the NVQ programmes also held on related to the timber industry. In addition to those 404 trainees were trained through the external training programs. Additionally Research & Training Division of STC carries out research in accordance with the Institute's business requirements as well as the new knowledge and materials required by society to address the problems that arise in those areas.

Awareness programmes were held by the RDT Division of the institute. To share the knowledge with the external community always try to publish research papers through the symposiums and publishing other articles. Total of 6 articles, 2 research papers, 4 journal articles, etc. were published in 2022.

One of the key duties of the State Timber Corporation's Research, Development, and Training Division is to identify timber using the most up-to-date technology by investigating anatomy of the interior tissue components of the timber used to identify the timber. Each year, this results in the issuance of 150–200 certificates of wood identification and other reports to governmental and non-governmental groups. In addition to identifying the wood, tests such as the strength tests MOR, MOE, Compression, Density, Tension, Durability tests were done. Preservation was done by using Boron, CCB preservatives.

Additionally, the State Timber Corporation has 28 nurseries spread across the 14 regions of STC. Saplings were produced by the nurseries of State Timber Corporation and distributed for various tree planting programs in 2022. STC collaborated with the SLAAS and conducted a "Little Forester" program in 2022 at Weerasuriyakanda Kanishtha Vidyalaya,

Wewaldeniya. Except to the plants, the set of agricultural equipment and a collection of STC publications (Sustainable Forest Management, Biodiversity, Timber architecture, leaflets about different tree species) were donated to the school.

OUTLOOK AND PROSPECTS

The year in question highlights State Timber Corporation's unmatched resiliency and the benefits of a targeted approach that helped. It navigate the difficult path given by the pandemic period. We must draw lessons from our past and use them to operationalize our strategy as we traverse the upcoming years. The country's near-term view suggests that our operational environment will be under strain owing to unmanageable debt, foreign exchange liquidity, inflation, rising interest rates, and currency depreciation, posing extremely difficult problems for both individuals and businesses.

As Sri Lanka's economy dropped the industries like the timber industry also influenced highly. Despite these obstacles, the State Timber Corporation was able to deliver a strong performance in the year. As STC initiates on cost optimization to maximize value, strengthen the focus on volume-driven growth in the production of wood products, agile the team management, and build our experience and knowledge while navigating the business complexities of 2022. STC will launch projects on the export timber, and the purchase machineries. After removing the barriers existing for export pine and ebony furniture will hopefully export in the future.

Since Pinus has exceptional wood characteristics, STC is presently concentrating on local and foreign markets for Pinus timber products while investing value additions to diversify product lines. Future goals mostly center on improving the furniture industry while increasing revenues. Innovative

pine wood products will increase society's financial, environmental and conservational goals. To elevate the quality goods STC places innovative approaches on harvesting processes, seasoning and preserving techniques, as well as grading procedures.

Additionally, the finger joint unit has to be improved. The product will attempt to export in the near future since most nations like such goods. ISO certification for all the furniture products including the finger joint products is expected to take for Keppetipola and Ampara factories in coming year. In addition the targets of STC action plan will fit future market fluctuations with combination of ISO standards.

APPRECIATIONS

I acknowledge that our ability to stay resilient is not an easy part without the guidance the Board of Directors of STC. Therefore I would want to use this occasion to show my gratitude for the efforts made by the Chairman, Board of Directors, Management, and working staff to maintain success. My deepest thanks are extended to our esteemed consumers who also built a foundation over the deplorable situation. We are proud to be their prime agent for wood and wood-based products, and we stand ready to assist them by supplying them with distinctive items to the best of our ability.

Finally, I would like to express my sincere gratitude to the Hon. Minister for the Ministry of Wild Life & Forest Resources Conservation, Secretary of our Ministry and helpful staff, and also the Conservator General of Forests and the staff of the Forest Department for their unwavering support and cooperation. I wish to take this opportunity to thank each of them for their guidance and wise counsel. I'm grateful to the State Timber Corporation family, whose courage, feeling on the institute, innovativeness, and tireless work ensured that we continue serving our communities across

the nation. I would finally like to extend our deep appreciation to our valued customers for always keep trust on us.



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 center 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 DIRECTOR – 2022

 **Mr. M.S.Karunaratne**
Chairman
State Timber Corporation

 **Dr.K.M.A.Bandara**
Director
Conservator General of Forest

 **Mrs.S.A.C.Kulathilaka**
Director
Treasury representative

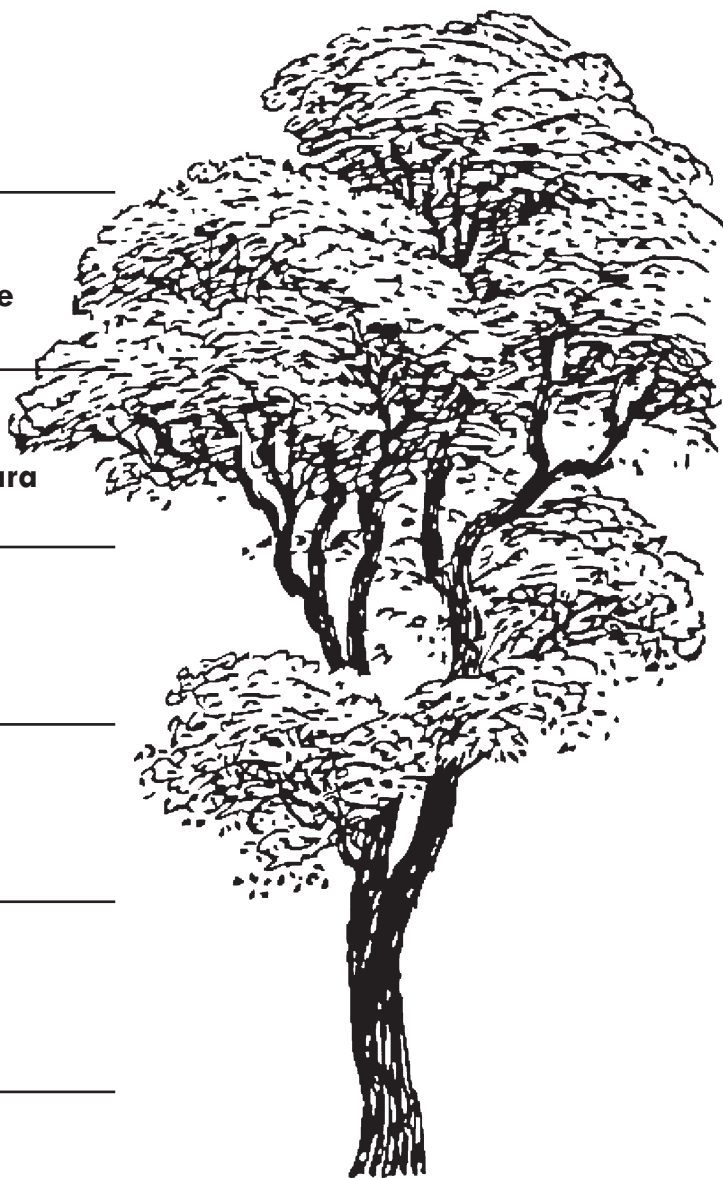
 **Mr.B.T.Bandara Dissanayake**
Director

 **Mr.M.R.Ajith Kumara Bandara**
Director

 **Mr. P.D.B.Basnayake**
Director

 **Mr.D.G.S.Dasanayake**
Director

 **Mrs.K.I.D.P.Kariyawasam**
Board Secretary



SENIOR MANAGEMENT TEAM – 2022



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



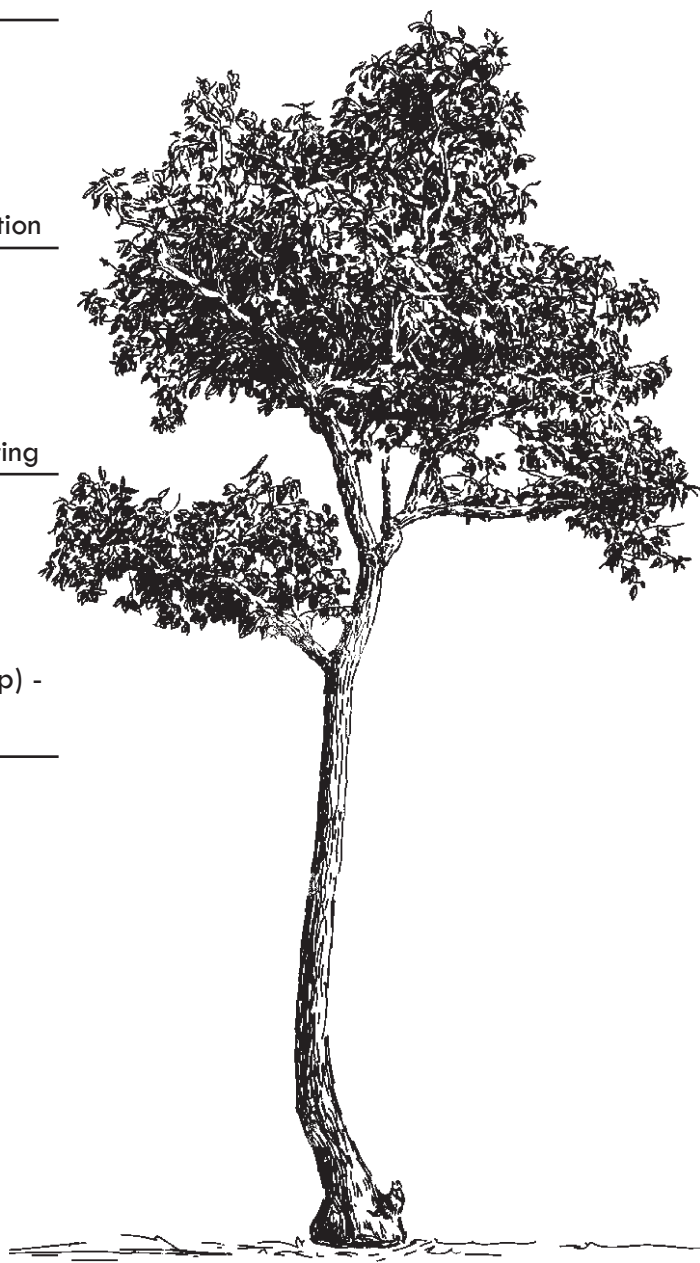
Mr.W.B.Samantha

Deputy General Manager - Marketing



Mr.G.G.Thisara Gamage

Deputy General Manager (Cover up) -
Engineering & Production



BOARD OF DIRECTORS' REVIEW FOR THE YEAR - 2022

The Directors have pleasure in presenting their Report and the Audited Financial Statements of the State Timber Corporation for the year ended December 31, 2022.

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 year under review has been one of steady performance amidst uncertainty

and unparalleled challenges posed by the external environment. However, similar to our previous years State Timber Corporation has demonstrated its readiness and ability to rise through difficult conditions.

Whilst the country navigated the pandemic, Sri Lanka's economy remained volatile amidst unsustainable debt, rising inflation, currency fluctuations and rapidly depleting foreign exchange (forex) reserves. More recently, Sri Lankans across all social strata have endured unprecedented levels of hardship. However, the challenges to the national economy will continue in the short and medium-term.

