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ANNUAL REPORT
2013



රාජ්‍ය දැව කංකටාව
STATE TIMBER CORPORATION

45

වසරක මෙහෙවර සනිටුහන් කරමින් කැපවීම, නිපුණතාවය, දෘඪ උත්සාහය, නිර්මාණශීලීත්වය සහ මහත් ලෙදි බව තුළින් රාජ්‍ය දෘඪ සංස්ථාව ප්‍රමුඛස්ථානයට පත්ව ඇත. ආපසු හැරී බලන විට පැමිණි ගමන් මඟ පිලිබඳ අපි සැබෑවටම සතුටු වෙමු. ආභිමිචර වෙමු. නමුත්, නොනවතින ගමනක යෙදෙන්නෙමු. අපේව්‍යාකාන්තය අදාළ වඩා හෙට දිගු ගමනක ආරම්භයයි.



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years of commitment, proficiency, perseverance, creativity and passion has placed the State Timber Corporation at the forefront. We are really pleased and proud to look back our voyage of success. Yet, we will not rest and our story is far from over.



State Timber Corporation

Ministry of Environment and Renewable Energy

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Beginning

The State Timber Corporation is a state owned business organization which was established in 1968. It was incorporated by Hon. Minister of Lands, Irrigation and Power under the provisions of State Industrial Corporation Act No. 49 of 1957 and thereafter by the Gazette Notifications No. 178/10 of 5.2.1982 and Gazette No. 11907 of 26.6.2009. The initial capital of the Corporation was Rs. 2.5 million.

Today

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

We endeavour to produce the highest quality timber products with the best possible service. For the past 45 years, State Timber Corporation has been on top of the industry in timber and timber based manufacturing. Over those years we've become the accepted benchmark for Top- Class products.

- ✓ We are Quality
- ✓ We are Safety
- ✓ We are Responsible
- ✓ We are Customer Focused
- ✓ We are State Owned

Who we are



*“In every waking
moment,
sincerity commitment
and
innovative concepts
keep us going towards
the
path of success”*

Our Envisioned Future

Vision

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

Mission

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





State Timber Corporation

Ministry of Environment and Renewable Energy

FINANCIAL HIGHLIGHTS

For the year ended 31st December

2013

2012

Variance %

EARNINGS HIGHLIGHTS AND RATIOS

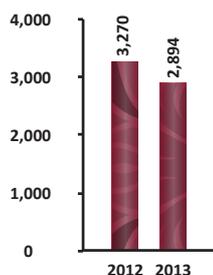
Revenue	Rs. '000	2,893,651	3,269,514	-11%
Profit before tax and levy	Rs. '000	382,337	801,681	-52%
Levy paid to treasury	Rs. '000	50,000	600,000	-92%
Tax expenses	Rs. '000	150,223	37,030	306%
Net profit for the year	Rs. '000	182,114	164,651	11%
Return on equity [ROE]	%	11.32	25.08	-55%
Return on assets [ROA]	%	7.94	18.18	-56%

STATEMENT OF FINANCIAL POSITION -HIGHLIGHTS AND RATIOS

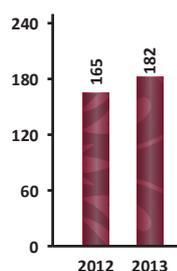
Total assets	Rs. '000	4,812,312	4,409,065	9%
Total equity	Rs. '000	3,377,223	3,195,933	6%
Total debts	Rs. '000	1,435,089	1,213,132	18%
Debt/ Equity	%	42.49	37.96	12%
Debt/ Total assets	%	29.82	27.51	8%

OTHER INFORMATION

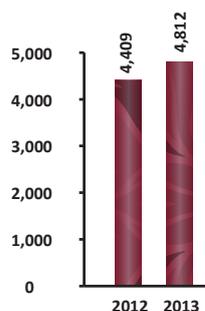
Total employees	No.	2,139	2,187	-2%
Revenue per employee	Rs. '000	1,353	1,495	-10%
Profit per employee [before tax & levy]	Rs. '000	179	367	-51%



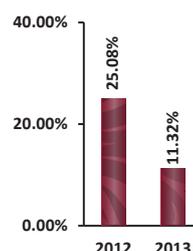
Revenue
(Rs. Million)



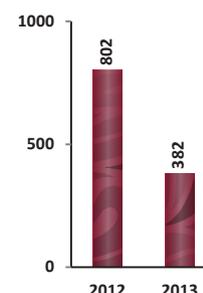
Net Profit
(Rs. Million)



Total Assets
(Rs. Million)



Return on Equity
(%)



Profit Before Tax & Levy
(Rs. Million)

CORPORATE INFORMATION - 2013

Hon. Susil Premajayantha	- Minister of Environment and Renewable Energy
Hon. Al Haj. A R M Abdul Cader	- Dy. Minister of Environment and Renewable Energy
Dr. B.M.U.D. Basnayake	- Secretary, Ministry of Environment and Renewable Energy

BOARD OF DIRECTORS - 2013

Mr. S. Amarasinghe	- Chairman - State Timber Corporation
Mr. K.H. Hettiarachchi	- Working director - State Timber Corporation
Mr. A.K.A.Y. Tharanga	- Director (Treasury Representative)
Mr. K.P. Ariyadasa (Retired on 12th November 2013)	- Director (Conservator General of Forest)
Mr. Anura Sathurusinghe	- Director (Conservator General of Forest)
Prof. Hiran Amarasekara	- Director
Mr. Champika Karunaratne	- Director
Mrs. Mary Dickman	- Director

Mr. P.G. Kumarasinghe Sirisena	- General Manager-State Timber Corporation
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AUDIT & MANAGEMENT COMMITTEE

Mr. A.K.A.Y. Tharanga	- Chairman
Mr. K.P. Ariyadasa	- Member
Prof. Hiran Amarasekara	- Member

REGISTERED ADDRESS & HEAD OFFICE

82, "Sampathpaya"
Rajamalwatta Road,
Battaramulla,
Sri Lanka.

Telephone : +94112866600-5
Fax : +94112866623
Website : www.timco.lk

AUDITOR

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

PRINCIPAL BANKER

Bank of Ceylon

FINANCIAL CALENDAR

January 1st to 31st December

TEAM OF MANAGEMENT

STATE TIMBER CORPORATION

General Manager	: P.G. Kumarasinghe Sirisena Bsc. Mgt(SP), Master of Management (HRM), Master of Business Administration, Post Graduate (A&FM), Dip. Business Management, APFA (ICA), MIOGAF, FMAAT	
D.G.M. - HR & Admin	: K. Siriniwansa	Bsc., Msc. (Forestry), Dip.(Bus. mgt), Post Grad. Dip. (Forest survey-Netherland), Dip. (Forest products research-Japan)
D.G.M. - Operation	: M.V. Karunaratne	Bsc. Dev. Stu. (Sp), Post Grad. Dip. (Mech. Wood Tech. & Prod. Mgt. - Finland)
D.G.M. - IT & MIS	: D.U. Dayaratna	Bsc. Msc.(Com. Sc)
D.G.M. - Marketing	: G. Senanayake	BA.(Econ./Stat.) Spld - Wood Industry-CSR- REMIMI in Italy
D.G.M. - R.T. & D.	: Dr. N. Ruwanpathirana	Bsc. Msc. Phd (Forestry)
D.G.M. - P & T	: H.M.G.B. Herath	NDT (Mech.) ,ECGI(UK), MIIESL, Post Grad. Dip. (Mech. Wood Tech. & Prod. Mgt. - Finland)
D.G.M. - Internal Audit	: W.W.M.J. Coorey	FCA
D.G.M. - Finance	: G.D.S. Kumarasinghe	Bsc. (Acct. Fin. Mgt.), ACA, ACMA

ASSISTANT GENERAL MANAGERS

A.G.M - Zone I	: S.S. Panduwawala	Bsc., Msc. (Forestry), Post Grad. Dip. (Forest survey-Netherland), Post Grad. Dip. (Mech. Wood Tech. & Prod. Mgt. - Finland)
A.G.M - Mech.Engineering	: D.S Samarakoon	MIE(SL), C.Eng, NDT (Mec.),
A.G.M. – Production	: T.S.C. Pushpakumara	Bsc.Post Grad.Dip. (Mech.Wood Tech. & Prod.Mgt) in Finland
A.G.M. – Zone II	: H.P.S. Navaratna	Bsc. Msc. (Forestry), Post Grad. Dip in Forestry for Rural Mgt.
A.G.M. – Zone III	: P.G.R. Samaraweera	Bsc. Msc. (Forestry)

SENIOR MANAGERS

Manager-Timber Supply	: M.C. Devendra	Bsc. Msc (Forestry)
Manager- Finance	: R. A. Dayananda	BA, Dip.(Finance & Mgt) ICASL (L)
Manager- Finance	: D. Wickramasinghe	Dip.(FA)
Manager- Legal and Admin	: D.K. Kuruwitabandara	MA, Attorney at Law

MANAGERS

Manager- Finance	:	R.M. Rathnapala	H.N.D.A., Post Grad. Dip. in Finance (India)-1st Class, Member A.A.T., Member U.K.A.P.
Manager- Finance	:	H.A.J.M. Peiris	ICASL (L), Higher Dip. (Accountancy)
Manager - Production	:	Dr. M. G. Mohamed Thariq	Bsc, Msc, Phd.
Manager- Purch: ship (Actg.)	:	Aruna De Silva	
Manager-Transport	:	Preethi Nanayakkara	
Manager- R.T.	:	C.K. Muthumala	Bsc (Agric.)Hons. Msc (Forestry)
Manager- Investigation	:	E.G. Thilakarathna	
Manager – Saw mill	:	W.B. Samantha	Bsc. (Gen), Msc. (Forestry), National Dip in Teaching
Manager – Reforestation	:	A.P. Rathnasooriya	
Manager – Special Project	:	A.N.W.A. Ananda	
Manager – Furniture Plant	:	Madura Disanayaka	B.com, Post Grad. Dip in International Affairs
	:	J.G. Thisara Gamage	Bsc., Msc (Forestry)

REGIONAL MANAGERS

Regional Manager – Polonnaruwa	:	R. Edirisinghe	
Regional Manager – Bandarawela	:	P.K. Ajith Chandana	Bsc.
Regional Manager – Colombo	:	W. Keerthi Roy	
Regional Manager – Anuradapura	:	U.S.M. Fernando	BA (Sp.)
Regional Manager – Ratnapura	:	H.B. Rajawatta	BA
Regional Manager – Nuwara Eliya	:	G. Gunawansa	BA (Sp.), Dip in Forestry
Regional Manager – Monaragala	:	U.P.H. Uluwaduge	Bsc.
Regional Manager – Kandy	:	E.M.S. Ekanayake	
Regional Manager – Jaffna	:	S. Sri Skandaraja	
Regional Manager – Kurunegala	:	A.S. Wijesundara	
Regional Manager – Matara	:	D.H. Rajapaksha	Bsc., Msc.
Regional Manager – Ampara	:	M.K.G. Wasantha Raj	

COMPLEX MANAGERS

Manager-Kaldemulla Complex	: K. Chandrapala	BA.
Deputy Manager-Kaldemulla	: D.M. Nilmini Pushpakumara	Bsc.
Senior Regional Manager-Keppetipola	: M.G.R. Abeykoon	Dip in Mgt, Dip in Forestry
Regional Manager-Keppetipola	: A. B. M. Weerasinghe	BA

DEPUTY MANAGERS

Deputy Manager – Administration	: L.J.D. De Silva	
Deputy Manager – HR	: E. A. D. S. A. Amarasinghe	
Deputy Manager – Timber gra. & Auc.	: T.H. Gunadasa	
Deputy Manager – Forest Offence	: W. I. Saranga	Bsc. (Hons.)
Deputy Manager – Security	: Chandima Weeraman	
Deputy Manager- Designing & Qua. Assu.	: E. M. M. Fernando	
System Analyst	: A. Maduwage	
Deputy Chief Internal Auditor	: H.M.S. Madhawa	B.com (Sp)
Internal Auditor	: W.P.P.N. Kamal Fonseka	BLE. (Sp)

DEPUTY REGIONAL MANAGERS

Deputy regional Manager – Colombo	: H.P.S. Disanayake	BA
Deputy regional Manager – Bandarawela	: U.V. Kithsiri	Dip in Forestry
Deputy regional Manager – Matara	: R. Wijethunga	Bsc. (Agri. Sp.), Msc. (Forestry & Env. Mgt)
Deputy regional Manager – Ampara	: Y.B.M. Ameer	Dip in Forestry
Deputy regional Manager – Ampara F.F	: A.C. Jinajudeen	
Deputy regional Manager – Kandy	: D.G. Siril	
Deputy regional Manager – Monaragala	: K.J. Hemaratna	Bsc. (Agri)
Deputy regional Manager – Kurunegala	: R.M.S.K Rathnayake	
Deputy regional Manager – Ratnapura	: A. G. Hemantha Kularathna	Dip in Forestry Dip in Mgt , Dip in English

CHAIRMAN'S REVIEW

"State Timber Corporation is relentless in its commitment to uphold the highest standards of governance and best practices in every path of its business."