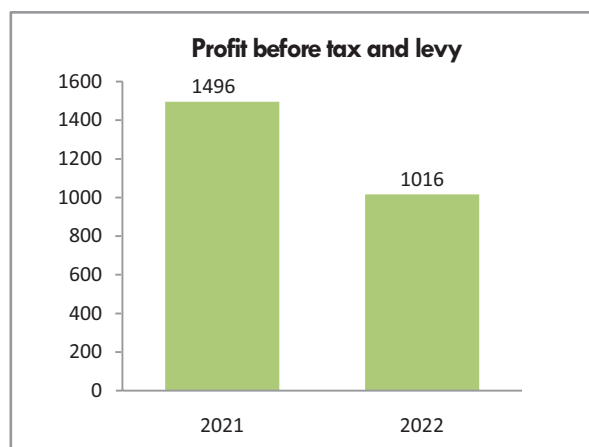
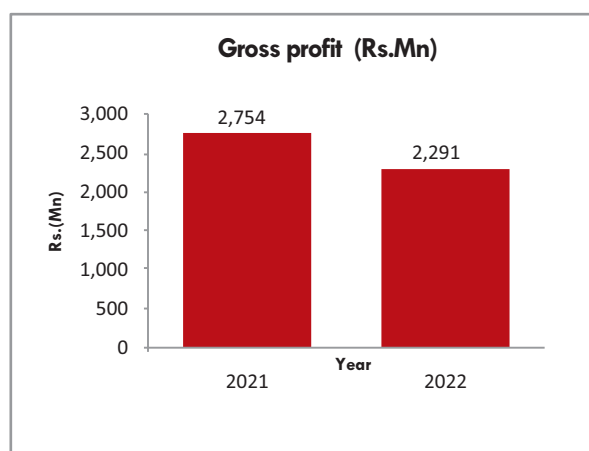
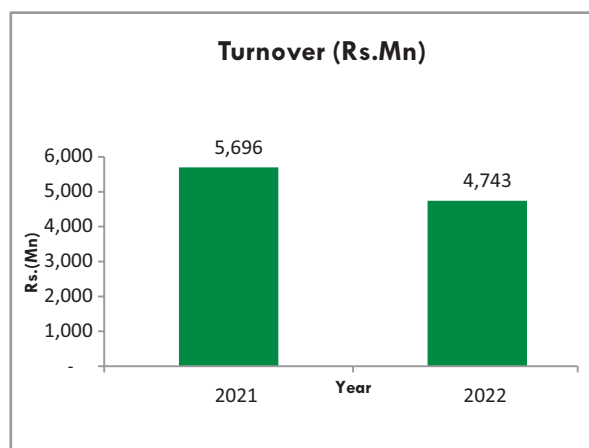
Notwithstanding these challenges, initiatives on cost optimization to maximize value, high focus on volume driven growth, agile management of teams, building on the experience and knowledge acquired while navigating the business complexities of 2022 drove the State Timber Corporation to deliver a solid performance in the year under review.

Financial Highlights

Economic crisis had a significant impact on consumer behavior and on the performance of our product categories. However, the State Timber Corporation recorded revenue of Rs. 4,743 Million, a decrease of 17% over the previous year. Gross Profit of Rs. 2,291 Million was reported, reflecting a decrease of 17% compared to previous year.



Performance	2021	2022
	Rs.Mn	Rs.Mn
Turnover	5,696	4,743
Gross profit	2,754	2,291
Profit on operation	1,245	330
Non-operating income	251	686
Net profit before tax & levy	1,496	1,016



STC generated Rs. 1,016 million profits before tax and levy for the year under review which is 32% decrease compared to the previous year net profit before tax and levy. 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.1,776 million was incurred as employment cost in 2022 even under economic recession assuring employment safety. Total no of permanent employees in year 2022 was 1,500 and 1606 in 2021.

Return on assets and return on equity for 2022 and 2021 are as follows,

Performance	ROA	ROE
	%	%
2022	6.6%	8.3%
2021	13.4%	18.3%

Return on Average Assets (ROA) before tax decreased to 6.6% in 2022 from 13.4% in 2021, while Return on Average Equity (ROE) after tax decreased from 18.3% in 2021 to 8.3% in 2022. The Corporation's contribution to the Government revenue for the period under review was Rs. 2,387 million which includes Rs. 320 million levy paid to treasury.

Production

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

Accordance with government rules and regulations, prepare coupe classification

checklist, scientific timber extraction, systematic timber seasoning and preservation techniques, systematic establishment, installation and maintenance of all the machineries, sophisticated recruitment and development process are highly considered as strategies those support to achieve desired goals and objects in a sustainable way. We are legitimately responsible for sustainable forest management

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

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

Extraction of timber from state forests

The Forest Department has released forest plantation according to national forest management plan to extract timber such as Teak, Eucalyptus, Pinus, etc. The forest management areas released for extraction

of trees in the year 2021 and 2022 are as follows.

Species	Clear Felling (Ha)		Thinning (Ha)	
	2021	2022	2021	2022
Teak	541	450	490	300
Eucalyptus	160	100.4	238	110
Pinus	265	47.53	-	-
Kaya	-	-	244	181
Akashiya	35	18.4	-	-

Conversion of logs into sawn timber

During the year 2022, 3,432 m³ sawn timbers have been produced by the saw mills and 3,441 m³ has been sold out by the island wide STC depots as against the 3,924 m³ production of year 2021.

Treatment of transmission poles and sleepers

During the year under review 34,113 numbers of sleepers and 10,448 numbers of elephant poles treated in the STC treatment plants at Kaldemulla, Keppetipola and Boossa. Production of sleepers has been increased during the year under review by 17.4% compared to last year. Production of transmission poles and elephant poles have been significantly dropped during the year due to low demand of the Ceylon Electricity Board and Department of Wildlife compared with past years production of 1,837 and 10,448 units respectively.

Manufacturing of furniture

STC furniture plants at Ampara, Boossa and Kaldemulla have been produced Rs. 292 million worth furniture during the year 2022. Furniture worth Rs. 428 million (including taxes) has been sold during the year through STC showrooms located in Rathmalana, Kandy, Rathnapura, Thalalla, Ampara, Boossa, Bandaraela & Battaramulla.

Production, sales and revenue 2021-2022

		Production		Sale Volume		Sale Value (Including Tax)	
		2021	2022	2021	2022	2021 Rs.Mn	2022 Rs.Mn
Logs	M3	127,698	103,121	141,556	102,491	4,929	3624
Sawn Timber	M3	3924	3,432	3137	3,441	309	373
Sleepers	No.	29,049	34,113	29,002	30,969	287	603
Trans. poles	No.	2,624	1,837	2,729	2,312	30	34
Elephant poles	No.	11,913	10,448	17,412	11,219	104	71
Round poles	No.	97,846	78,528	101,880	82,602	12	12
Fire wood	M3.	86,971	93,785	70,075	75,710	49	69
Fence post	No.	151,893	84,911	164,913	80,985	22	13
Furniture	Mn	389	292	-	-	390	428

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.

The near-term outlook of the country indicates that our operating environment will continue to be under pressure due to unsustainable debt, foreign exchange liquidity, inflation, increasing interest rates and currency devaluation, resulting in extreme challenges for citizens and corporates alike.

Amidst this backdrop, the State Timber Corporation, guided by our purpose and underpinned by our financial stability, will focus on strengthening our leading positions in

timber market while being agile to respond to the external environment. 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



M.S. Karunarathne

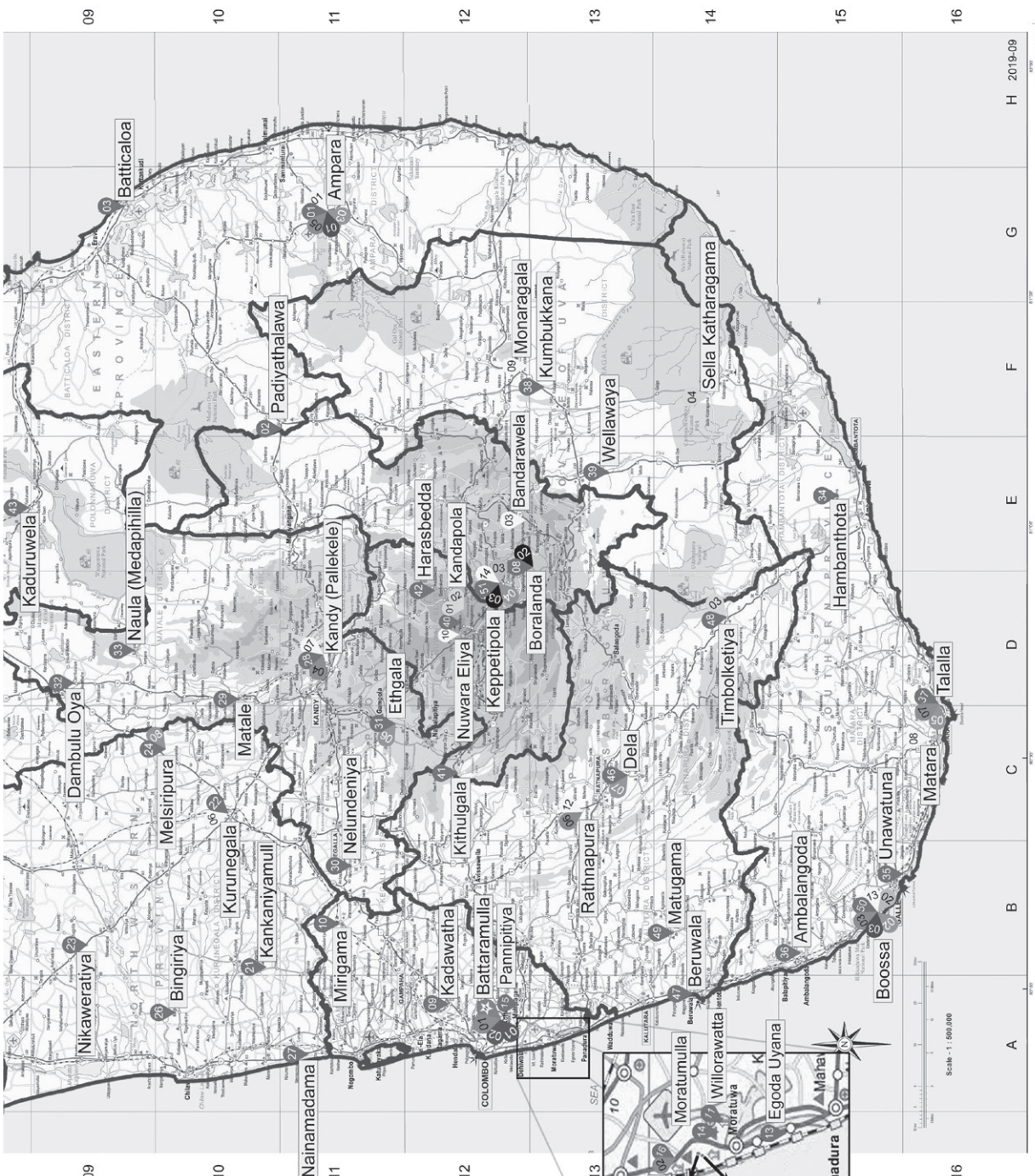
Chairman

State Timber Corporation.

OUR REACH

LOCATION MAP - STATE TIMBER CORPORATION





- 38 Kumbukkana Depot (F13)
- 39 Wellawaya Depot (E13)
- 40 Nuwara Eliya Depot (D12)
- 41 Kithulgala Depot (C12)
- 42 Harasbedda Depot (D12)
- 43 Polonnaruwa Region
- 44 Kaduruwella Depot (E08)
- 45 Minneriya Depot (E08)
- 46 Rathnapura Region
- 47 Dela Depot (C13)
- 48 Beruwala Depot (A14)
- 49 Timbolketiya Depot (D14)
- 50 Matugama Depot (B14)
- 51 Boossa Region
- 52 Boossa Depot (B15)
- 53 Kappelpipola Region
- 54 Kappelpipola Depot (D12)
- 55 Nainamadama
- 56 Mirigama
- 57 Nelundeniya
- 58 Kithulgala
- 59 Nuwara Eliya
- 60 Harasbedda
- 61 Kandy (Pallekele)
- 62 Kappelpipola
- 63 Boralanda
- 64 Monaragala
- 65 Kumbukkana
- 66 Wellawaya
- 67 Sella Katharagama
- 68 Hambanthota
- 69 Talala
- 70 Mataraka
- 71 Unawatuna
- 72 Boossa
- 73 Ambalangoda
- 74 Beruwala
- 75 Matugama
- 76 Rathnapura
- 77 Dela
- 78 Moratumulla
- 79 Willorawatta
- 80 Egoda Uyana
- 81 Panadura
- 82 Kaldemulla
- 83 Rathmalana
- 84 Dehiwala
- 85 Colombo
- 86 Kaldemulla - TTTI (A13)
- 87 Head Office - IT (A12)
- 88 Laboratories
- 89 Head Office (A12)
- 90 Mechanical Workshops
- 91 Kaldemulla (A13)
- 92 Boralanda (E13)
- 93 Kappelpipola (D12)
- 94 Sawmills
- 95 Kaldemulla (A13)
- 96 Boossa (B15)
- 97 Ampara (G11)
- 98 Kappelpipola (D12)
- 99 Talala (D16)
- 100 Ethgala (C11)
- 101 Dela (C13)
- 102 Melsiripura (C10)
- 103 Seasoning and Impregnation Plant
- 104 Kaldemulla (A13)
- 105 Boossa (B15)
- 106 Kappelpipola (D12)

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 is officially 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 Company. 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.S.A.C.Kulathilaka – Chairperson, Dr.K.M.A.Bandara – Member and Mr.B.T.Bandara Dissanayake – Member. All the Deputy General Managers and functional heads attend meetings by invitation. The Audit Committee Report on pages 126 to 127 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 Company 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 Company to manage its risk are set out in its report on Risk Management on pages 128 to 132. 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 133 to 141.