It is very special that this year marks the 45th anniversary of the State Timber Corporation. During its 45-year journey, the Corporation has successfully expanded its scope of operations achieving remarkable success. I am privileged in presenting the Annual Report and the Audited Financial Statements pertaining to the operations in terms of the financial performance and the financial position of the State Timber Corporation for the year ended 31st December 2013. The State Timber Corporation is the absolute leader providing most trusted and best quality timber and timber based products in the country. State Timber Corporation has an island wide operational network extending to 12 regional offices, 54 sales centers and over 200 forest working coupes to harvest timber from the forest plantations and 03 furniture manufacturing factories including impregnation and seasoning plants and 6 showrooms. Our success in 2013 was due in large part to the focused execution of strategic priorities which involved driving sustainable and profitable business through growth by geographic expansion, strategic partnerships, product differentiation and modern technology.

Sri Lanka recorded a growth rate of 7.3% whilst all sectors of the economy contributed to this growth, a slightly higher proportion was delivered by the services sector when compared to the 6.4% growth rate recorded in 2012 largely supported by domestic economic activity. Despite the slow growth rate globally, Sri Lanka continued to grow faster amongst the newly emerging markets and the inflation rate was kept under control during the period under review due to the prudent measures adopted by the Government.

Understanding and balancing the economic, social, political and biological factors that affect forest management is critical and challenging and it has a direct influence on the performance of the State Timber Corporation. Deforestation is a major environmental issue. The increasing demand for timber products give rise to increase denuding of forests most often illegally. However, proper forest management is essential to assure an adequate supply of timber in the future. The harvesting of trees will only have long-term benefits to society if the potential for renewal of forests is successfully evaluated, implemented and achieved. Sustainable forest harvesting should not be related to deforestation. Trees do not live forever. At some point, the older, mature trees will die and be replaced by younger, faster-growing trees. Thus, each stand of trees may be harvested to regenerate a young stand or be allowed to replace itself naturally after a disturbance.

The turnover achieved by the Corporation during the current year is 2,894 million as against the Rs. 3,270 million last year represents 11% decrease and registered a profit before tax and levy of Rs. 382 Million compared to Rs. 802 Million of the previous year. Substantial reduction in revenue recorded in 2013 due to unavoidable economical, political and social factors which had a direct influence on the State Timber Corporation's performance. The State Timber Corporation contributed Rs. 1,277 million to the national economy in terms of stumpage, operating taxes and special levy. We believe our greatest asset is our human resource. During 2013 we

continued to invest in our employees in the form of training and professional development, ensuring our staff has the necessary skills and competency to achieve our targets and serve our customers at the highest level.



State Timber Corporation is relentless in its commitment to uphold the highest standards of governance and best practices in every path of its business. Our success at the National Business Excellence Awards "Deva Jayawata Nawa Jayayak" provided strength to STC to win the "Excellence Merit Award" is testimony to this commitment. We invested responsibly, sustainably, with creativity and innovation, have laid the foundation for future growth. We also built on our strong track record as a responsible corporate citizen by continuing "Thurujana Sisu Bank" tree planting program for identified five schools gave material and monetary aids to increase of interest of the young generation on tree planting and contributed to National Tree Planting Program "Dayata Sewana" by providing 88,000 seedlings. We keep our attention on day today waste in a sustainable manner by categorizing them as paper, polythene and organic waste. We actively participated in "Dayata Kirula" to upgrade the unfavourable social opinion on timber industry.

I wish to express my sincere gratitude to the Hon. Minister of Environment and Renewable Energy, Deputy Minister of Environment and Renewable Energy, Secretary and the staff of the Ministry of Environment and Renewable Energy, and Conservator General of Forests and the staff attached to the Forest Department and all other government officials for extending their co-operation on behalf of the Board. Special thanks are also due to General Manager and all the staff members on behalf of the board for their contributions, their knowledge, skill and above all their unstinted loyalty and dedication on our voyage to success.

We do not expect 2014 to be any 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.

S. Amarasinghe.
Chairman,
STATE TIMBER CORPORATION.

GENERAL MANAGER'S REVIEW



"We have created a reputation that we can be proud of. Having been in the market for over 45 years we provide high quality wood products for an affordable price. Existing and new customers are supremely satisfied with our services."

It is with a sense of great pleasure that I present the annual report of the State Timber Corporation as it celebrates 45 years of existence. I am pleased to inform all the stakeholders that we were able to surpass the challenges

and we have created a reputation that we can be proud of. Having been in the market for over 45 years we provide high quality wood products at an affordable price. Existing and new customers are supremely satisfied with our products and services.

We at State Timber Corporation continued to play a crucial role in the upswing of the industry of manufacturing as a dependable provider of timber and timber based products. In line with our vision to be the nation's most trusted and best quality timber and timber based products provider with market genuine leadership, we are firmly focused on further improvements in the operations. State Timber Corporation has grown from strength to strength and now operates as a national leader with almost 12 regional offices across the country. With the establishment of new technologies to the production the State Timber Corporation would play an overarching role in the lives of people.

We believe that the responsible timber harvesting supports the economic dimension of sustainable forest management, along with healthy forests and a viable forest products manufacturing sector. Sustainable forest management, as a dynamic and evolving concept, aims to maintain and enhance the economic, social and environmental value of all types of forests, for the benefit of present and future generations.

Revenue of the STC for the year under review was Rs.2,894 million compared Rs.3,270 million in previous year. The decline was mainly due to decrease in sales income generated from sleepers, logs, transmission poles and sawn timber. However, the STC ended the year with a Profit Before Tax (PBT) of Rs.382 million compared to PBT of Rs.802 million in 2012 and profit after tax and special levy of Rs.182 million while contributing Rs. 1,277 million to the national economy. Correspondingly, the corporation was able to record ROA of 8% and ROE of 11%. The financial year under review has been the toughest period to the Corporation's performance due to unfavorable social, political, environmental and economic conditions.

We are very proud to record some significant achievements during the financial year under review

that demonstrate our high standard of manufacturing. We were awarded by the "Business Excellence Merit Award" of the Manufacturing State Sector at the National Business Excellence Awards- 2013, which was conducted by the National Chamber of Commerce of Sri Lanka (NCCSL) with a view to recognizing business enterprises, which have demonstrated excellence in business, whilst contributing to the economic progress of the country.

We identify and value the necessity of being environmentally caring and responsible, not just to survive, but as an investment for our future generations 88,000 seedlings were produced by Corporation managed nursery to distribute for the National Tree planting program of "Dayata Sewana" and to mark the "World Environmental Day" continued "Thurujana Sisu Bank" tree planting program with identified schools to increase the interest of the young generation on tree planting.

Our product quality is still considered by customers as the best, and our aim is to be consistently so. On a positive note, general motivation of the workforce is high and we are focusing on product quality and efficiency, with a view to bring State Timber Corporation to its highest level.

I must express my appreciation to the Minister and Deputy Minister of the Environment and Renewable Energy, Secretary to the Ministry, Chairman and the Board of Directors for their continued confidence and support in the effort to nurture the interests of the Corporation and all its stakeholders. My sincere gratitude is also hereby expressed to our valued customers, whose loyalty to us as their long-term supplier of Timber and Timber based products has been unwavering throughout, making them the very foundation of our success. We will continue to do our utmost to offer you the best and look forward to further strengthening the bonds of our partnership towards mutual progress. I am deeply honored by the steadfast support extended to me by all my colleagues - in the management team, and the staff of 2,139 committed people, whose passion, drive and dedication on an everyday basis, keep us on firm ground and propel us on the road to success.

A handwritten signature in black ink, appearing to read 'P.G. Sirisena', written over a horizontal line.

P.G.Kumarasinghe Sirisena.
General Manager,
STATE TIMBER CORPORATION.

Our Functions

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

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

Operation of timber and firewood sales depots.

Manufacturing and marketing of by-products of timber.

Import of timber.

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

Agricultural productions.

Export of timber related finished and semi-finished products.

Purchase of timber from private lands.

Processing of forest related products.

Import of Cane.

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

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

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

Our Business Values

We recognize that our primary responsibility is to maintain our status as a strictly environmentally friendly and a commercially viable public sector institution;

We are committed to complying with all statutory regulations related to scientific management of forests and extraction of timber to ensure a clean and healthy environment;

We recognize that the primary reason for our existence is to create ethical-business relationships with our customers, whilst creating value for them and for all Sri Lankans;

We will develop our employees to achieve highest productivity levels, through skill improvement, professional development and continuous education and training;

We will place our customers at the centre of everything we do to provide an efficient and courteous service to them;

We will assure highest standards of personal integrity at all levels of our operations and provision of services;

We will adhere by spirit and letter of all statutory regulations and social norms with regard to the environment and forest resources to protect and promote them as the precious national heritage of our future generations.



Board of Directors - 2013

Mr. S. Amarasinghe

Mr. K.H. Hettiarachchi

Mr. A.K.A.Y. Tharanga

Mr. K.P. Ariyadasa (Retired on 12th November 2013)

Mr. Anura Sathurusinghe

Prof. Hiran Amarasekara

Mr. Champika Karunaratne

Mrs. Mary Dickman

Chairman - State Timber Corporation

Working Director - State Timber Corporation

Director (Treasury Representative)

Director (Conservator General of Forest)

Director (Conservator General of Forest)

Director

Director

Director



P.G. Kumarasinghe Sirisena
General Manager



M.V. Karunaratne
Dy. General Manager
(Operation)



K. Siriniwansa
Dy. General Manager
(HR & Admin)



D. U. Dayaratne
Dy. General Manager
(IT & MIS)



G. Senanayake
Dy. General Manager
(Marketing)

Senior
Management
Team
2013
State Timber
Corporation



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



H.M.G.B. Herath
Dy. General Manager
(Production & Technical)



Dr. N. Ruwanpathirana
Dy. General Manager
(R.T. & D)



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

BOARD OF DIRECTORS' REVIEW FOR THE YEAR 2013

BOARD OF DIRECTORS - 2013

The Board of Directors of State Timber Corporation has the pleasure in presenting the Annual Report together with the Audited Financial Statements of the Corporation for the year 2013.

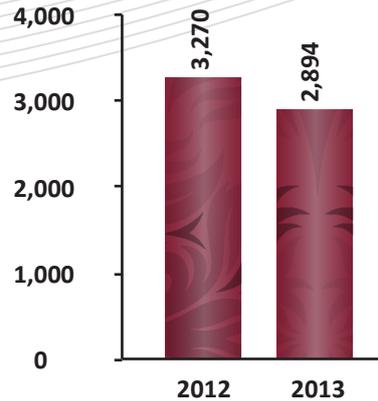
Mr. S. Amarasinghe	- Chairman - STC
Mr. K.H. Hettiarachchi	- Working Director STC
Mr. A.K.A.Y. Tharanga	- Director (Treasury Representative)
Mr. K.P. Ariyadasa (Retired on 12th November 2013)	- Director (Conservator General of Forest)
Mr. Anura Sathurusinghe	- Director (Conservator General of Forest)
Prof. Hiran Amarasekara	- Director
Mr. Champika Karunaratne	- Director
Mrs. Mary Dickman	- Director

Revenue generated by the Corporation during the year was Rs.2,894 million (last year was Rs. 3,270 million) which is a 11.5% decrease over last year. This decrease was especially due to reduction in sales of logs- private land and sleepers- crown land. High cost of employment, unavoidable administration costs and increase of selling & distribution expenses have been contributory factors towards reduction of profits. As

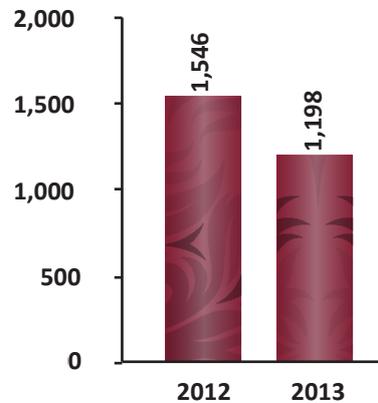
a result of these unavoidable expenses, overall cost of the Corporation has also been increased by 3% compared to the previous year.

Gross profit has decreased by 23% resulting a gross profit of Rs. 1198 million.

Turnover



Gross Profit



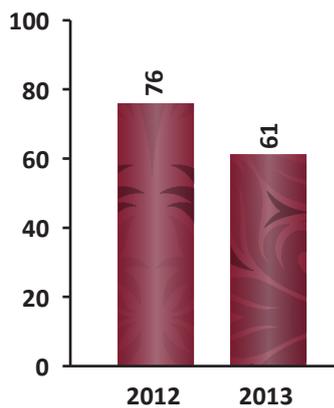
Performance	2013	2012
	Rs. Mn	Rs. Mn
Turnover	2,894	3,270
Gross Profit	1,198	1,546
Other Operating Income	61	76
Profit on Operation	124	584
Income from surplus fund, Foreign exchange gains and House Rent	258	218
Levy Imposed by Treasury	50	600
Net profit before Tax and Levy	382	802
Return on Assets	8%	18%

Administration, selling and distribution expenses have been increased up to Rs.1135 million while in previous year it was 1038 million. Administration expenses have been increased by 12% compared to last year. It was represented 23% as a percentage of sales in 2013. Selling and distribution cost has been increased by 6% compared to last year.

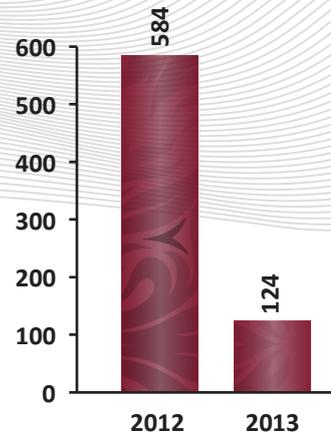
Corporation's main short term risks and uncertainties are related to uncertainties in the country's economic, political and environmental sources. Poor availability of timber resources, significant increases in raw material prices, high production cost affected Corporation's production process. Environmental related issues mainly affected the Corporation's performance of 2013. The prices of many raw materials increased due to unfavorable market conditions. To manage this circumstances Corporation finding solutions by mapping out alternative opportunities to achieve established objectives.

At the end of 2013 employees' strength of State Timber Corporation was 2,139 permanent employees (2012:2,187). Total cost of employment in 2013 grew up to Rs. 1,117 million. (2012:1,065 million) and it was 5% increment compared to the year 2012.

Other Operating Income

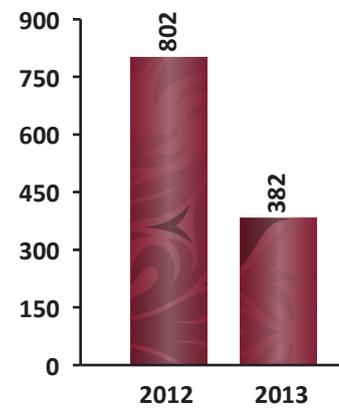


Profit on Operation



Corporation is subject to income tax and other taxes including value added tax, during the year the Corporation had paid Rs. 388 million as VAT and NBT to the Department of Inland Revenue. In addition to that STC has contributed Rs. 50 million as a special levy to the treasury.

Net Profit Before Tax & Levy



Net profit before levy and tax has been decreased to Rs. 382 million in comparison to previous year which was Rs. 802 million after deducting all the administration, selling and distribution expenses for the year under discussion. However, return on assets has been 8% in 2013 and 18% in 2012.

PRODUCTION

Extraction of Timber from State Forests

The Forest Department has released forest plantation according to forest management plan to extract timber such as Teak, Pinus, Eucalyptus etc. The forest management areas released for extraction of trees in the year 2012 & 2013 are as follows.

Species	Clear Felling (ha.)		Thinning (ha.)	
	2013	2012	2013	2012
Teak	600.0	558.5	-	87.8
Eucalyptus	26.0	152.7	352.2	336.8
Pinus	124.6	83.3	-	-
Kaya	-	-	-	10.6
Akashiya	27.0	35.5	-	-

Conversion of Logs into Sawn Timber

During the year 2013 – 4,117 M³ Sawn Timber has been produced by the saw mills and 2,487 M³ has been sold out by the STC depots throughout the Island as against the 4,955 M³ productions in the year 2012.

Treatment of Transmission Poles and Sleepers

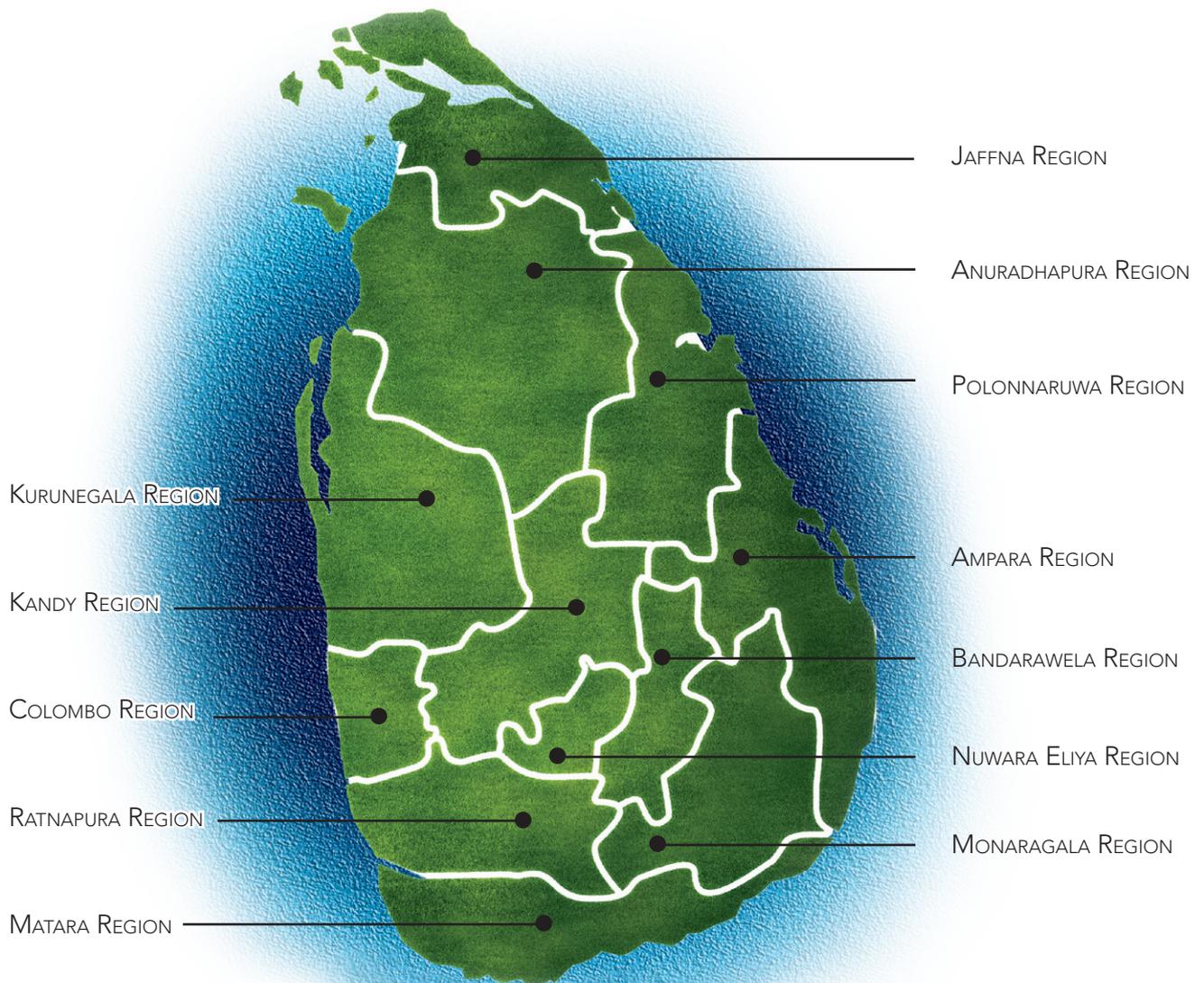
During the year under review 73,526 sleepers, 31,887 transmission poles and 26,475 elephant poles treated in the STC treatment plants. Treatment of sleepers and elephant poles has significantly increased during the year in relation to the prior year.

Manufacturing of Furniture

STC furniture plants at Ampara, Boossa and Kaldemulla have produced Rs.211.5 Million worth furniture during the year 2013. Furniture worth Rs. 194.6 million has been sold during the year by the STC show rooms at Ratmalana, Kandy, Rathnapura, Thalalla, Ampara and Boossa. Production of furniture has increased by 36% during the year in comparison to the previous year.

OUR REACH

We cover all part of the country reaching the entire national population via a well-designed operational structure with 12 regional offices, 54 sales depots throughout the Island, 03 furniture manufacturing factories at Kaldemulla, Ampara & Boossa, 06 showrooms at Kandy, Ratnapura, Thalalla, Ampara, Kaldemulla and Boossa, 03 timber treatment plants at Keppetipola, Kaldemulla & Boossa, 6- saw mills at Ampara, Kandy, Boossa, Kaldemulla, Rathmalana, Thalalla, 4 - saw mills at Bandarawela, 2 - saw mills at Rathnapura, 4 - saw mills at Keppetipola, 2 - saw mills at Kurunegala.