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

Composition of the Committee in 2022

Mrs.S.A.C.Kulathilaka - Chairperson

Dr.K.M.A.Bandara - Member

Mr. B.T.Bandara Dissanayake - Member

Meetings held in 2022 - 04

Areas of focus in 2022



Purpose/objectives of the committee

The Audit and Management Committee is setup primarily to assist the Board in discharging its responsibilities and exercises overall independent oversight functions in relation to the accuracy and integrity of financial statements, compliance with legal and regulatory requirements, internal control systems and risk management, internal and external auditors' independence with the view to safeguarding the interests of 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 prescribed requirements 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, whereas ensuring Corporation's assets are appropriately safeguarded.
- Monitoring the internal audit function including execution of the Audit Committee approved Annual Audit plan
- Ensuring the independence and effectiveness of the external auditors
- Consider the findings arising from the annual financial statements audit.
- Recommend to the Board on the approval of the Integrated Report, Audited Annual Financial Statements and Interim Report.

Activities in 2022

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

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 implications of economic condition of the country. During the year, the Committee regularly reviewed cash flow projections and funding arrangements.

♦ **Compliance**

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

♦ **Internal Audit, Risks and Controls**

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

The Committee regularly investigated on the adequacy and effectiveness of internal controls within the corporation.

These comprise updates on internal audits conducted. Further, this process includes an update on compliance with the established policies and procedures of the corporation and also compliance with laws and regulations.

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

♦ **External Audit/Government audit**

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

S.A.C.Kulathilaka

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 2022 had been a very challenging year. 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:

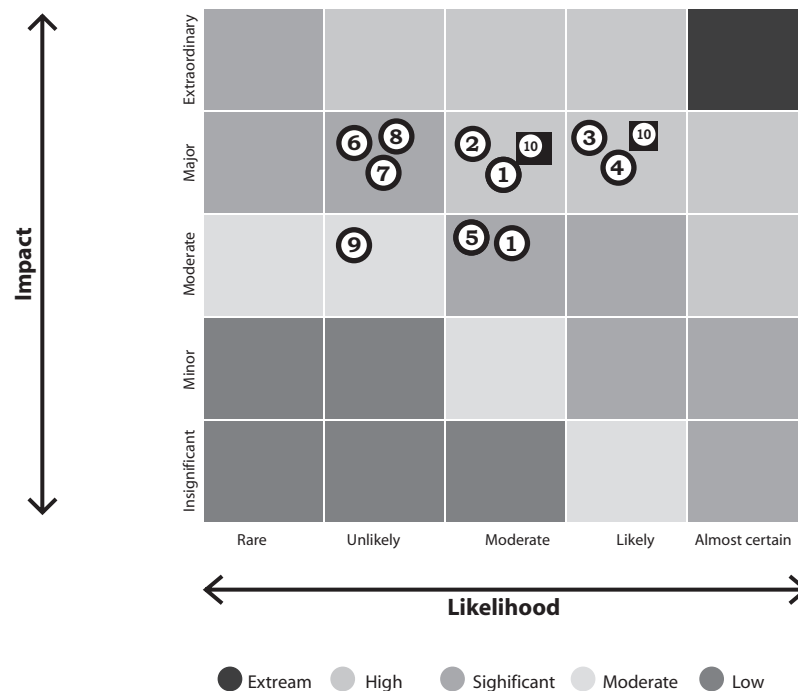
- Do nothing further
- Consider risk treatment options
- Undertake further analysis to better understand the risk
- Maintain existing controls
- Reconsider objectives

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 Minimization 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 optimize the return on the equity	Maintaining low gearing rate & effective working capital Management
Business Risk Management		
3. Credit Risk	To minimize 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

4. 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
5. 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
6. 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.
7. Human Capital and Labour Risk	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
8. 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.

9. 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 Customer Relationship Management programme in our showrooms.
10. 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.



Distribution of saplings and contribution to tree planting programmes

The State Timber Corporation maintains 28 nurseries in 14 Regions and produce saplings of valuable timber and other forest species. The saplings are also distributed free of charge to various government and non-government organizations by the Research Development and Training Division. STC expects to popularize timber species to sustain the local timber industry and to enhance biodiversity via tree planting programmes. Moreover, combating climate change via improving terrestrial carbon stock, increasing island's tree cover and strengthening rural economy are the major objectives of the programmes. STC is addressing Sustainable Development Goals (SDGs); our thematic area is Sustainable Timber Industry.

Totally, 68,603 saplings were distributed for various tree planting programs in 2022 while 65,468 saplings had been produced by the nurseries of State Timber Corporation in year 2022. Followings are the highlights of the sapling distributing.

- ♦ Environment Protection Unit, Sri Lanka Police - 30000 saplings
- ♦ Ministry of Environment - 5400 saplings
- ♦ Lake House - Associated Newspapers of Ceylon Limited - 1650 saplings
- ♦ Green Harvesting Movement - 3000 saplings
- ♦ Ajith Rajapaksha Foundation - 2250 saplings
- ♦ Divisional Secretariats (Islandwide) - 4732 saplings
- ♦ Local councils (Islandwide) - 1545 saplings
- ♦ Schools (Islandwide) - 2918 saplings





Tree planting programme collaboration with Environment Protection Unit, Sri Lanka Police



Donating saplings to TV Derana for tree planting programmes

“The Little Forester Programme” - 2022

Sustainable Management of Forest resources is one of the hot topics around the globe. The Sri Lankan community is also highly concerned about environmental protection, however, our public does not absorb sustainability concepts well. Moreover, public awareness of “Forester” is lacking, who does not recognise the profession. Therefore, it is vital to organize a more influential programme addressing “Sustainability” and “Forester” concepts with continuous monitoring.

State Timber Corporation and Sri Lanka Association for the Advancement of Science (SLAAS) Section B (Agriculture and Forestry) jointly organized “The Little Forester Programme 2022”. The Forest Department of Sri Lanka also supported to the programme. The school children are the easily accessible group to implement the programme.



“The Little Forester Programme” in Weerasuriyakanda Kanishtha Vidyalaya, Wewaldeniya

This programme in 2022 was launched in Weerasuriyakanda Kanishtha Vidyalaya, Wewaldeniya. Except for the tree planting activity, a set of agricultural equipment and a collection of STC publications (Sustainable Forest Management, Biodiversity, Timber architecture, leaflets about different tree species) were donated to the school. The school students were responsible to maintain the planted saplings at least six months while all maintenance/ observation should be recorded

in the provided field hand book.

Information on Internal training programmes

STC put its maximum effort to develop competency of the employees through various training programmes. Timber Technology Training Institute (TTTI) is the training arm of the corporation, which provides trainings in vast areas. TTTI is registered under Tertiary and Vocational Education Commission (TVEC): registered no P01/0365.

Conducted/ personally participated training programmes	No of programmes	Target group	No of employees
Establishment code (TTTI)	01	Managers/ Management Assistants of divisions of head office	80
ISO 9001:2015 Quality Management system	03	Selected staff of Boossa Complex ISO internal Audit Team of the head office	75
AutoCAD – Furniture designing	01	Production Assistants of Boossa and Ampara Furniture factories	05
Resource Efficiency and Circular Economy	01	Managers of divisions of the head office	10
Online Factory System	01	Manager of furniture factories and data entry operators	30
Training on Sawmilling (TTTI)	01	Staff of STC sawmills	46
Computer Training (TTTI) /IT division	04	Management Assistants	29
Softwood and Bamboo preservation	01	Manager and dipping units and Vacuum-Pressure treatment plants of Boossa, Keppetipola complexes and Bandarawela Region.	15
Knowledge Management	01	Managers/ Management Assistants of divisions of the head office.	10
Marketing and Communication (TTTI)	01	Showroom (Furniture) Manager and showroom staff.	30
Stock Management and Organizing	01	Stock keepers of the head office and Kaldemulla complex.	05
Maintenance of Diesel Generator	01	Engineering Assistants of Kaldemulla Complex.	01



Conducted/ personally participated training programmes	No of programmes	Target group	No of employees
Disciplinary Procedure	01	Junior/ Middle Managers	122
Fire and Safety training	01	Various designations in STC head office	70
Key Performance Indicators (KPI)	01	Managers of STC head office	30
Stock Management	01	Stock keepers/ Management Assistant	04
Human Resource Mgt.	05	Various designations	15
English	04	Various designations	09
Consultancy	02	Various designations	01
Accounting	01	Deputy Managers	01
Import and Export Process	01	Managers of STC head office	25
Training for drivers	01	Drivers of the head office	24
Consultancy for Psychology (TTTI)	01	Various designations in Kaldemulla complex	40
Auditing	01	Audit officers of STC Island wide	34
SWOT analysis and motivation	01	Various designations in the head office	100
Laborer law	01	Managers of HR & Admin division	06
Diesel generator	01	Diesel generator operators	10
Fire training	01	Various designations in Boossa complex	25
Business Management and ICT	01	Manager in IT division	06
Postgraduate degrees/ degrees/ post graduate diploma/ certificates (Provided by external institutes based on employees' personal requests)	27	Various designations	28
Total	69		886

Total number of training programmes/ workshops in year 2022 - 69

Total number of employees - 886

Total cost - Rs.3,855,849/=

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 an online platform as follows.

Institute	Programme	No of programmes	Number of employees
NAFGA (National Academy of Forestry and Grassland Administration) China	Seminar on Import and Export Management and Protection of Endangered Species for officials from Developing Countries	01	05
	Seminar on Sustainable Forest Management and Development for officials from Developing Countries	01	07
	Seminar on Pomiculture Techniques for officials of Developing Countries	01	04
Total		03	16



*Training on NVQ wood craftman –
Ampara furniture factory*



*Fire and Safty training –
Head office Battaramulla*



*Training on SWOT analysis and Motivation –
Head office Battaramulla*



*Training on safe driving for STC drivers –
Head office Battaramulla*

Information on External training and awareness programmes

STC engages with public and private sector to provide awareness on timber and forestry

related disciplines. Timber Technology Training Institute (TTTI) plays a vital role in external training programmes. Followings are the provided training opportunities for external parties.

Institute	No of Students/officers
Sri Lanka Forest Collage	27
Advanced Technological Institute, Galle	30
Ranaviru Resource Centre	34
University of Sri Jayawardenepura	103
Tertiary and Vocational Education Commission (NVQ)	47
A/L students of Zonal Education, Giriulla	55
University of Moratuwa, Department of Architecture	35
Sri Lanka Air Force Head Quarters	13
Naval and Maritime Academy	20
Divisional Secretariat - Thalawa	40
Total	404



Training on wood identification and sustainable use of timber for Sri Lanka Army



Training on wood preservation for students of Advanced Level, Bio-System Engineering scheme in Giriulla Educational Zone

Contribution to NVQ assessments

Timber Technology Training Institute (TTTI) of STC has collaborated with National Apprentice and Industrial Training Authority (NAITA) to conduct NVQ final assessments for NVQ level 3 and 4 for National Vocational Qualification on Wood craftman. During the assesment, TTTI facilitates to the NAITA appointed students and assesors to conduct the assesment by provideing raw material, tools and equipments and location. The programme was initiated end of the year; 19 students were assesed in 2022.



NVQ-RPL final assesments are conducted in TTTI, Kaldemulla: collaboration with NAITA

Timber-related research studies in 2022

The Research Development and Training Division carried out several timber-related research studies which were published as research articles in journals' conference abstracts, and symposia. The findings of these studies are vital for students and researchers in wood and forest sciences, as well as STC practices in field applications.

The followings are the published studies.