AMPARA REGION



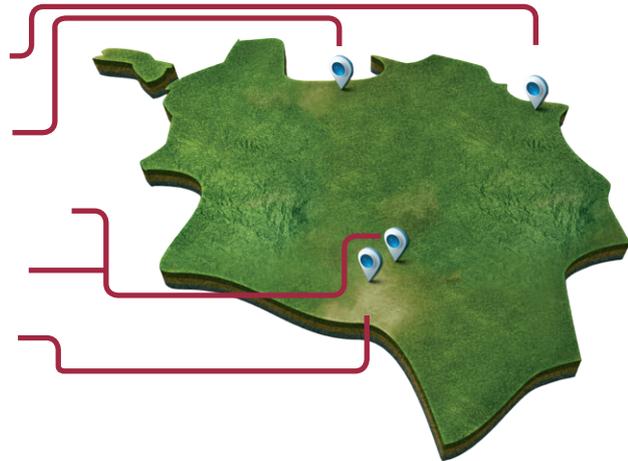
- Batticaloa Depot
- Padiyathalava Depot
- Ampara Regional Office
- Ampara Depot
- Ampara Saw Mill
- Ampara Show Room



ANURADHAPURA REGION



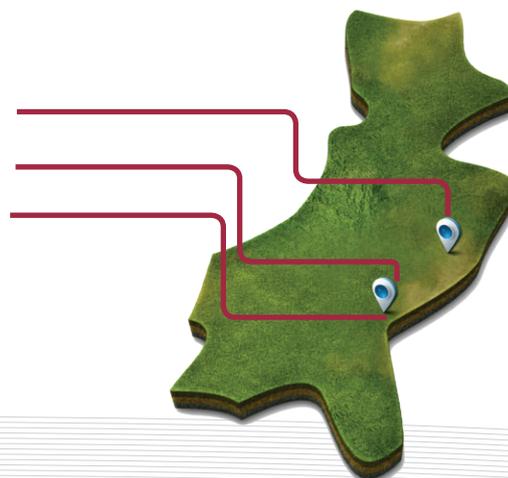
- Vavuniya Depot
- Medawachchiya Depot
- Anuradhapura Regional Office
- Anuradhapura Depot
- Thalawa Depot



BANDARAWELA REGION



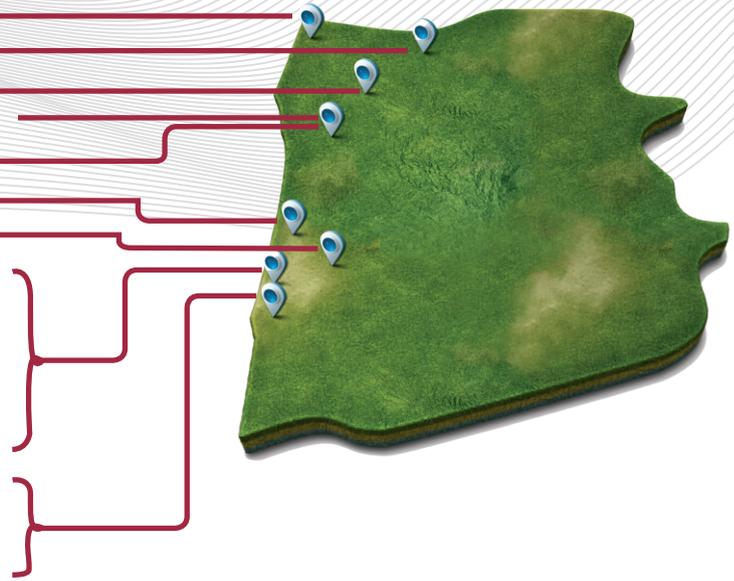
- Boralanda Depot
- Bandarawela Regional Office
- Bandarawela Saw Mill



COLOMBO REGION



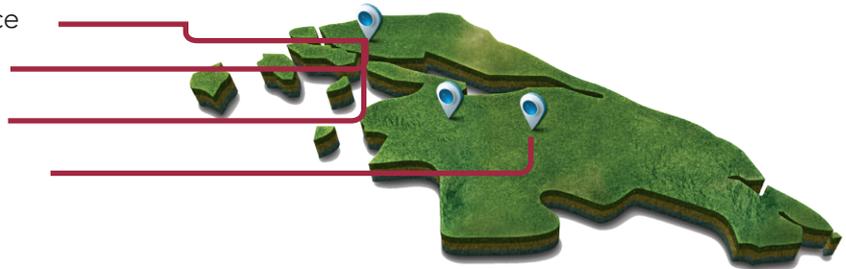
- Nainamadama Depot
- Mirigama Depot
- Kadawatha Depot
- Orugodawatta Depot
- Colombo Regional Office
- Pannipitiya Depot
- Piliyandala Depot
- Kaldemulla New Depot
- Kaldemulla Depot
- Kaldemulla Saw Mill
- Ratmalana Depot
- Ratmalana Show Room
- Ratmalana Saw Mill
- Egodauyana Depot
- Moratumulla Depot
- Willorawatta Depot



JAFFNA REGION



- Jaffna Regional Office
- Jaffna Depot
- Nallur Depot
- Kilinochchi Depot



KANDY REGION



- Dambuluoya Depot
- Matale Depot
- Pallekele Depot
- Kandy Regional office
- Kandy Show Room
- Nelundeniya Depot
- Ethgala Depot
- Ethgala Saw Mill



KURUNEGALA REGION



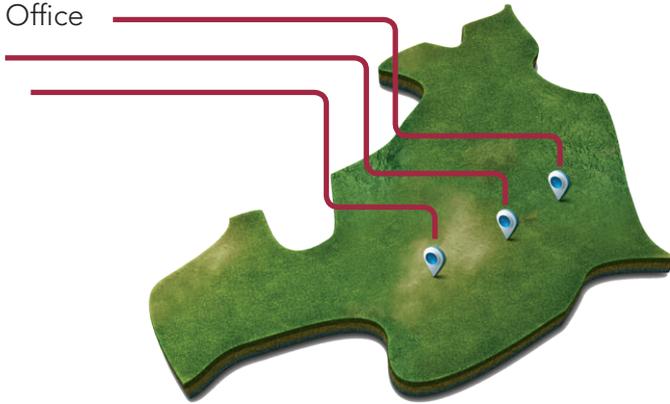
- Puttalam Depot
- Nikaweratiya Depot
- Melsiripura Depot
- Melsiripura Saw Mill
- Bingiriya Depot
- Kankaniyamulla Depot
- Kurunegala Regional office
- Kurunegala Depot



MONARAGALA REGION



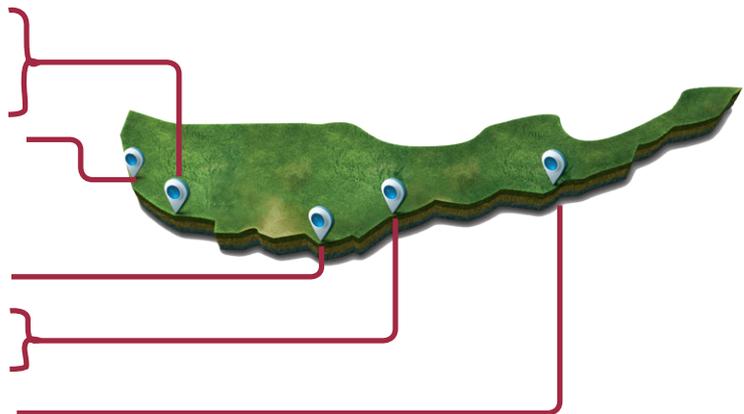
- Monaragala Regional Office
- Buttala Depot
- Wellawaya Depot



MATARA REGION



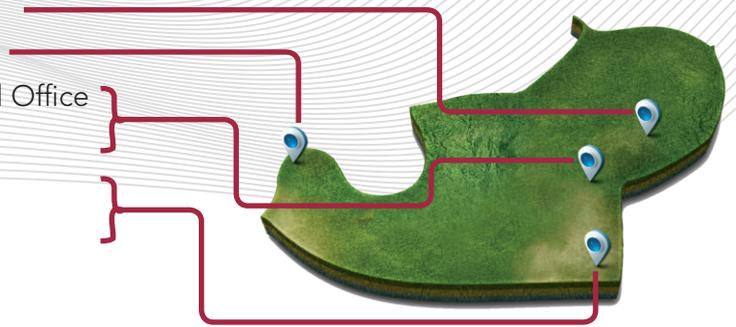
- Boossa Depot
- Boossa Saw Mill
- Boossa Show Room
- Ambalangoda Depot
- Matara Regional Office
- Thalalla Depot
- Thalalla Show Room
- Hambantota Depot



NUWARA ELIYA REGION



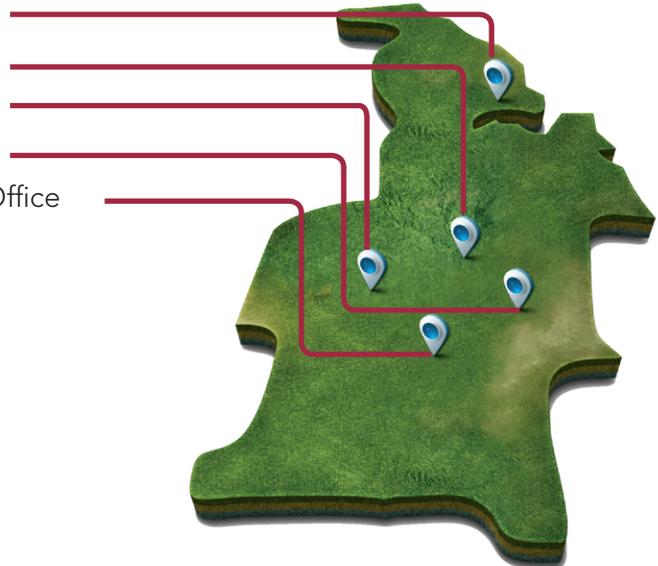
- Harasbedda Depot
- Kithulgala Depot
- Nuwara-Eliya Regional Office
- Nuwara Eliya Depot
- Keppetipola Depot
- Keppetipola Saw Mill



POLONNARUWA REGION



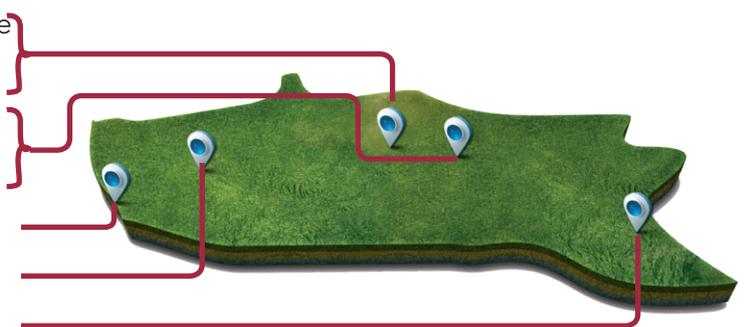
- Vilankulama Depot
- Minneriya Depot
- Habarana Depot
- Kaduruwela Depot
- Polonnaruwa Regional Office



RATNAPURA REGION



- Ratnapura Regional Office
- Ratnapura Show Room
- Dela Depot
- Dela Saw Mill
- Beruwela Depot
- Mathugama New Depot
- Thimbolketiya Depot



PRODUCTION SALES AND REVENUE 2012-2013

		Production		Sales Volume		Turnover	
		2013	2012	2013	2012	2013 Rs. M	2012 Rs. M
Logs (including FOR and Donation)	M3	106,122	132,859	96,560	118,679	1,770.8	1,867.4
Sawn Timber	M3	4,117	4,955	2,487	3,323	166.9	201.4
Sleepers	No.	73,526	117,306	64,938	111,019	443.8	729.0
Trans. Poles	No.	31,887	30,469	29,413	37,094	208.6	255.5
Poles	No.	131,774	203,511	145,051	192,224	87.7	62.9
Fire Wood	M3	85,156	104,316	86,922	110,412	8.9	8.5
Fence Post	No.	88,685	79,608	83,927	86,728	2.7	5.0

REVIEW AND MONITORING OF TARGETS AND ACHIEVEMENTS

The management had monthly regional meetings chaired by the Chairman and attended by all Regional Managers and Senior Managers of the Corporation. Monthly production targets and sales targets are monitored with the actual performance at these monthly meetings. All the bottlenecks and problems identified by the respective Regional Managers are discussed and sorted out, further various decisions and alternatives are proposed which are later evaluated and implemented. In addition, opportunities and new ideas and changes are discussed and appropriate directives are given in achieving the

targets and objectives of the Corporation and to realize the required cash flow with a view to running the Corporation as a financially viable organization.

Signed on behalf of the Board of Directors.



S. Amarasinghe.
Chairman,
STATE TIMBER CORPORATION.

AUDIT & MANAGEMENT COMMITTEE REPORT- 2013

Members of the Audit & Management Committee

Mr. A.K.A.Y. Tharanga	-	Chairman
Mr. K.P. Ariyadasa	-	Member
Prof. Hiran Amarasekara	-	Member

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

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

(Sgd)

A.K.A.Y. Tharanga
Chairman AMC.





BUSINESS SUMMARY

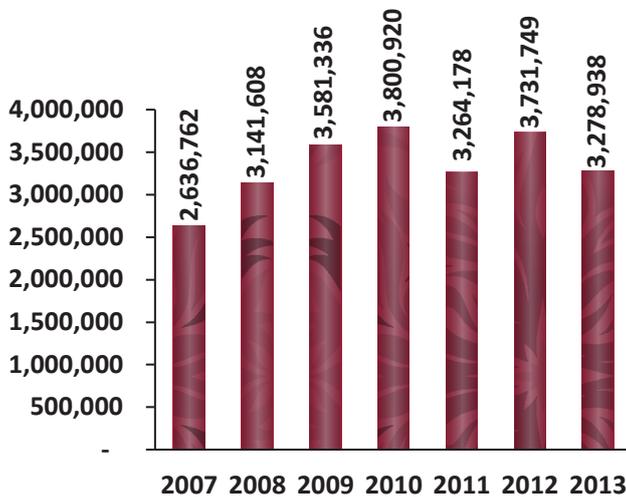
FINANCIAL AND PRODUCTION PERFORMANCE

A summary on financial progress made by maintaining financial stability during the previous seven years.

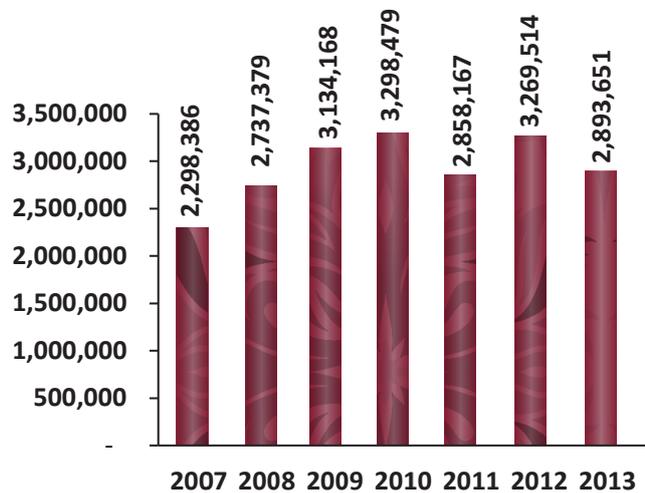
Summary on financial performance during previous seven years, consist of cash flows, assets and liabilities, capital expenditure, and profits earned. Progressive indexes on profit gained and expenditure incurred by the Corporation according to investment plans and action plans will testify to high standards of financial management. Whilst achieving financial progress during the past , Corporation too have worked for the achievement of financial objectives and maintenance of financial stability and sustainability which facilitate the years to come.

Income Growth Trend Analysis

Including VAT (Rs. '000)

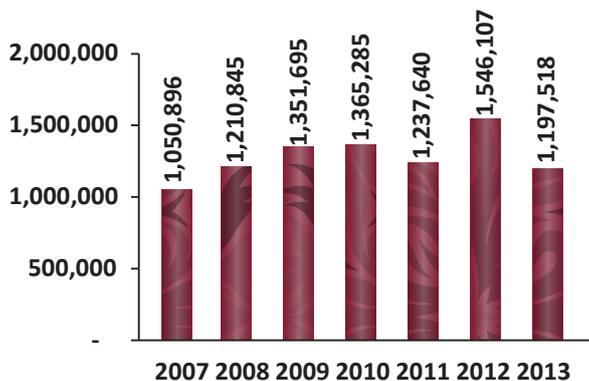


Excluding VAT (Rs. '000)

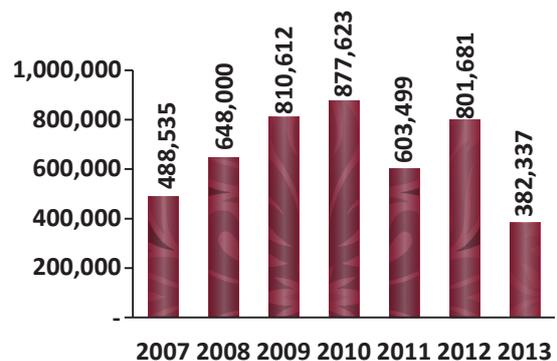


Profit Growth Trend Analysis

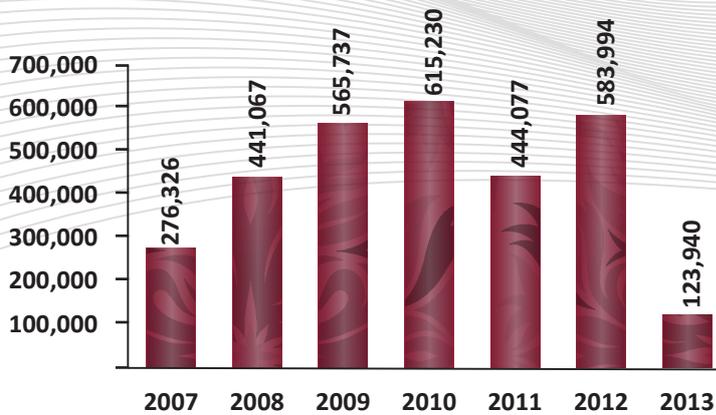
Gross Profit (Rs. '000)



Net Profit Brfore Levy / Tax (Rs. '000)



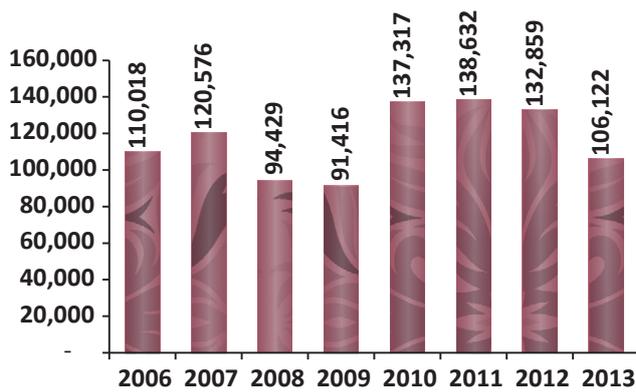
Operational Profit (Rs. '000)



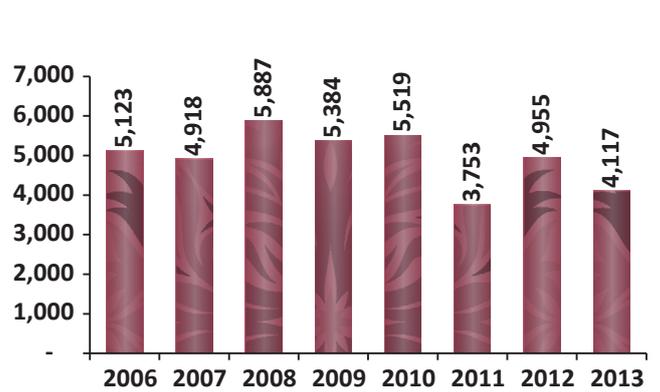
Year	Profit	% of Turnover
2007	276,326	12%
2008	441,067	16%
2009	565,737	18%
2010	615,230	19%
2011	444,077	16%
2012	583,994	18%
2013	123,940	4%

Production Growth Trend Analysis

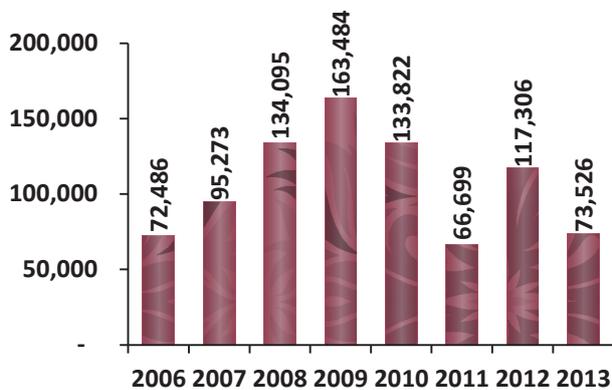
Production of Logs (M³)



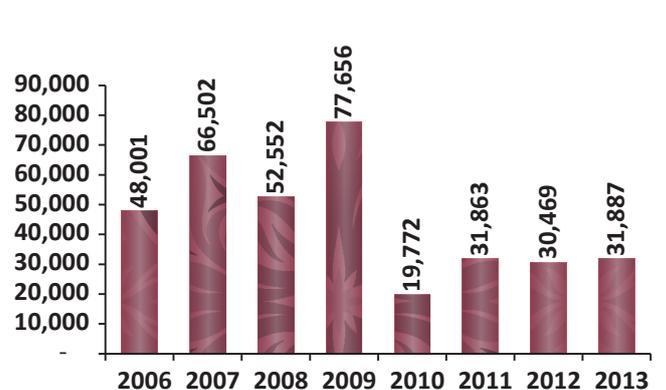
Production of Sawn Timber (M³)



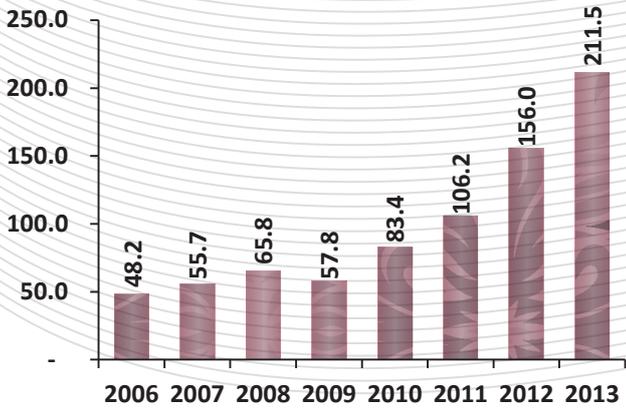
Production of Sleepers (Nos.)



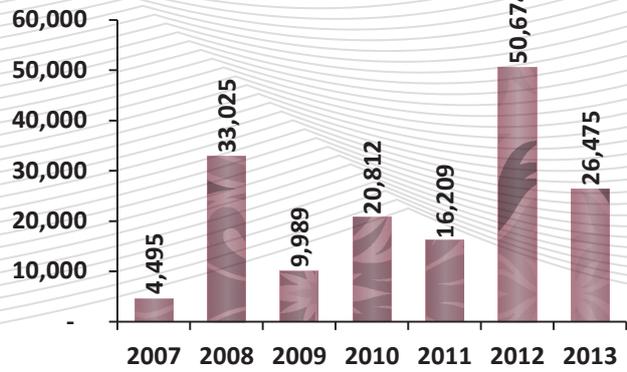
Production of Transmission Poles (Nos.)