Journal papers

C. K. Muthumala, Sudhira De Silva, P. L. A. G. Alwis and K. K. I. U. Arunakumara. 2022. International Wood Products Journal, Strength index-based timber classification of Sri Lankan timbers and potential for finger-joint production from wood off-cuts, Taylor and Francis <https://doi.org/10.1080/20426445.2022.2117929>

C. K. Muthumala, K. K. I. U. Arunakumara, Sudhira De Silva and P. L. A. G. Alwis. 2022. Evaluation of the Flexural Strength and Failure Modes of Seven Types of Finger Jointed Wood Species, J Fail. Anal. and Preven. 22, 680–689 (2022). <https://doi.org/10.1007/s11668-022-01358-0>

Wijayawardene, N. N., Muthumala, C. K. et al. 2022. Necessity of a National Fungarium and a Culture Collection for Fungi in Sri Lanka, Chiang Mai J. Sci. 2022; 49(2): 248-271 <https://doi.org/10.12982/CMJS.2022.027>

C. K. Muthumala . 2022. Anatomical Study of Mangrove Timber Species in Sri Lanka, The Sri Lanka Forester, Vol.41, Forest Department, p-87-102.

Abstract papers in symposia and conferences

R. S. Brahmanage, N.N. Wijayawardene, C. M. Nanayakkara, C.K. Muthumala, S. Wijesundara, D.Q. Dai and K.G.S.U. Ariyawansa. 2022. Investigation of Eucalyptus Foliar Pathogens in Sri Lanka, International Conference on Development and Utilization of Fungal Resources, China

C.K. Muthumala, K.K.I.U. Arunakumara, Sudhira De Silva, P.L.A.G. Alwis and S.M.J.P. Dayawansa. 2022. Shrink index-based timber classification and finger joint production, International Conference on Sustainable Built Environment 2022.

Exhibitions

STC actively engaged popularizing sustainable use of timber; thus STC participated to the exhibitions improve the knowledge of public.

1. Architects 2022 Exhibition in BMICH
2. Exhibition in The Department of National Zoological Garden, Dehiwala



Exhibition in the Department of National Zoological Garden, Dehiwala



Architects 2022 Exhibition in BMICH

Technical support for External parties

The Research Development and Training Division provide technical support for external institutes to solve timber-related matters. For instance, procurements of purchasing furniture; setting up specifications for wooden articles; consultation of use of timber, etc. Thus, in 2022, STC assisted the following institutes/ programmes.

1. Contributed to the 2050 Carbon Net Zero Road Map and supported to prepare of strategic plan to the Ministry of Environment
2. Participated to the steering committee for sustainable fuel wood for the Sri Lankan Tea industry
3. Technical support to NAITA to prepare of NCS & curriculum for the organization of sport wood products
4. Contributing to Wood Science and Timber Technology consultation for the students of Forest Collage of the Forest Department.
5. Curriculam revision on Forestry and Wood Science in University of Sri Jayawardenepura

Timber identification and issuing timber reports

The Research Development and Training Division utilize 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 2022.

The number of tested samples for timber identification was 163 and total number of issued reports were 158.

Description of the reports	Number of reports
Timber identification	79
Timber Moisture inspection	24
Wood density test	17
Boron test	09
CCB test	03
Strength properties of timber	04
Others (Technical reports and by field visits)	22
Total	158



Investigation of the strength properties of timber by Universal testing Machine in Wood Science laboratory of State Timber Corporation

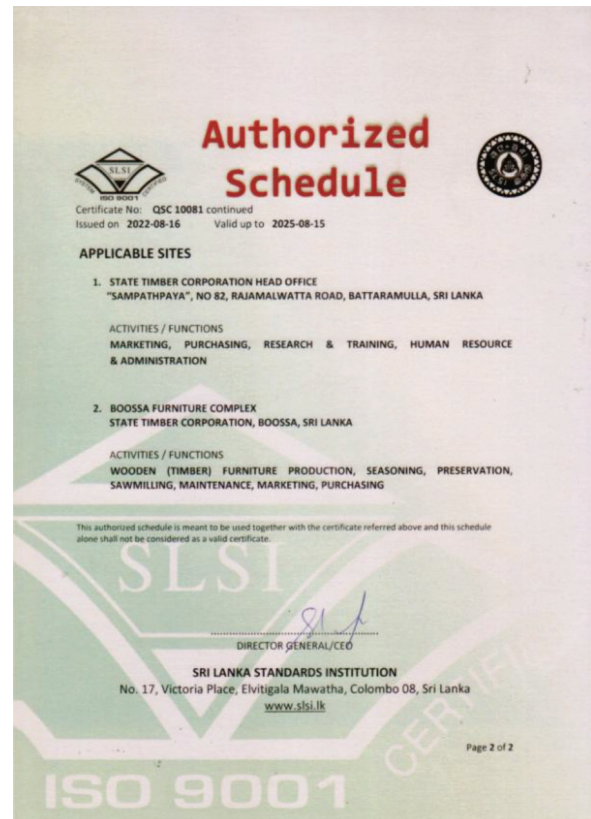
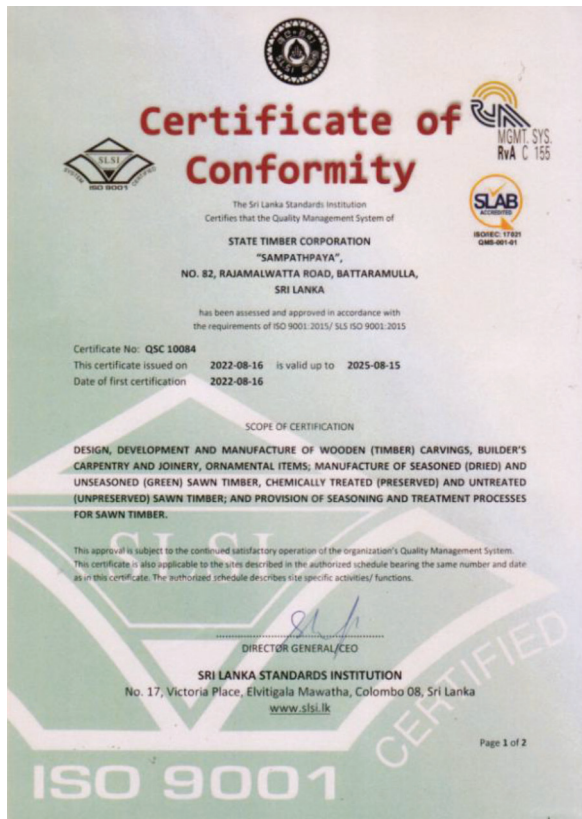
Establishment of ISO 9001:2015 Quality Management System

STC won the ISO 9001:2015 Quality Management System certificate for its Boossa furniture complex. The certificate is vital to enhance STC reputation in both local and international market, which supports the furniture exports. The applicable sites are Boossa furniture complex and STC head

office Head office: Marketing, Human Resource Management, Research, Development and Training, Purchasing and Design.

while followings are the included processes;

Boossa: Sawmilling, seasoning, preservation, component manufacturing, storing



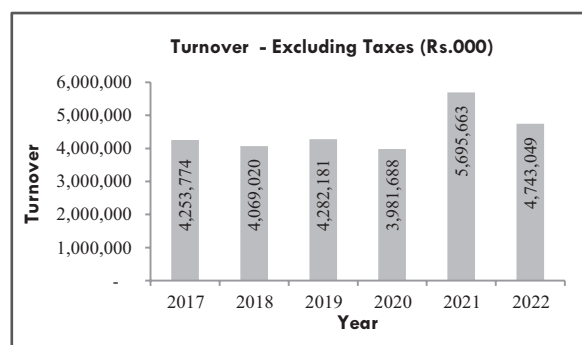
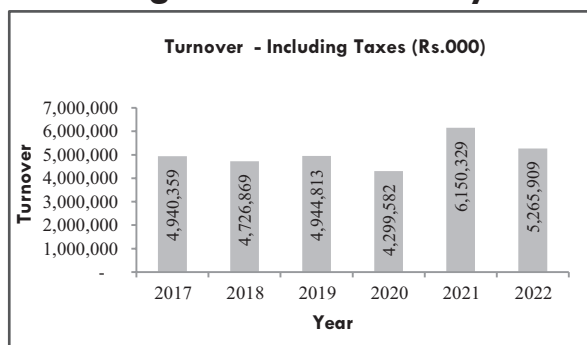
Preparation of Pine video documentary

A video documentary was prepared on pine wood to aware public and students about pine plantation in Sri Lanka, properties of pine wood and their applications. The documentary was prepared by Research, Development and Training Division and Marketing division of the State Timber Corporation.

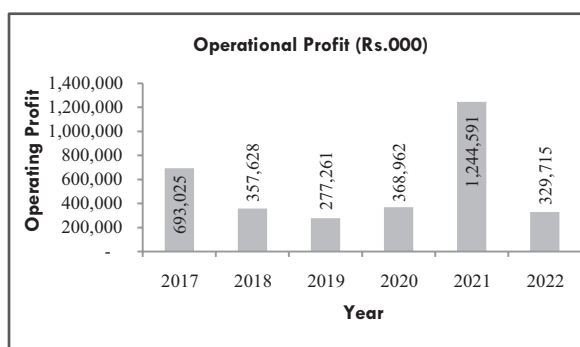
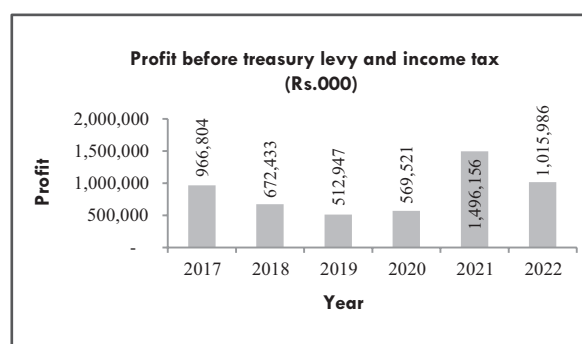
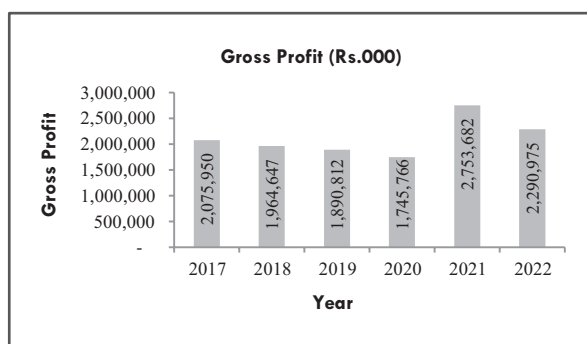