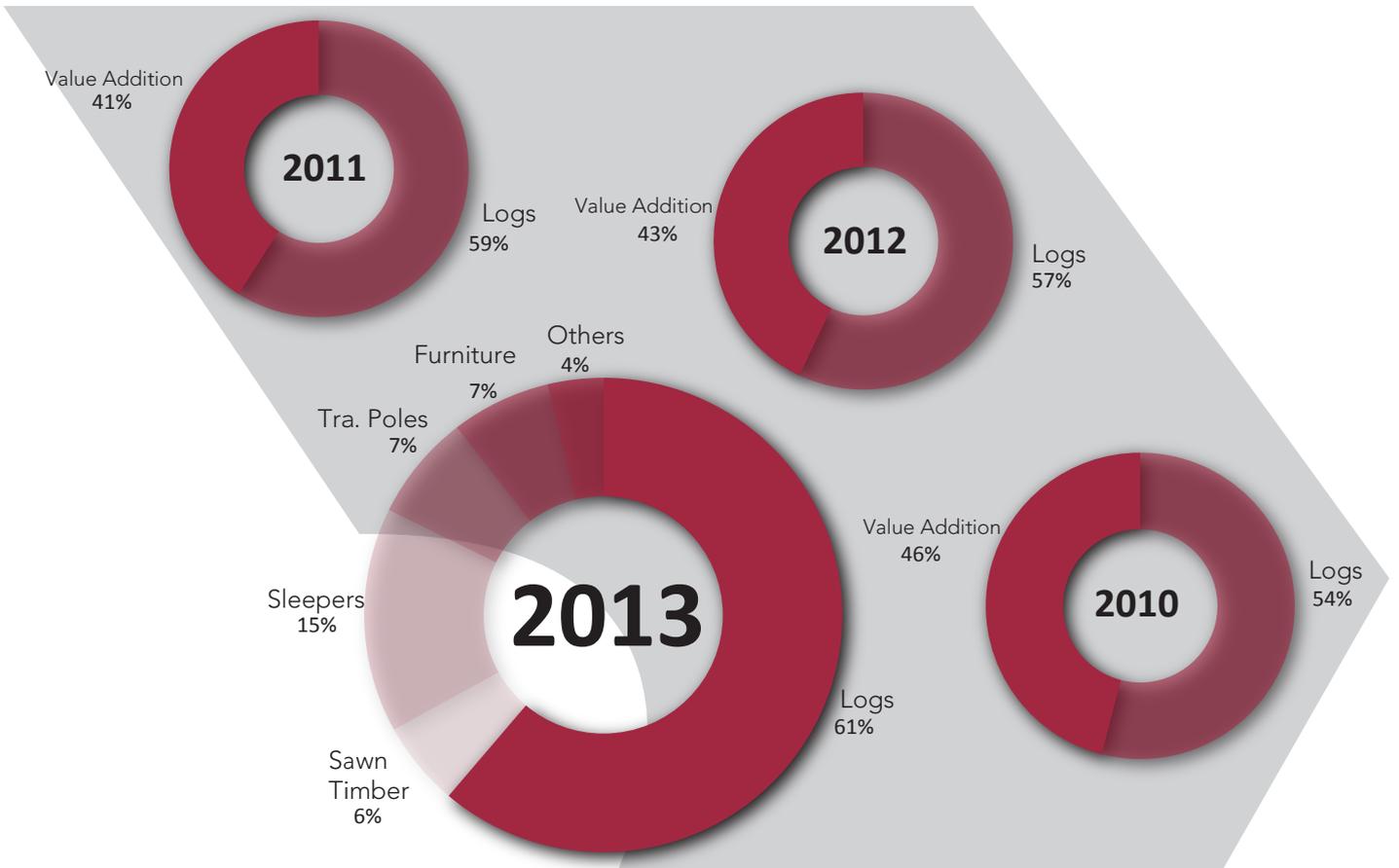
Production of Furniture (Rs. Mn.)



Production of Elephant Poles (Nos.)



VALUE ADDITION



CAPITAL EXPENDITURE 2013

Description	Rs.
New building - Kaldemulla complex	67,589,386
Log loader - Kurunegala	21,098,575
Log loader- Monaragala	21,098,575
New sawmill and seasoning building – Boossa complex	18,287,693
Doozan high reach log loader machine - Anuradhapura	16,490,000
Kataragama new circuit bungalow - Monaragala	14,564,948
"Wood mac" narrow band saw machine- Kandy	6,913,958
Narrow band saw machine - Rathnapura	6,913,958
Finger joint machine – Boossa furniture factory	5,527,634
Narrow band saw machine - Boossa furniture factory	5,312,500
Stacking Shed Ethgala - Kandy	5,166,012
Staking sheed Orugodawaththa - Colombo	5,117,751
Conference hall renovation cost - Head office	4,855,936
New Building- Ampara	4,451,018

INVESTMENTS

Investments	31-12-2012	31-12-2013
	Rs.	Rs.
Government Ins. Temporary Surplus Trust Fund	298,546,189	338,010,495
People's Bank	724,072,649	811,508,552
Land Reclamation and Development Board	500,000	500,000
Bank of Ceylon	258,133,134	509,082,847
State Mortgage and Investment Bank	73,924,940	81,474,846
Lanka Timber Plantation Ltd	30,000,000	30,000,000
Total	1,385,176,912	1,770,576,740

Decade at a Glance

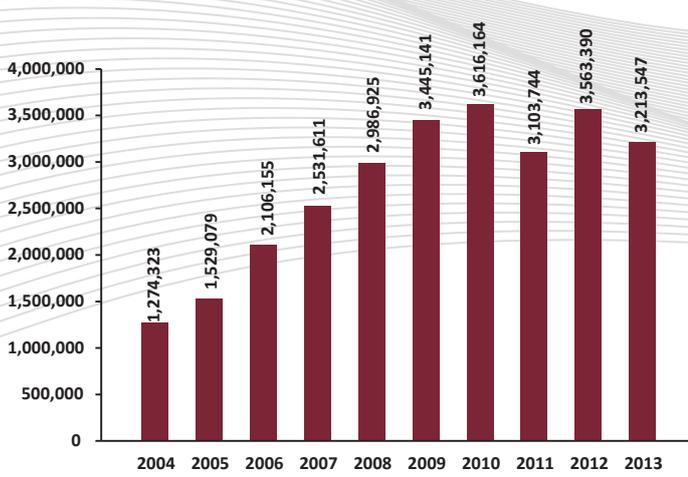
[Absolute values]

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	
Total revenue for the year	Rs. '000	1,274,323	1,529,079	2,106,155	2,531,611	2,986,925	3,445,141	3,616,164	3,103,744	3,563,390	3,213,547
Gross profit for the year	Rs. '000	574,859	899,729	966,095	1,050,896	1,210,845	1,351,695	1,365,285	1,237,640	1,546,107	1,197,518
Net profit before interest and tax	Rs. '000	124,836	457,750	480,641	488,535	647,039	810,612	877,623	603,499	801,681	382,337
Total cost of employment	Rs. '000	488,212	596,684	774,751	841,831	852,879	898,652	901,910	953,498	1,065,052	1,117,036
Capital expenditure for the year	Rs. '000	5,013	2,051	13,523	95,745	141,327	112,909	237,332	180,546	162,509	332,870
Non current assets as at end of the year	Rs. '000	953,611	1,372,833	1,579,613	1,338,570	1,523,553	1,793,467	1,801,988	1,739,893	1,479,880	1,658,535
Current assets as at end of the year	Rs. '000	911,048	852,622	962,569	1,545,428	1,407,022	2,079,543	2,341,020	2,177,892	2,929,185	3,153,777
Current liabilities as at end of the year	Rs. '000	162,762	285,475	528,005	690,558	455,460	1,028,979	1,034,258	497,229	804,102	1,050,258
Non current liabilities as at end of the year	Rs. '000	271,066	285,339	341,581	370,816	362,399	364,553	399,057	399,953	409,030	384,831
Equity as at end of the year	Rs. '000	1,430,831	1,654,641	1,672,595	1,822,624	2,112,716	2,479,478	2,709,694	3,020,602	3,195,933	3,377,223
Contribution to the consolidated fund	Rs. '000	37,000	50,000	75,000	150,000	75,000	50,000	413,490	75,000	600,000	50,000
No. of employees as at end of the year	No.	2,995	2,846	2,751	2,634	2,499	2,457	2,346	2,267	2,187	2,139
Investment of surplus fund as at end of the year	Rs. '000	-	1,047,004	1,267,102	834,037	777,101	858,717	605,235	764,328	298,546	338,010

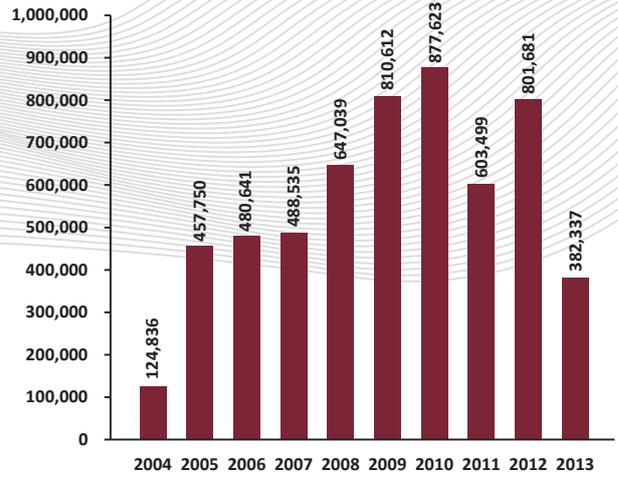
Key performance indicators

Net profit before tax to equity	%	8.72	27.66	28.74	26.80	30.63	32.69	32.39	19.98	25.08	11.32
Net profit before Fin. Changes & tax to total	%	6.69	20.57	18.91	16.94	22.08	20.93	21.18	15.40	18.18	7.94
Current ratio	Times	5.60	2.99	1.82	2.24	3.09	2.02	2.26	4.38	3.64	3.00
Total cost of employment per employee	Rs. '000	163	210	282	320	341	366	384	421	487	522
Equity : Asset ratio	Times	1.30	1.34	1.52	1.58	1.39	1.56	1.53	1.30	1.38	1.42
Return on assets	%	6.69	20.57	18.91	16.94	22.08	20.93	21.18	15.40	18.18	7.94
Total revenue growth	%	(10.16)	19.99	37.74	20.20	17.99	15.34	4.96	(14.17)	14.81	(9.82)

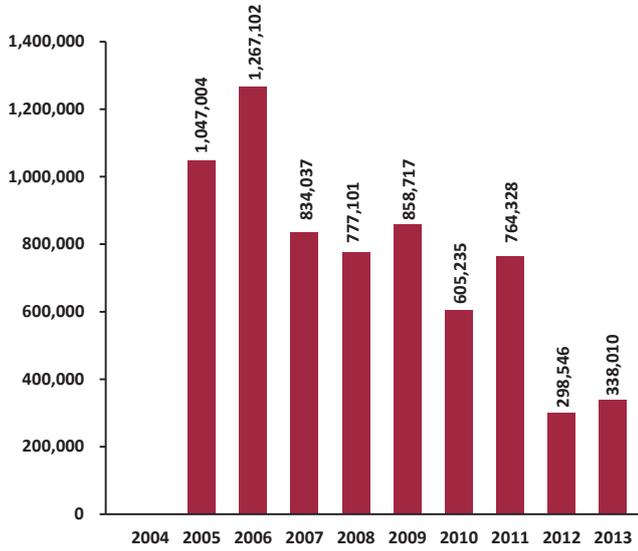
Total Revenue [Rs. '000]



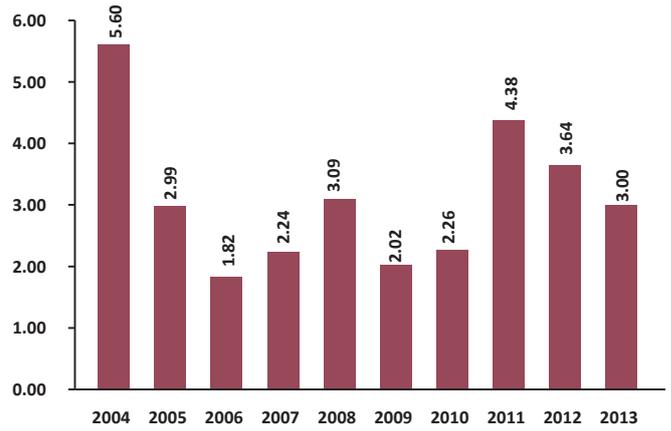
Net profit before interest and tax [Rs. '000]



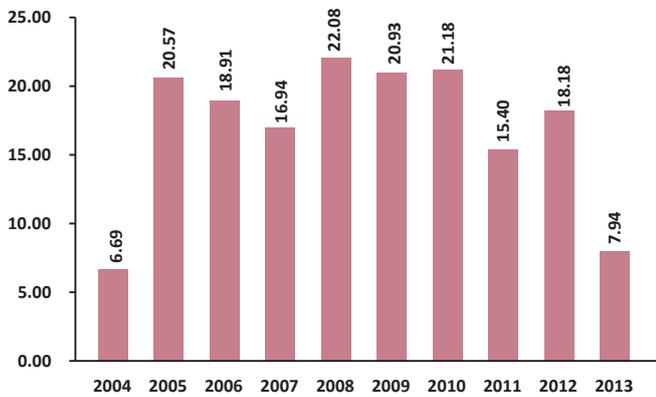
Investment of surplus fund [Rs. '000]



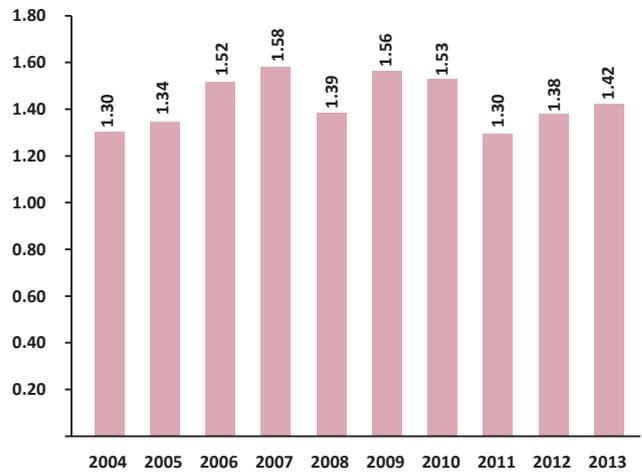
Current ratio [Times]



Return on assets [%]



Equity : Asset ratio [Times]



Sustaining Our Future.....

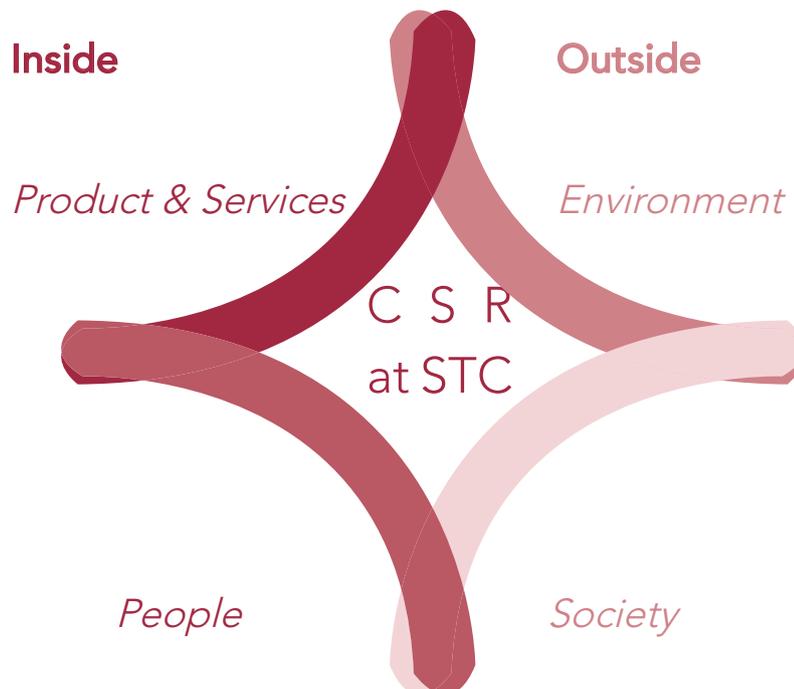
“Harmony with People, Society & Environment to mark sustainable development”

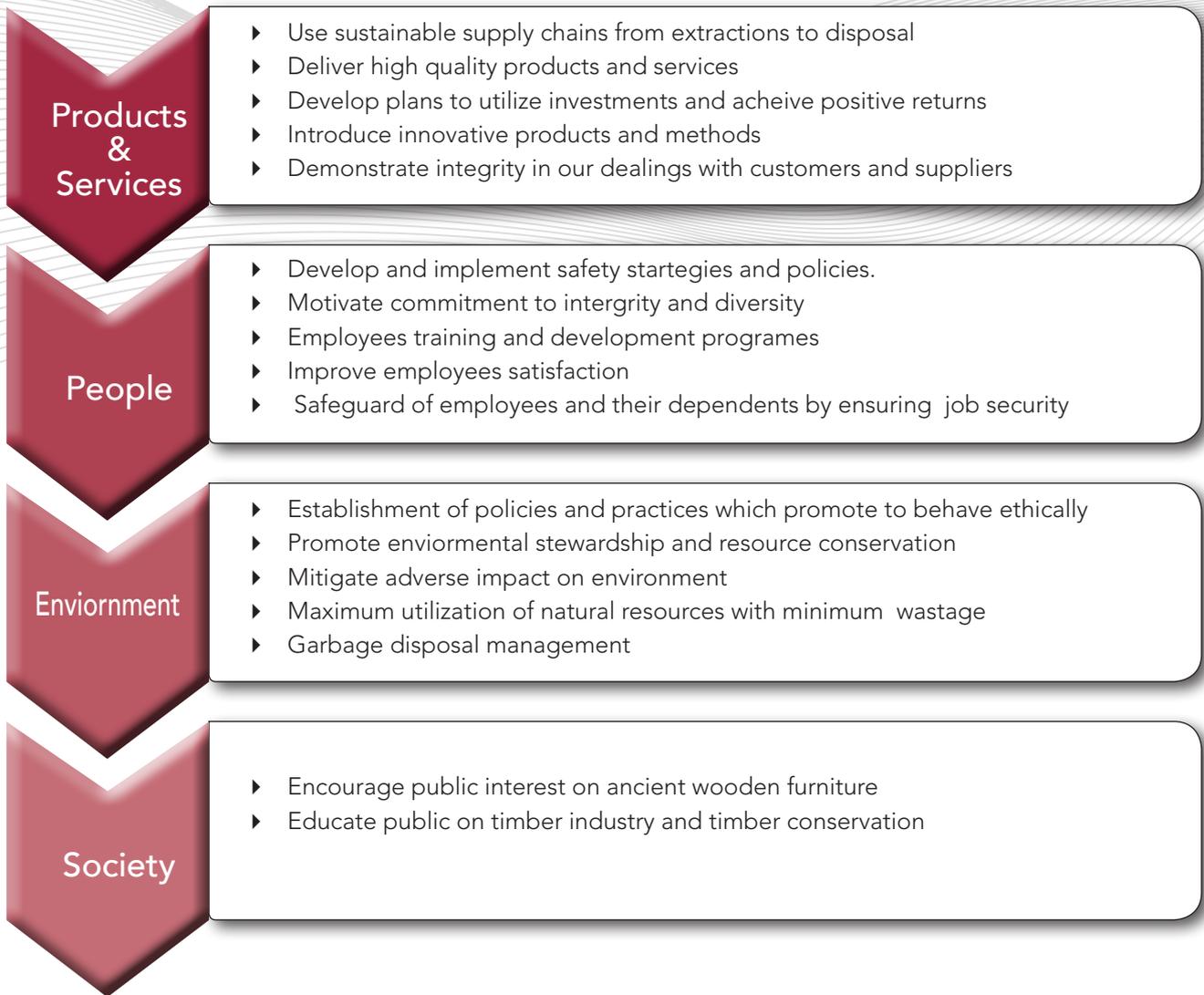
The concept of sustainable business is, any organization that participates in environmental friendly or green activities to ensure that all processes, products and manufacturing activities adequately address current environmental concerns while maintaining a profit. It is the process of assessing how to design products that will take advantage of the current environmental situation and how well Corporation’s products perform with renewable resources. Sustainability secures people's quality of life within the means of nature in a way that is fair and equitable to all humanity, other species and to future generations. Sustainability recognizes the inter-relatedness of the product and services, people, society, and environment.

Sustainable development can be referred to as the continuing commitment by the business to behave ethically and contribute to economic development

while improving the quality of life of the employees and their families as well as of the local community and society at large. The STC aims to be responsible corporate citizen, proactively contributing to causes affecting the social development of the nation, while working towards maximizing the positive aspects of business on people, society and the environment.

The State Timber Corporation’s goal is to foster good relationships with the communities within which its businesses operate, and manage responsibly the impact that its operations have on the community and environment. The STC’s activities represents how its values, corporate culture and operations are basically knotted and connected to social, economic and environment concerns. During the year under review State Timber Corporation has implemented following sustainability programs.





1. Products & Services

“We devote our talent and technology to create superior products and services that contribute to a better society”

Sustainable products should be environmental-friendly during its entire life. That is, starting from the extractions of raw materials to the disposal of final product, there must be no permanent damage to the environment. Always we devote our talent and technology to create superior products and services that contribute to a better society. We at STC believe that the sustainable development meets the needs of the present without compromising the ability of future generations to meet their needs.

1.1 Traditional furniture section

We recreate ancient wooden furniture with its original outlook and quality. The purpose of this is to educate the public on the beauty and the glory of wooden furniture and important of conservation of them.

1.2 Maximum utilization of timber

We believe that the wood waste is real burden to the corporation as well as to the environment. Our utmost effort is to decrease wood waste by using new technology, new machines and new methods to gain maximum utilization from timber that we used for production.

1.3 Long life for soft woods

We use most advanced methods to preserve timber in our seasoning plant to convert soft woods with guarantee to strength and durable woods. This would increase the performance of wood and can be utilized as substitute for precious woods.

1.4 Issuing timber certificates

State Timber Corporation has been granted the authority to issue timber certificates on timber quality & timber properties by special gazette No. 1538/7 on 2008 February 25th. Facilities are available in the Corporation to determine the specific gravity, moisture content, shrinkage and treatability test for Boron treatment.

1.5 Services provided by the TTTI & its operations

As a pioneer professional body committed to be the Nation's leader in providing most trusted and best quality timber and timber based products, the Corporation took a mark step to set up a training institute, TTTI- Timber Technology Training Institute at Kaldemulla, Rathmalana in 2006. TTTI is totally decided to strengthen the work of all who are engaged in practicing forestry and timber technology through capacity building and updating of knowledge in Sri Lanka to achieve their goals in the context of national development.

upside to both the employees and the company. We identified that the employee engagement is a critical component of organizational change and development.

The followings are the strategies used by corporation to build high employee engagement.

- ▶ Solid sustainable vision and strategy- This is important to give a clear understanding of the corporation's future to direct how the sustainability is important to the corporation and their own future.
- ▶ Increase awareness and understanding of sustainability.
- ▶ Move employees towards individual commitments both at work and at home. Idea sharing and reinforcement of their value in the corporation's sustainable journey.
- ▶ Achievements – Employees will achieve action oriented results upon a healthy level of competition, recognition and rewards.

2. People

"The employee engagement is a critical component of organizational change and development."

Human resources are an appreciating asset bringing continuing returns and constitute the catalyst for world class performance. Being in predominantly service based industries, productivity, efficiency, customer focus, and skills are of vital importance in obtaining a competitive advantage. Corporation with sustainability programs built upon high employee engagement perform better and provide tangible

2.1 Employees safety policies and procedure

According to Factory Ordinance No. 45 of 1942 and Workmen's compensation Ordinance No.19 of 1934, State Timber Corporation has facilitated Employee safety by providing following safety equipments for employees who are working in the field.