BUSINESS SUMMERY

Income growth trend analysis

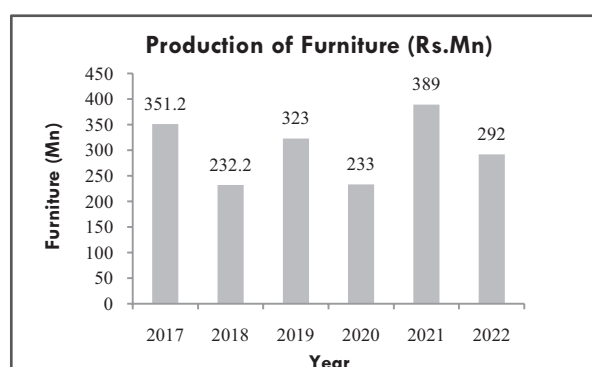
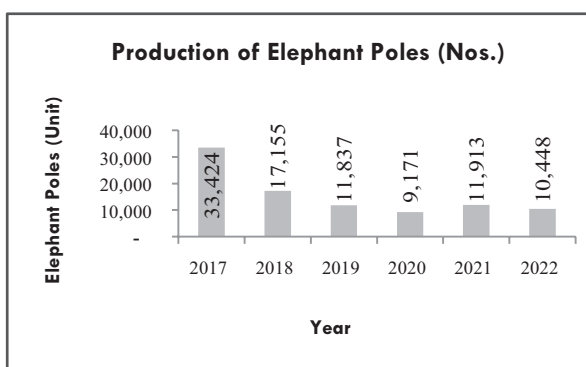
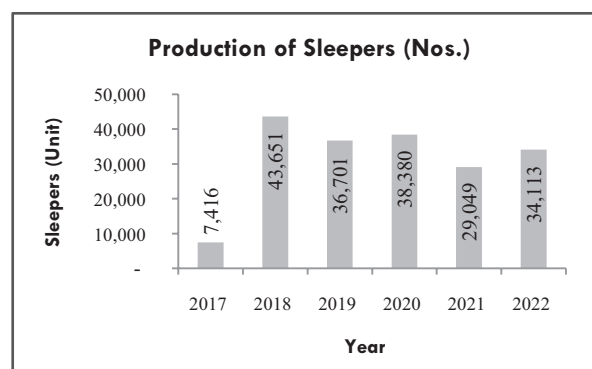
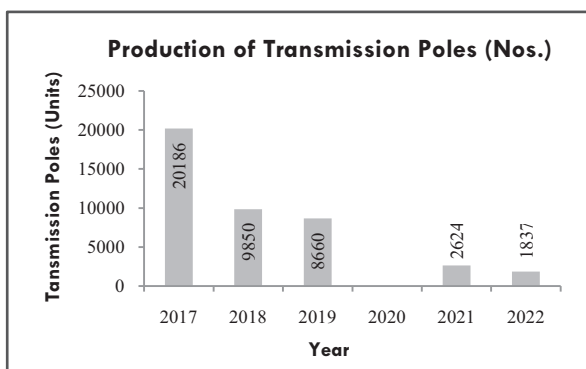
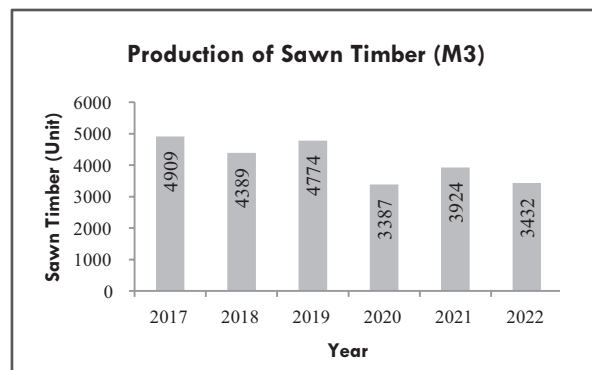
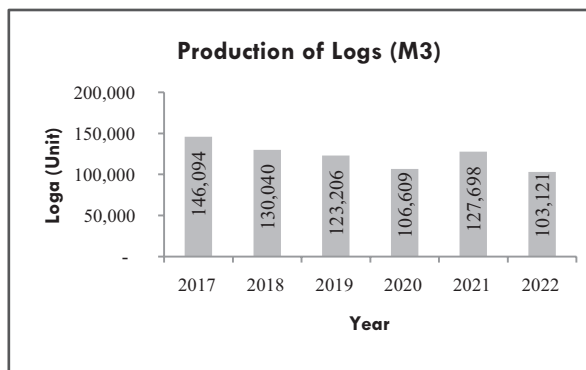


Profit growth trend analysis



BUSINESS SUMMERY

Production growth trend analysis



Capital Expenditure - 2022

Description (more than 02 million)	Rs.
Renovation Head office	19,433,488
Boiler building expand-Ampara furniture factory	2,903,992
Staking shed - Kandy Region	3,793,890

Investment

	31-12-2022	31-12-2021
Government ins. Treasury Bond	731,832,197	346,843,350
State mortgage and investment bank	241,353,882	232,747,814
Land reclamation and development (Pvt) Ltd	500,000	500,000
People's bank	1,900,333,483	1,828,073,777
Bank of Ceylon	1,805,915,239	2,606,347,769



DECADE AT A GLANCE (ABSOLUTE VALUES)

		2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total revenue for the year	Rs. '000	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	5,465,421
Gross profit for the year	Rs. '000	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	2,290,975
Net profit before interest and tax	Rs. '000	382,337	427,222	768,699	659,732	966,804	672,433	512,947	569,521	1,496,156	1,015,986
Total cost of employment	Rs. '000	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	1,776,363
Capital expenditure for the year	Rs. '000	332,870	115,132	244,929	113,675	94,637	116,034	319,485	104,712	126,547	47,998
Non current assets as at end of the year	Rs. '000	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	2,391,511
Current assets as at end of the year	Rs. '000	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	7,196,775
Current liabilities as at end of the year	Rs. '000	1,050,258	1,591,991	1,480,966	897,087	1,234,716	1,047,668	967,481	985,365	1,791,411	1,423,068
Non current liabilities as at end of the year	Rs. '000	384,831	484,649	424,854	499,373	852,292	812,441	714,022	836,197	659,200	500,063
Equity as at end of the year	Rs. '000	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	7,665,155
Contribution to the consolidated fund	Rs. '000	50,000	25,000	50,000	175,000	100,000	100,000	50,000	511,026	100,000	320,000
No. of permanent employees as at end of the year	NOS.	2,139	2,186	2,145	2,125	2,083	2,001	1,803	1,708	1,606	1,500
Key performance indicators											
Net profit before tax to equity	%	11.32	11.92	19.45	16.54	22.85	14.43	9.26	10.42	22.14	13.25
Net profit before Fin. Changes & tax to total assets	%	7.94	7.55	13.12	12.25	15.30	10.31	7.10	7.82	16.25	10.60
Current ratio	Times	3.00	2.52	2.78	4.07	3.58	4.33	4.80	5.40	3.93	5.06
Equity : Asset ratio	Times	0.70	0.63	0.67	0.74	0.67	0.71	0.77	0.75	0.73	0.80
Return on assets	%	3.78	3.64	6.31	0.66	3.84	6.59	12.19	8.00	6.91	14.04
Total revenue growth	%	(11.13)	16.89	10.00	9.44	2.40	(3.75)	3.40	(5.13)	37.16	(16.73)



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தேசிய கணக்காய்வு அலுவலகம்

NATIONAL AUDIT OFFICE



My No.FWL/A/STC/FA/01/2022/63

04 July 2023

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 2022 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 2022 comprising the statement of Financial Position as at 31 December 2022 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 Corporation as at 31 December 2022 and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

අංක 306/72, පොල්දූව පාර, මත්තරමුල්ල, ශ්‍රී ලංකාව



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1.2 Qualified Opinion

-
- (a) According to Paragraphs 31 and 51 of Sri Lanka Accounting Standard 16, assets should be revalued to show their fair value as at the reporting date in the financial statements and the residual value and the useful life of such assets should be, at least, reviewed once every financial year. However, the Corporation had not taken steps to revalue the present market value of the lands which were acquired by the Corporation since the year 1968 and shown in the financial statements as Rs.91,657,617, and to review the useful life of fully depreciated property, plant and equipment of Rs.844,535,194, which were further in use.
- (b) According to the accrued concept and Paragraph 09 of Sri Lanka Accounting Standard 18, the received or receivable revenue should be measured by taking into account the fair value. However, except for Rs.299,435 recovered only from one person as per the directive of the Committee on Public Accounts dated 22 April 2022 and the decision of the Board of Directors to immediately recover the loss of Rs.2,994,536 caused in the Halmillewa Teak site, the remaining value of Rs.2,695,083 had not been identified as a receivable income of the year under review. Accordingly, the revenue and the current assets of the year under review had been understated by that amount.
- (c) Although 03 court cases, with a compensation value of Rs. 2,008,710, and four cases in which the compensation value had not been identified, were filed against the Corporation, these cases were incorrectly disclosed in the financial statements as being filed by the Corporation. Furthermore, no action had been taken to identify the contingent liabilities and contingent assets in accordance with Paragraphs 28 and 34 of the Sri Lanka Accounting Standard 37.
- (d) Without an approved journal voucher, a sum of Rs. 11,072,773 was transferred from the retained earnings to the employees' revolving credit fund as the interest on staff loans.
- (e) According to the report of the special stock verification conducted as of 31 July 2022, no action had been taken to account for rejected sleepers, electricity poles, and 757 units of fence posts costing Rs. 2,622,900 at the Kaldemulla furniture complex as part of the remaining stock.

- (f) Even though the closing stock should be valued at the cost or net realizable value, whichever is less, according to Paragraph 09 of Sri Lanka Accounting Standard 02, timber logs and sawn timber with a realizable value of Rs.11,244,320 reserved for auctions in two regional offices had been valued at their cost. As a result, the stock value had been overstated by Rs.1,707,159 in the financial statements.
- (g) Since the net realizable value of the stock costing Rs.303,526,109 of nine regional offices was Rs.259,462,014, the shortfall value of Rs.44,064,096 should have been stated under the expenditure and the cost of Rs.303,526,109 should have been stated under the sales cost as per the Paragraph 34 of Sri Lanka Accounting standard 02. Nevertheless, net value of Rs.259,462,014 had been adjusted to the sales cost, and as a result gross profit and the other expenditure each had been understated by Rs.44,064,096.
- (h) Although the First in – First out (FIFO) method is the stock computation policy of the Corporation, there were very old timber in the timber depots. After carrying out age analysis of those old timber, the stock should be computed according to the rates related thereto. However, some stocks of timber had been computed under the rates assessed for the sawn timber of the year 2022. Accordingly, it was not possible to confirm that the stock of sawn timber stated in the financial statements as at the end of the year under review was accurate.
- (i) In the computation of sawn timber auction stock belonging to the Keppitipola depot by the end of the year under review, the stocks of 40,068 Square Decimeters in 73 lots related to the year 2022 had been computed at the unit rates of the year 2021, thus understating the closing stock by Rs.1,501,748, and the stocks of 1,275 Square Decimeters in 02 lots related to the year 2021 had been computed at the unit rate of the year 2022, resulting in the overstatement of the closing stock by Rs.47,787. As a result, the total auction stocks of the Keppetipola depot had been understated by Rs.1,453,961.
- (ii) No action has been taken to ascertain whether the court proceedings related to 148,178 square decimeters of timber logs, involving crimes, that have been exiting the Ampara furniture manufactory since the year 2009, have concluded and to account for them by entering into the stock books.

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 2022 Annual Report of the Corporation, which is expected be submitted to me 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 2022, 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 Ministry's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant

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

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

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

2. Report on Other Legal and Regulatory Requirements

- 2.1.1 National Audit Act, No. 19 of 2018 includes specific provisions for following requirements.
- 2.1.1. Except for the effect of the matters described in the Basis for Qualified Opinion paragraph, I have obtained all the information and explanation that required for the audit and as far as appears from my examination, proper accounting records have been kept by the Corporation as per the requirement of Section 12 (a) of the National Audit Act, No. 19 of 2018.
- 2.1.2 The financial statements presented by the Corporation are consistent with the preceding year as per the requirement of section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- 2.1.3 The financial statements presented includes all the recommendations made by me in the previous year as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018 except for the observations in Paragraphs (a), (b), (e), and (h) of the basis for Qualified Opinion section of my report.
- 2.2 Based on the procedures performed and evidence obtained were limited to matters that are material, nothing has come to my attention;
- 2.2.1 to state that any member of the governing body has any direct or indirect interest in any contract entered into by the Corporation which are out of the normal cause of business as per the requirement of section 12 (d) of the National Audit Act, No. 19 of 2018.

2.2.2 to state that the Corporation has not complied with any applicable written law, general and special directions issued by the governing body of the Corporation as per the requirement of Section 12 (f) of the National Audit Act, No. 19 of 2018, except for the following observations.

Reference to Laws, Rules, Regulations and Management Decisions etc. -----	Description -----
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	
i Financial Regulation 110	The Record of Losses and Damages of the Corporation had not been maintained in an updated manner.
ii Financial Regulation 1646	Although the officer in charge of the vehicle should submit the daily running chart of the month along with the original copy of the monthly summary of the tours to the Auditor General through the head of the department before 15th day of the month following the month in which he submits the report, daily running charts of 39 vehicles pertaining to the years 2021 and 2022 had not been submitted to the audit.
(b) Paragraph 6.6 of the Public Enterprises Circular No.1/2021 dated 16 November 2021	Although the draft annual report and the financial statements should be submitted to the Auditor General within 60 days from the end of the year of accounts, the draft annual report of the Corporation for the year 2022 had not been submitted.

- | | | |
|-----|---|---|
| (c) | Public Administration Circular
No.26/92 dated 19 August 1992 | Although the stenciling of the Government emblem on the government vehicles had been made mandatory, the Government emblem had not been stenciled on the Corporation's vehicles. |
| (d) | Public Enterprises Circular
No.1/2015 dated 25 May 2015 | |
| | i Paragraph 3.1, 3.2.1 and
3.2.2 | Although the officers who are entitled to the official vehicles should be provided with a monthly fuel quantity as an allowance, the fuel allowance had been provided as an imprest on monthly reimbursement basis. In cases where the imprest was insufficient, expenditure had been incurred obtaining advances, and subsequently, approval had been obtained therefor. The most of tours related to it were observed to be personal tours. |
| | ii Paragraph 3.1 | Although the maximum amount of fuel that the Chairman, who held office in 2020 and 2021, can use is 170 liters, he had used 03 vehicles and obtained 705 liters in excess at 875 liters per month. Further, contrary to the provisions of that circular, the officers had driven the office vehicles during that period and got the running charts prepared by the drivers. |
- 2.2.3 to state that the Corporation has not performed according to its powers, functions and duties as per the requirement of section 12 (g) of the National Audit Act, No. 19 of 2018, except for the following observation.

Duties, Powers and Functions

Observations

Extraordinary Gazette No.178/10
dated 05 February 1982.

The Corporation had failed to establish a sufficient system control method to carry out the import of wooden-based finished and partly finished items, which is one of its objectives.



- 2.2.4 to state that the resources of the Corporation had not been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws as per the requirement of section 12 (h) of the National Audit Act, No. 19 of 2018, except for the following observations.
- (a) Due to disregarding the deposit of 15 percent made to the Divisional Secretary in the year 1987, out of the estimated amount of Rs.400,000 for the purchase of 0.5033 hectares of land on which the Kurunegala Regional Office and the timber depot of the Corporation are located, and neglecting the information given by the Divisional Secretary after in 2002, after 15 years, to acquire the land by paying Rs.12,000,000 to the owner, the Corporation had to pay a sum of Rs.32,005,946 together with compensation and the legal interest to the Divisional Secretary on an appeal court decision in the year 2019. Furthermore, the Divisional Secretary had paid only Rs.24,414,548 of that amount and retained Rs.7,591,369, and he had not taken steps to vest the relevant land in the Corporation. Accordingly, it was observed to be a matter of controversy.
 - (b) Due to the failure to supply electricity poles to the Ceylon Electricity Board on the due date in accordance with the conditions of the agreement entered into by the Corporation with the that Board for the supply of Eucalyptus electricity poles , liquidated damages had to be paid at 0.1 per cent per day subject to the maximum of 10 per cent. Accordingly, was observed that the Corporation had paid such liquidated damages of Rs.8,402,314 during the period from 2011 to 2016 due to the inefficiency of the employees.
 - (c) A Dell Laptop, a Samsung Tab and one Samsung Mobile phone used by the former Chairman of the Corporation who was in the office of Chairman from 09 January 2020 to 10 March 2022 had not been handed over to the Corporation. However, the total amount of Rs.532,949 to be recovered from the officer, including the calculated market value of Rs.529,199 and the 25 per cent expenditure to be incurred for the reacquisition had not been recovered.
 - (d) Although the electric fence was constructed in the year 2018 at a cost of Rs.993,751 to cover the Oddusudan Stores, situated in an area abundant with an elephant populace, it remained dysfunctional from the beginning. However, no action had been taken to get the fence repaired by the relevant contractor or to take steps against him. As a result, the expenditure incurred thereon had become fruitless and there was of the stores being damaged by elephants.
 - (e) There were 35 stocks (Lots) of illicit sawn timber, inclusive of 2,570 pieces, with sales value of Rs.3,420,427 retained idle in the Keppetipola deport without the forest crime numbers or issuing notice number form the forest or other written evidence.

- (f) Since the Weheran sawn machine that remained inoperative in the Borlanda stores since the year 2019 had not been repaired, it had interrupted the sawing process of logs exceeding 4 feet in diameter. Accordingly, it was observed that the sawing waste was very high due to using CHAIN SAW for that purpose.
- (g) As per the Guideline 6.2.2 of the Government Procurement Guidelines, 2006, a minimum bidding period of 21 days should be given when calling for national bids. However, for felling 1720 Teak trees in 01/008 cite covering 06 hectares in Kurunegala, Polpithigamabeets, bids had been called on 03 occasions. On two occasions, a bidding period shorter than the prescribed bidding period was given, and at the third bidding, the contract for removing the total number of trees, including already removed 290 trees, was awarded to the bidder who had been selected, but not entered into agreements during the first bidding. Therefore, this matter has become a subject of controversy.
- (h) The contract for the complete felling of Murippu Teak, covering 40 hectares, was awarded to the State Timber Corporation in November 2021 under the Mulathive District Forest Office. The site was supposed to be handed over to the Forest Conservation Department by 31st August 2022 upon completion of the work. However, due to various irregularities, such as non-completion of the felling, retaining logs without numbering, not updating the registers with correct data, incorrect documentation of the harvest, discrepancies in numbers on notices and logs, and leaving unremoved trees in different places, the Corporation has failed to complete the relevant work despite nearly 02 years elapsing by 16 May 2023.
- Furthermore, during the physical inspection conducted on 12th October 2022, all the felled timber had been removed from the site. However, the timber that was not available at the site on that day was later sent to the stores, and 87 trees measuring 815 meters in length were not received by the stores. Therefore, this matter has become a subject of controversy.
- (i) The Corporation had followed an unrealistic methodology, inclusive of 15 common criteria that cannot be equally applied to every site, for land segregation of a complete felling site. Due to applying that methodology to the MulathiveMurippu Teak complete felling site, an incorrect land segregation had been done. As a result, a higher rate had to be paid to the contractors for timber conversion, and it was observed that the officers lacked care in the performance of their duties, resulting in an increase in costs and losses sustained by the Corporation.
- (j) Although the total harvest of the MulathiveMurippu site was 1,550 sq. meters according to the estimate of the Forest Conservation Department, the Corporation had underestimated

it as 700 sq. meters by 850 sq. meters or 54.81 per cent. Furthermore, when comparing the actual harvest of the C Division of the site with the estimate of the forest conservation Department, there was an abnormal less value of 13,662 meters or 64 per cent.

- (k) Although the Corporation had estimated the number of labour hours spent for furniture manufacturing, there was no methodology put in place to evaluate the efficiency and the productivity of the labourers by comparing with the actual number of labour hours spent. Accordingly, it was not possible to confirm that the labourers had been employed efficiently and effectively.
- (l) Since the attention of the top management was not drawn on the matters such as, forecasting the production requirement, maintenance of adequate storages adopting good stock control techniques, and establishment of efficient production process, there were excess furniture stocks costing Rs.68,239,793 manufactured from the year 2012 up to 31 July 2022, 32 items of furniture worth Rs.7,152,896 that remained unsold during the year 2022 and 12 slow moving furniture items worth Rs.3,132,000, and a stock of unpolished furniture worth Rs.20,474,207 manufactured from the year 2012 to 2021 in the Boossa showroom warehouse and the manufactory.
- (m) Although employees of the Corporation were involved in the production of Finger joint furniture items, there was no proper control system in place to evaluate their efficiency and performance. As a result, there were delays in completing orders on time due to inefficiency, leading to the cancellation of an order for 1,050 boards. Furthermore, the sale of furniture manufactured using Finger joint boards was at a minimum level.
- (n) Without being appointed a formal procurement committee and a technical evaluation committee contrary to the Guidelines 2.7.7, 2.8.5, 2.11.3 and 6.3.1 (a) of the Procurement Guidelines, items worth Rs.1,101,875 had been purchased to the Bossa production complex by calling for bids through Fax on 03 occasions.
- (o) The production of furniture in the Bossa manufactory is outsourced to outside contractors on short-term work agreements, and a total of Rs. 10,322,050 had been paid to 69 contractors during the period from 2013 to 2022 for this purpose. However, due to management's failure to get the relevant works completed within the contracted period, bids had to be reissued for certain tasks, and the Corporation's employees had to be deployed to complete some of the work. As a result, excess time and additional costs had been incurred for these tasks.
- (p) Due to the failure to award contracts in the Boossa manufactory to skilled and appropriate contractors and irregular planning of the manufactory, the value of the work-in-progress over a period from 01 to 10 years was Rs. 21,689,756. Further, the value of the unused

timber stock as of 31 July 2022 was Rs. 65.5 million, resulting from the failure to identify timely requirements and implement sales promotions.

- (q) In order to reduce the stocks accumulated in the Boossa and Ampara manufactories, actions had been taken to sell timber arranged in heaps at low prices in public auctions, and the Corporation had incurred a loss of Rs. 943,300 from the sale of 49 stock lots worth Rs. 1,902,698 in the year 2020. It is observed that since the auction value of un-auctioned 191 lots, costing Rs. 49,823,171, was Rs. 21,744,180, there is a possibility of incurring a loss of at least Rs. 28,078,991
- (r) According to the proposal for the establishment of a furniture showroom in NuwaraEliya district, the Rikillagaskada town and the building situated in the town had been selected therefor based on the recommendations made by a committee consisting of two officers without being conducted a feasibility study. Accordingly, the showroom had been maintained in that building obtained on the payment of Rs.1,200,000 lease rent for a period of 15 months at a monthly rental of Rs.80,000 from March 2021. However, the showroom, which was running at a loss of Rs.9,016,761 during that period, was closed down on 18 June 2022. The income and expenditure records of the showroom were not submitted, and therefore, it was not possible to recognize, in advance, that the showroom was running at loss.
- (t) There were 16.088 cubic decimeters of illicitly sawn timber involved in forest crimes worth Rs.1,219,620 that continued to exist from the year 2019, and 158,274 cubic decimeters of stock of illicit timber logs involved in forest crimes worth Rs.1,932,541 in the Ampara manufactory without being taken required measures on the timber involved in forest crimes as per the instructions given by the Judiciary Services Commission circular No.422 dated 10 October 2018.
- (u) The quantity of timber used for the conversion in the Ampara saw mill was 3,512,926 cubic decimeters from 2019 to 2022 and the output was 1,806,397 cubic decimeters. Accordingly the waste during the timber conversion was 1,706,529 cubic decimeters or 49 per cent. It was observed that 454,496 cubic decimeters or 32 per cent of timber had been issued in excess of the requirement for various purposes, and a large stock of sawn timber consisting of 3,718,422 cubic decimeters worth Rs.295,712,614 had been piled due to the lack of an appropriate arrangement to efficiently use them.
- (v) As the partly completed 6,133 units of items worth Rs.98,476,655 of which fittings had been completed before 2018, were not completed and transferred, the Ampara manufactory faced storage issues for the remaining productions.

- (w) The Weheran machine and the Macwood machine are used for sawing timber required for the Boossa furniture manufactory. The timber waste was observed to range from 64.2 per cent to 47.3 per cent. The total timber waste generated from the years 2019 to 2022 was 857,940 cubic decimeters.
- (w) It had not been possible to recover a loss of Rs. 50,361 caused to the Corporation by a Regional Manager, who failed to take disciplinary actions against the employees charged with irregularities committed at the Gomadiyagala 01/22 Teak site in the year 2017, and the management had taken steps to grant promotions to those officers.

3. Other Matters

- (a) Due to not following a specific policy in the selection of officers for training, the same group of individuals had participated in various training programs every year. As a result, the knowledge and skills development process of the Corporation's officers was not observed to be carried out properly.
- (b) Since the Corporation did not provide the Audit with information regarding the vehicle maintenance cost of Rs. 63,777,998 and the production of sleepers worth Rs. 32,346,175, along with their sales, those expenses could not be satisfactorily vouched in the audit.
- (c) The amount due for the timber and timber-related furniture given on credit basis as at 31 December 2022 was Rs.908.87 million and it included a loan of Rs.430.86 million that remained outstanding between 01 and 03 years, and loan amount of Rs.59.85 million outstanding for 04 years and exceeding 04 years. Items of goods had been repeatedly sold on credit basis to 24 institutions that had not settled their credits and accordingly, the loan amount due from those institutions had been Rs.770,799,748. It was observed that matters such as failure to enter into agreements with public institutions, not charging 10 per cent late fees, not reporting the monthly sales and progress of the recovery by maintaining proper registers, and not maintaining the computer system in an updated manner had contributed to loans remaining unsettled.
- (d) Although the Corporation introduced a formal format for the verification of the year-end closing stock, the accuracy of the computation could not be verified since the reports had not been submitted according to the introduced format.

W.P.C.Wickramaratne
Auditor General

ANNUAL ACCOUNTS

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31st December

	Notes	2022 Rs.	2021 Rs.
Turnover	2	4,743,049,736	5,695,663,163
Less-Cost of sales	3	(2,452,074,230)	(2,941,981,641)
Gross profit on operation		2,290,975,506	2,753,681,522
Other income	6		
Operating	6.3	33,259,919	46,897,556
Non-operating	6.1	14,953,721	26,284,246
Total net income		2,339,189,147	2,826,863,324
Selling and distribution expenses	4	(955,435,355)	(652,350,206)
Administration expenses	5	(1,039,084,313)	(903,637,745)
Finance Expense		(2,844,101)	(2,663,074)
Finance Income	6.2	674,160,950	227,943,565
Profit before tax		1,015,986,328	1,496,155,864
Taxation for the year	7	(380,105,005)	(259,944,164)
Levy paid to treasury		(320,000,000)	(100,000,000)
Profit for the year		315,881,323	1,136,211,699
Other comprehensive income			
Retirement benefit surplus/(deficit) for the year	18	347,392,072	156,362,663
Other comprehensive income for the year		347,392,072	156,362,663
Total comprehensive income for the year		663,273,395	1,292,574,362



STATEMENT OF FINANCIAL POSITION

For the year ended 31st December

	Notes	2022 Rs.	2021 Rs.
ASSETS			
Non-current assets			
Property plant and equipment	8	1,309,685,438	1,475,219,895
Right of used assets	10		370,021
Intangibles assets	9	25,493	213,922
Biological assets	11	7,735,659	7,735,659
Deposits with treasury		2,966,000	2,966,000
Security deposits - staff		85,468,421	78,322,465
Investments	12.1	973,686,078	580,091,164
Prepaid staff benefit		-	-
Capital work in progress		11,944,333	14,052,217
Total non-current assets		2,391,511,422	2,158,971,343
Current assets			
Inventories	13	1,656,987,490	1,194,553,641
Trade and other receivables	14	1,742,578,098	1,175,568,840
Investments in fixed deposits	12.2	3,706,248,722	4,434,421,546
Cash and cash equivalents	15	90,961,043	244,303,348
Total current assets		7,196,775,353	7,048,847,375
TOTAL ASSETS		9,588,286,776	9,207,818,718
EQUITY AND LIABILITIES			
Capital and reserves			
Authorized		75,000,000	75,000,000
Contributed capital	16	41,503,668	41,503,668
Revenue reserves		7,129,558,552	6,282,683,017
		7,171,062,220	6,324,186,685
Staff loan revolving fund	17	494,093,306	433,020,533
Total equity		7,665,155,526	6,757,207,218
Non current liabilities			
Retirement benefit obligation	18	253,071,791	508,978,707
Security deposits - staff		85,468,421	78,322,465
Lease Liability - Operating		-	452,453
Interest bearing loans and borrowings	22	7,677,248	12,720,535
Deffered tax liability	7.2	153,845,554	58,726,137
Total non-current liabilities		500,063,014	659,200,298
Current liabilities			
Income tax liabilities	19	109,777,488	152,984,309
Interest bearing loans and borrowing	22	5,043,288	4,947,196
Trade and other payables	20	1,308,247,460	1,633,479,696
Total current liabilities		1,423,068,236	1,791,411,202
Total liabilities		1,923,131,250	2,450,611,500
TOTAL EQUITY AND LIABILITIES		9,588,286,776	9,207,818,718

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 163 to 171 and Notes on pages 172 to 182 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: 13.03.2023

STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December

	Contributed Capital Rs.	Staff loan revolving fund Rs.	Revenue Reserves Rs.	Revaluation Reserve Rs.	Total Rs.
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 for the year		15,528,472	(15,528,472)		-
Other comprehensive income			156,362,663		156,362,663
Balance as at 1st January 2022	41,503,668	433,020,533	5,829,576,396	453,106,621	6,757,207,218
Fund Transfer during the year		50,000,000	(50,000,000)		-
Transferring of stock deterioration			244,674,912		244,674,912
Profit for the year			315,881,323		315,881,323
Staff loan interest adjustment		11,072,773	(11,072,773)		
Transferring of revaluation reserve			3,700,000	(3,700,000)	
Other comprehensive income		-	347,392,072		347,392,072
Balance as at 31st December 2022	41,503,668	494,093,306	6,680,151,931	449,406,621	7,665,155,526

STATEMENT OF CASH FLOWS

For the year ended 31st December

	2022 Rs.	2021 Rs.
Cash flows from operating activities		
Cash receipts from customers	5,107,850,448	5,722,646,799
Cash paid to suppliers and employees	(5,114,966,968)	(2,985,491,312)
Cash generated from operating activities	(7,116,520)	2,737,155,487
Income tax paid	(328,192,410)	(206,222,600)
Special levy paid to the treasury	(320,000,000)	(100,000,000)
Net cash inflow/(outflow) from operating activities	(655,308,930)	2,430,932,887
Cash flows from investing activities		
Acquisition of property, plant & equipment	(47,998,119)	(126,546,711)
Biological assets		-
Investments	334,577,909	(2,522,562,785)
Income from investments	244,506,151	232,435,163
Proceeds from sales of property, plant and equipment	10,718,802	15,465,252
Work in progress	(4,526,949)	5,561,221
Staff loan Granted	(159,157,899)	
Staff loan Recovered	130,930,240	
Net cash from/(used in) investing activities	509,050,135	(2,395,647,859)
Cash flows from financing activities		
-		
Procceds from Interest Bearing loans and Borrowings	(7,083,509)	(12,118,500)
Net cash from/(used in) financing activities	(7,083,509)	(12,118,500)
Net increase/(decrease) in cash and cash equivalents	(153,342,305)	23,166,528
Cash and cash equivalents at the beginning of the year (Note-15)	244,303,348	221,136,821
Cash and cash equivalents at the end of the year (Note-15)	90,961,043	244,303,348

Notes to the Financial Statements

For the year ended 31st December 2022

1.1 Reporting Entity

1.1.1 Legal Form

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

1.1.2 Date of Authorization for Issue

The Financial Statements of the Corporation for the year ended 31st December 2022 were authorized for issue in accordance with a resolution of the Board of Directors on 13th March 2023.

1.1.3 Number of Employees

The employees' strength of the Corporation as at 31st December 2022 is 1,500 (2021-1,606).

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 2022 and for the period then ended have been prepared in accordance with Sri Lanka Accounting Standards (LKAS&SLFRS) and statements of recommended practices promulgated by The Institute of Chartered Accountants of Sri Lanka (ICASL).

1.2.2 Basis of Measurement

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

1.2.3 Functional and Presentation Currency

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

1.2.4 Use of Estimates and Judgments

The presentation of Financial Statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts



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

1.2.5 Foreign Currency Transactions

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

1.2.6 Taxation

The provision for income tax is based on the elements of income and expenditure as reported in the Financial Statements and computed in accordance with the provision of the Inland Revenue Act No.10 of 2006 Act, No.24 of 2017, No. 45 of 2022 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 derecognition 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. Stock deterioration reserve of Rs.244, 674,912 has been transferred to revenue reserve during the year 2022.

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 2022. 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 BagawanthalawaChapalton 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 filled 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 filled by The State Timber Corporation, Case No: 38804 (Rs. 2,500,000), Case No: 7036 (Magistrate Court Colombo), 5271/M (Rs. 294,275), caseNo.A/46/2021,case no.A/31/2022, case no.Lt/44/798/2022, case no.Lt/44/800/2022, case no.M/28211(Rs.300,000), case no.SC/HC/LA/35/2014 and case no.SC/HC/LA/36/2014.

Bank guarantees were issued against Bank of Ceylon fixed deposits A/C number 82509320, 823589, 88980062 and 88980012 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.

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 rates are 24% for first half and 30% for second half of the year.

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.

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

1.3.4.2 Stumpage Payment

The stumpage payment for the year 2022 has been calculated on actual felled timber volume basis.

1.3.4.3 Cost Allocation

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

1.3.5 Events Occurring After the Reporting Date

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

1.3.6 Staff Loan Revolving Fund

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

1.3.7 Statement of Cash Flows

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

1.3.8 Prepaid Staff Benefits

Staff Loan has been restated to the nominal value since 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 2020. Accordingly, the comparative information presented for 2022 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	2022 Rs.	2021 Rs.
Logs - crown lands	2,884,794,418	4,263,168,636
Logs - private lands	82,897,119	15,935,012
Sawn timber	316,315,473	250,264,064
Imported sawn timber	4,516,823	7,760,973
Sleepers - private lands	322,233,695	210,926,113
Sleepers - crown lands	222,179,959	70,546,942
Transmission poles - crown lands	30,486,691	24,358,769
Transmission poles - private lands		1,849,841
Elephant poles	64,296,744	95,848,438
Others	19,508,910	17,094,249
Forest offence received timber	43,085,239	36,889,560
Donation of timber	363,688,830	339,079,059
Furniture	389,045,833	361,941,506
Net turnover	4,743,049,736	5,695,663,163

03. Cost of Sales	2022 Rs.	2021 Rs.
Depots	1,119,895,786	1,716,182,782
Impregnation plants	327,669,060	328,568,486
Furniture plants	288,422,973	237,631,914
Wayside sales	716,086,411	659,598,459
Total	2,452,074,230	2,941,981,641

04. Selling and Distribution Expenses	2022 Rs.	2021 Rs.
Depots	683,486,152	582,852,827
Impregnation plants	153,568,450	84,463
Furniture plants	107,936,519	61,067,523
Regional managers' office and head office	10,444,235	8,345,393
Total	955,435,355	652,350,206

05. Administration Expenses	2022 Rs.	2021 Rs.
Impregnation plants	39,430,136	19,400,979
Furniture plants	88,301,548	84,317,363
Regional managers 'office and head office	904,564,888	791,517,502
Circuit bungalows	6,787,742	8,401,902
Total	1,039,084,313	903,637,745

06. Other Income	2022 Rs.	2021 Rs.
Non-operating income 6.1		
Foreign exchange gains	217,212	1,112
House rent	14,736,509	26,283,134
Total	14,953,721	26,284,246
Finance income 6.2		
Interest Income from Investment	656,461,016	209,150,787
Staff loan Interest	17,699,934	18,792,778
	674,160,950	227,943,565
Operating income 6.3		
Miscellaneous income	19,560,152	19,100,793
Fines-contractors and suppliers	384,062	289,792
Disposal income	7,785,830	11,062,237
Over provision of stock	-	-
Debtors over provision		11,307,530
Recovery on shortages and losses	1,614,881	1,408,895
Non refundable tender deposits	3,914,995	3,728,308
	33,259,919	46,897,556
Total	722,374,591	301,125,367

Analysis of other income for the year 2022

Income source	Depots	mpregnation plants	Furniture plants	Regional offices & head office	Sawmills	Circuit Bungalows	Total
Non-operating income 6.1							
Foreign exchange gains				217,212			217,212
House rent			84,900	14,651,609			14,736,509
							-
	-	-	84,900	14,868,821			14,953,721
Finance Income 6.2							
Interest income - investments				656,461,016			656,461,016
Staff loan interest				17,699,934			17,699,934
	-	-	-	674,160,950			674,160,950
					-	-	
Operating income 6.3							
Miscellaneous income	514,629		136,218	17,863,215	-	1,046,090	19,560,152
Fines from contractors and supplies				384,062			384,062
Dispol income				7,785,830			7,785,830
Over provision in doubtfull debtors				-			-
Recovery on shortage and losses				1,614,881			1,614,881
Non refundable tender deposits				3,914,995			3,914,995
	514,629	-	136,218	31,562,983	-	1,046,090	33,259,919
Total	514,629	-	221,118	720,592,754	-	1,046,090	722,374,591



07. Taxation Expenses	2022 Rs.	2021 Rs.
Current tax expenses		
Income tax on profit for the year 7.1	284,985,589	279,506,150
Over/under provision of previous year	-	(5,225,215)
	284,985,589	274,280,935
Deferred tax expense 7.2		
Origination and reversal of temporary differences	95,119,416	(14,336,771)
	95,119,416	(14,336,771)
Tax charge for the year	380,105,005	259,944,164

7.1 Income tax on profit for the year	2022 Rs.	2021 Rs.
Profit before taxation	1,015,986,328	1,496,155,864
Aggregate disallowable expenses	595,441,184	314,880,517
Aggregate allowable expenses	(879,241,564)	(497,194,849)
Profit from business	732,185,948	1,313,841,532
Non business income	689,114,672	254,227,811
Assessable income	1,421,300,620	1,568,069,343
Qualifying Payment	(320,000,000)	(100,000,000)
Taxable income	1,101,300,620	1,468,069,343
Income tax	284,985,589	279,506,150
Total	284,985,589	279,506,150

7.2 Deferred tax	Temporary difference Rs.	Tax effect (assets)/ liability Rs.
Balance as at 31st december 2021	326,256,319	58,726,137
Amount origination during the year	186,562,193	95,119,416
Balance as at 31st December 2022	512,818,512	153,845,554
Temporary difference of property plant and equipment	765,890,304	229,767,091
Temporary difference of retirement benefit obligations	(253,071,791)	(75,921,537)
Balance as at 31st December 2022	512,818,512	153,845,554

08. Property, Plant & Equipment										
Description	Cost			Depreciation						
	Balance as at 01.01.22	Additions	Disposals	* Adjustment	Balance as at 31.12.22	Balance as at 01.01.22	Disposals	Adjustment	Charge for the year	Balance as at 31.12.22
Lands	91,657,617				91,657,617	-				91,657,617
Land Improvement	53,026,162	226,000			53,252,162	32,529,739			3,510,424	17,211,999
Buildings	998,207,334	23,905,396			1,022,112,730	284,562,123			22,842,747	714,707,859
Stacking sheds and other buildings	68,759,377	3,793,890		2,756,668	69,796,599	54,135,009		135,945	5,357,452	10,440,084
Roadways and railway lines	43,213,075				43,213,075	13,084,938			2,011,669	15,096,607
Plant and machinery	766,964,145	967,559	642,720		767,288,984	605,806,879	642,715		31,668,004	636,832,168
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	8,015,167	386,838			8,402,005	6,596,663			447,762	7,044,425
Electrical equipments	29,686,556	1,754,341			31,440,897	18,631,510			2,211,044	20,842,554
Vehicles & Motor Bikes	636,032,364		6,109,457		629,922,907	257,888,406	3,176,489		123,691,665	378,403,581
Furniture and fittings	89,792,976	6,982,889			96,775,865	60,529,862			7,667,876	68,197,738
Office equipments	40,534,029	4,331,041			44,865,070	35,941,195			1,485,867	37,427,061
Computers and accessories	91,685,963	3,790,120			95,476,084	75,829,607			5,793,832	81,623,439
Miscellaneous assets	34,519,266	1,860,045			36,379,311	31,338,198			1,290,537	32,628,734
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	2,957,921,425	47,998,119	6,752,177	2,756,668	2,996,410,699	1,482,701,521	3,819,204	135,945	207,978,881	1,686,725,252
										1,309,685,438
										1,475,219,895

* The Corporation owns the cost of Rs. 844,535,194.52 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.

* The Re-State of opening balance

09. Intangible assets										
Description	Cost			Depreciation						
	Balance as at 01.01.22	Additions	Disposals	Balance as at 31.12.22	Balance as at 01.01.22	Disposals	Charge for the year	Balance as at 31.12.22	Carrying amount as at 31.12.22	Carrying amount as at 31.12.21
Computer software	5,413,211	-	-	5,413,211	5,199,290	-	188,429	5,387,719	25,493,23	213,922
Total	5,413,211	-	-	5,413,211	5,199,290	-	188,429	5,387,719	25,493	213,922

10. Right of used assets										
Description	Cost			Depreciation						
	Balance as at 01.01.22	Additions	Disposals	Balance as at 31.12.22	Balance as at 01.01.22	Disposals	Charge for the year	Balance as at 31.12.22	Carrying amount as at 31.12.22	Carrying amount as at 31.12.21
Operation Leased - Vehicle	13,690,714	-	-	13,690,714	13,320,693	-	370,021	13,690,714	-	370,021
Total	13,690,714	-	-	13,690,714	13,320,693	-	370,021	13,690,714	-	370,021



11. Biological Assets As at 31st December	2022 Rs.	2021 Rs.
Balance at the beginning of the year	7,735,659	7,735,659
Increase due to replantation		
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 As at 31st December	2022 Rs.	2021 Rs.
Investment in fixed deposits - long term		
Government - Tresuary Bond	731,832,197	346,843,350
State mortgage and investment bank	241,353,882	232,747,814
	973,186,078	579,591,164
Investment in shares		
Land reclamation and development (pvt) ltd	500,000	500,000
	500,000	500,000
Total	973,686,078	580,091,164

12.2 Investments in fixed deposits - short term	2022 Rs.	2021 Rs.
People's bank	1,900,333,483	1,828,073,777
Bank of Ceylon	1,805,915,239	2,606,347,769
Total	3,706,248,722	4,434,421,546

13. Inventories As at 31st December	2022 Rs.	2021 Rs.
Stock-in-trade	1,257,140,272	1,241,746,652
Stock deteriorations		(244,674,912)
	1,257,140,272	997,071,740
Work in progress	45,932,364	50,697,909
Stores and spares	151,331,005	109,581,397
Preservatives	154,361,610	12,912,460
Fuel and oil	19,160,876	5,122,054
Stationary stock	29,061,362	19,168,080
Total	1,656,987,490	1,194,553,641

13.1 Analysis of inventories As at 31st December	2022 Rs.	2021 Rs.
Crown land logs	584,592,104	569,516,977
Crown land sawn timber	294,871,597	322,325,921
Imported sawn timber	2,170,719	6,814,623
Crown land sleepers	32,346,175	6,434,416
Private land sleepers		5,606,678
Crown land transmission poles	885,861	7,027,408
Private land transmission poles	784,553	657,968
Wayside	19,586,359	12,575,341
Others	21,264,661	14,674,223
Furniture	300,638,243	296,113,096
Total	1,257,140,272	1,241,746,652

14. Trade and Other Receivables As at 31st December	2022 Rs.	2021 Rs.
Trade debtors	908,873,671	581,533,142
Allowance for impairment	(352,054,492)	(111,377,120)
	556,819,179	470,156,022
Staff debtors 14.2	405,760,751	382,626,133
Other debtors 14.1	48,896,341	47,297,923
Deposits and prepayments		
Advances local purchases	2,930,983	1,680,739
Advances for imports	330,311	288,757
Advances pre -payment	38,258,608	41,759,392
Advances timber supplies	38,110,127	21,823,345
Interest receivable -deposits	553,200,630	124,495,091
Returned cheques	24,641	36,579
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
Forest department	80,549,079	70,198,323
Escamp project	6,427,178	3,624,266
Bio Safety		312,000
Total	1,742,578,098	1,175,568,840

14.1 Other debtors As at 31st December	2022 Rs.	2021 Rs.
Sundry Debtors	5,013,840	7,340,930
Deposits- general	44,249,121	40,323,614
Provision	(366,620)	(366,620)
Total	48,896,341	47,297,923

14.2 Staff debtors As at 31st December	2022 Rs.	2021 Rs.
Staff receivables		
Vehicle loan	30,135,823	14,654,364
Distress loan	314,243,779	301,738,469
Electrical equipment loan	30,404	30,404
Bicycle loan	914,011	949,793
Laptop loan	21,146,514	24,935,677
Furniture loan	5,815,795	2,978,671
	372,286,325	345,287,378
Advances and other receivables		
Salaries and wages advance	12,000	29,800
Travelling advance	7,000	7,500
Advance festival	3,123,198	3,407,345
Internal debit notes	57,416	174,642
Staff recoveries	2,582,800	3,535,258
Site Clearing Expenses Receivable	20,156,809	25,570,452
Salusala textile loan	7,535,203	4,613,758
	33,474,426	37,338,755
Total	405,760,751	382,626,133

15. Cash and Cash Equivalents As at 31st December	2022 Rs.	2021 Rs.
Cash in hand	1,151,500	1,094,000
Bank of ceylon	56,425,347	24,930,186
Bank of ceylon - call deposit	33,184,196	218,079,162
Bank of ceylon - Debit Card	200,000	200,000
Total	90,961,043	244,303,348

16. Contributed Capital As at 31st December	2022 Rs.	2021 Rs.
Sri Lanka government fund	25,584,808	25,584,808
Assets taken-over from Forest Department	10,714,815	10,714,815
World bank - grant	708,202	708,202
C.A.D. british aid fund	4,495,843	4,495,843
Total	41,503,668	41,503,668

17. Staff Loan Revolving Fund As at 31st December	2022 Rs.	2021 Rs.
Balance at the beginning of the year	433,020,533	367,492,061
Staff loan interest received	11,072,773	15,528,472
Fund transfer during the year	50,000,000	50,000,000
Total fund at the end of the year	494,093,306	433,020,533
Nominal value of utilized fund balance as at 31st December	355,941,623	334,266,833
Unutilized fund balance as at 31st December	138,151,683	98,753,700

18. Retirement Benefit Obligation As at 31st December	2022 Rs.	2021 Rs.
The amounts recognized in the Statement of Financial position are determined as follows.		
Balance at the beginning of the year	508,978,707	668,235,659
Charge for the year	10,972,397	25,428,270
Interest for the year	121,254,433	53,232,021
Surplus/ deficit charge for the year	(347,392,072)	(156,362,663)
Payment/payable during the year	(40,741,672)	(81,554,581)
Balance at the end of the year	253,071,791	508,978,707
The amounts recognized in the Statement of Profit or Loss are as follows.		
Charge of the year	10,972,397	25,428,270
Interest for the year	121,254,433	53,232,021
Recognized in the statement of profit or loss	132,226,830	78,660,291
The amount recognized in the Statement of Comprehensive income as follows.		
(Surplus)/deficit charge for the year	(347,392,072)	(156,362,663)
Recognized in the statement of comprehensive income	(347,392,072)	(156,362,663)

“As at December 31, 2022 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.”

Discount interest rate	32.39%	9.70%
Salary increment rate	5.33%	2.87%
Staff turnover rate	10.74%	6.15%
Retirement age	60	62

19. Income Tax Payable As at 31st December	2022 Rs.	2021 Rs.
Balance at the beginning of the year	152,984,309	84,925,974
Payment during the year	(328,192,410)	(206,222,600)
Under/(over) provision of tax for previous year		(5,225,215)
Provision for income tax	284,985,589	279,506,150
Balance at the end of the year	109,777,488	152,984,309

20. Trade and Other Payables As at 31st December	2022 Rs.	2021 Rs.
Central bank- EPF	21,202,652	21,830,600
Labour department-ETF	2,457,060	2,532,431
Accrued expenses	282,609,994	118,670,929
Refundable tender deposits	22,212,707	27,103,739
Security deposits - except staff	125,789,403	110,725,546
Audit fees payable	4,000,000	4,000,000
Retention money	12,331,258	11,446,031
Other creditors	178,502,395	151,225,212
Conservator of Forests	605,788,853	1,100,597,119
Stumpage - Wild Life Department	50,444,632	38,320,077
Stumpage - Agriculture Department	112,802	112,802
Value Added Tax	2,795,704	46,915,213
Total	1,308,247,460	1,633,479,698

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. 1,059,093,029 trees from forest department during the year. The Corporation has also received the worth of Rs. 12,512,335.00 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	375,000

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

As at 31st December	2022 Rs.	2021 Rs.
Payable to related parties		
Department of Forest	605,788,853	1,100,597,119
Department of Wildlife	50,444,632	38,320,077
	656,233,485	1,138,917,196
Receivable from related parties		
Department of Forest	80,549,079	70,198,323
Department of Wildlife	27,383,714	8,931,746
ESCAMP Project	6,427,178	3,624,266
Ministry of mahaweli development and environment	1,731,821	1,731,821
	116,091,792	84,486,156

22. Interest Bearing Loans and Borrowings	2022 Rs.	2021 Rs.
Finance Lease		
Balance as at 1st January	21,127,311	27,753,039
On Acquisition		-
Repayment	(6,625,728)	(6,625,728)
	14,501,583	21,127,311
Lease interest in suspense	(1,781,048)	(3,459,579)
Balance at the end of the year	12,720,535	17,667,732
Current portion of Interest-bearing Borrowings	5,043,287	4,947,196
Non-current portion of Interest-bearing Borrowings	7,677,248	12,720,535
	12,720,535	17,667,732

GLOSSARY OF FINANCIAL TERMS

A

Accounting Policies

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

Accrual Basis

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

Amortization

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

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.

Accrual Basis

A finance lease is leases that transfer substantially all the risk and reward incidentalto 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.





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අංක 82, "සම්පත්පාය", රජමල්වත්ත පාර, බත්තරමුල්ල, ශ්‍රී ලංකා.

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