Equipments provided – helmets, boots, hand gloves, masks, ear guards, etc.

In addition, the Corporation is planning to provide overall safety uniform for field employees according to suitable measurements from next year.

	2009	2010	2011	2012	2013
Total Employee Cost (Rs. M)	898.65	901.91	953.5	1,065	1,117
Staff Strength	2457	2346	2267	2187	2139

Age wise analysis of employees

Group of Age	No. of Employees
18-25	27
26-35	313
34-40	431
41-45	324
46-50	291
51-55	436
Above 55	317

Category wise analysis of employees

Position	No. of Employees
Senior Managers	9
Middle Managers	64
Junior Managers	145
Management Assistants- Non technical	657
Management Assistants – Technical	35
Primary Level	1245
Casual and Trainees	32

Gender wise analysis of employees

Gender	No. of Employees
Male	1658
Female	481

2.2 Employees Training Programs

Having identifying the importance of the training and development opportunities, Corporation allocates certain portion from the annual budget for training and development programs. The Corporation also concerns such allocation not as cost but valuable investment on human capital. Such HR policy generates opportunities for employees to be developed spontaneously and it stimulates not only unskilled employees but also enhance the competencies of the skilled employees.

Corporation has been providing the variety of training programs for a long time for their employees. In 2013, 277 employees of the corporation were trained in various disciplines at Timber Technology Training Institutes.

According to the HR policy, State Timber Corporation Provides training opportunity not only to managerial level employees but also other employees such as carpenters, polishers, heavy machine operators with the view of grabbing maximum contribution for

the Corporation in routing and enhancing their skills, attitudes and knowledge through number of educational institutions.

The Corporation provides diversified training opportunities for employees throughout our own Timber Technology Training Institution at Kaldemulla and outside institutions.

2.3 Policies and procedures on HR practices

Implementation of Human Resource Policy Manual with the objective of providing an enriched service to our staff members. The policies provide guidelines in relation to the following key HR aspects.

2.3.1 Staff promotions

Structured and organized promotion plans to develop and retain the best talented within the Corporation where individual employees will be evaluated based on the technical competencies, skills and performance.

Training programs conducted by TTTI in 2013

Training Program	Numbers
Management Assistant Training	62
Saw Doctor Training	21
Management Trainee Orientation Program	30
Quality Control Training Workshop for Factory Employees	8

Trainings conducted by consulting external educational organization

Training Category	No. of Courses given
Computer	10
Taxation/EPF & ETF/ Financial Statements	3
Boiler Training	1
Security	1
Hydraulic Trainings	1

2.3.2 Staff transfers

Annual staff transfers procedures to mobilize employees in a most effective manner that supports business growth. Further, the policy focuses on identifying employee grievances and solving them while benefiting both the Corporation and its employees.

medical insurance scheme, the employees as well as their family members are covered as follows.

- ▶ For the individual employee, their parents are covered as dependents
- ▶ For married employee, their spouse and children

2.3.3 Personal loans

Personal loans policy to provide distress, bicycle, furniture, electrical equipment, computer (laptop) and vehicle loans to employees at concessionary rates and textile and festival loans provided to employees without charging any interest rate to fulfill their personal requirements.

Through this scheme, following areas are covered such as indoor benefits, outdoor treatments, critical illness, and cash grants for accidental or normal death, permanent disability, etc. In 2013 corporation has spent Rs. 45,435,277/- on this insurance package. The employees who have not taken the above medical insurance package, may obtain the medical allowance package provided by the Corporation.

2.3.4 Overtime

Overtime procedure that is cost effective to the Corporation and most beneficial to employees.

2.3.7 Mid-day meal and tea allowance

Each and every employee of the Corporation receives Rs. 200/- as mid-day meal allowance.

2.3.5 Grievance handling

Grievance handling policy is implemented with the objective of solving employee grievances in a just and fair manner. Management of the corporation normally practices an open door policy to handle the grievances of the employees. Accordingly, employees always receive convenience through this grievance handling practices.

2.3.8 Shoe allowance

Rs. 2,250/- of shoe allowance is being provided for each and every employee of the Corporation annually.

2.3.6 Medical insurance

We are practicing a comprehensive medical insurance scheme for our employees through leading insurance company. Under this

2.3.9 Cooling allowance

Employees who are working in Nuwara Eliya region are given allowance of 10% of their basic salary as cooling allowance in view of the special climate in such areas.

2.3.10 Bus fare

We are providing half of the bus fare per day for all employees monthly.

2.3.11 Annual bonus

Rs. 12,500/- of annual bonus is being paid to every employee of the Corporation.

2.4 Employee programs

We value our people and ensure they are looked after well. We understand the link between performance and satisfaction and continuously work towards achieving higher level of satisfaction of our employees. With such an objective in mind we conduct the following program annually.

- ▶ Annual sports festival/ New Year programmes
- ▶ Relief schemes to provide a helping hand in natural disasters.
- ▶ Scholarship programmes for employee's children
- ▶ "Sil" observing programmes and "Dharma Deshana"

2.5 Other services

- ▶ Corporation continuously contributes to Employees' Trust Fund, Employees' Provident Fund promptly.
- ▶ Maintain Gratuity Fund to execute statutory requirements as well as for the benefit of the employees.
- ▶ Provides maternity leave thinking those as Corporation liability.
- ▶ Provides cafeteria facilities at fair prices.
- ▶ Provide Circuit bungalows facilities at concessionary rates.

3. Environment

"We are committed to promoting sound environmental practices within our business, through the establishment of policies and practices that enable us to conduct our operations in a sustainable and environmentally sound manner."

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

3.1 Environment protection program/Tree planting program.

- ▶ To mark the World Environmental Day, several programs were conducted.
- ▶ Continuation of "Thurujana Sisu Bank" system- Tree planting program was continued successfully. Accordingly identified schools were given material and monetary aids (seedlings, mammoties, and wheelbarrows), Informative books and leaflets, a package of five agricultural tools. By the above program the interest of the young generation in tree planting has been increased. Considerably which in turn tends to give a clear idea of timber species and its development, the

significance of correct utilization of timber trees upon their reaching maturity.

- ▶ Active contribution to the National Tree Planting program "Dayata Sewana". - 88000 seedlings were distributed which were remanaged and maintained by the nurseries of the Corporation.

3.2 Garbage disposal management

As one of the most environmental centered division in STC, we are in a position to manage even day today waste in a sustainable manner by categorizing them as paper, polythene and organic wastes. Chemical usage for research purpose is managed with due care and attention towards minimizing the leftovers.

4. Society

"We promote good relationships with all communities of which we are a part and enhance their quality of life and opportunities while respecting people's culture, ways of life and heritage"

Society may be defined as a community, a nation, or a broad grouping of people with common traditions, values, institutions, and collective activities and interests.

Corporation played a significant role in providing substantial support for society such as civic and cultural programs, youth activities, student and social activities. We promote good relationships with all communities of which we are a part and enhance their quality of life and opportunities while respecting people's culture, ways of life and heritage.

4.1 Management diary – 2013

As a responsible corporate citizen, we designed the management diary 2013 under the theme of "The Ancient Wooden Furniture of Sri Lanka" was printed aiming to educate the public on the beauty and the glory of wooden furniture and important of conservation of them. It will only educate the local people but also lift the interest of wood industry in Sri Lanka among foreigners.

4.2 Participated in "Dayata Kirula" exhibition

In addition to that, "Dayata Kirula" exhibition stall in Ampara was occupied with many interesting components which had not only entertainment value but also educational value to its viewer. Models of many activities done by STC from timber harvesting to final production was illustrated at the occasion for an example model of sawmill, model of timber seasoning and timber preservation unit etc... which created more awareness in general public about the timber industry. Audio-visual aids like video clips, short films were also used to educate the public on role of STC & the major functions associated with institution.

Through all of these programs we try to upgrade the unfavorable social opinion on timber industry and work out a radiant future to the industry with sustainable forest management.

4.3 Publications of the State Timber Corporation

In printed form more than 100 articles have been published continuing from previous years. Especially "Vidusara" graded scientific newspaper and "Vijaya" have allocated their space for our articles considering the value of information embedded in it. In "Vijaya" 66 paper articles were published. Each poster contains silvicultural information, physical and mechanical wood properties, anatomical wood properties and uses of timber. The updated information contained in those posters was obtained by research division after conducting series of timber based research.

In electronic media popular television channels like Channel Eye, Swarnawahini and ITN allocated their space for formal discussion which not only gave us the opportunity to disseminate knowledge but also to advertise our products to the public.

Awards and Accolades

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



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



2009



2010



2011



2012



2009

2010

2011

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

Green Maco Award 2008 - Sri Lanka Journalist Association

Maco Award For Forestry & Environmental Education - 2010 -Sri Lanka Journalist Association

Award for the most creative exhibition stall - 2009 at "Deyata Kirula" exhibition



Risk Management

"We manage risk at all levels - as an absolutely key part of operational processes, product, design, distribution, and underwriting"

Risk management is the identification, assessment, control, and avoidance, minimization or elimination of unacceptable risks. State Timber Corporation has given due consideration to its risk management process in order to progress towards achievement of its goals and objectives. Risk factors are regularly reviewed to ensure the related risks are minimized where the complete elimination is not possible.

A risk management strategy provides a structured and coherent approach of identifying, assessing and managing risk. We manage risks at all levels - as an absolutely key part of operational processes, product, design, distribution, and underwriting. The company uses the following model in deriving risk management strategy.



"STC is committed to managing risk across the corporation in an appropriate, proportionate and consistent way and ensuring that key risk related issues are addressed in a timely fashion"

Financial Risk Management

Risk Identification	Corporation Objective	Risk Treatment
1. Liquidity & Cash Management	<p>To maintain a robust liquidity position</p> <p>To implement regular financial planning and monitoring systems.</p>	<p>Strategy- risk reduction</p> <p>Cash flow forecasting and maintaining adequate cash and cash equivalent balance.</p> <p>Corporation has sufficient assets to offer as collateral for future funding requirements.</p> <p>All the major funding facilities are handled by Head office.</p> <p>Imposing a proper debt collection policy preventing a build up of bad debts and debtors.</p> <p>Placement of proper authorization levels in order to control expenditures.</p>

2. Interest Rate Risk	To minimize adverse effects of interest volatility.	<p>Strategy- risk reduction</p> <p>Negotiating with banks to obtain the best possible interest rate for Corporation's investments.</p> <p>Negotiating and taking supplier credit to mitigate the high cost and to avoid adverse fluctuations in local interest rates.</p> <p>Maintaining low gearing.</p> <p>Effective working capital management.</p> <p>Applying financial risk management techniques.</p>
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Exchanging information at an earlier stage, before corporation are even drafted, is crucial to having input into strategic decisions

Business Risk Management

Risk Identification	Corporation Objective	Risk Treatment
3. Credit Risk	To minimize risk associated with debtors defaults.	<p>Strategy- Risk Retention</p> <p>Corporation maintains a comprehensive policy to adequately review and provide for doubtful debts.</p> <p>Maintaining a general provision for bad debts in every financial year.</p> <p>Mainly Sales are done on cash basis and credit sales are done according to strict credit policies.</p> <p>All the receivables and payables are closely assessed.</p> <p>Disallowing credit sales for individual customers other than government employees who are ordering under "Prasada Abhimanie" loan scheme.</p> <p>Allowing credit sales for government institutions and they use the Treasury to transfer the payments.</p> <p>Following an assessment procedure to ensure credit worthiness of customers and implementing customer based specific credit policies.</p> <p>Implementing regular monitoring and debt collection procedures.</p>

4. Asset Risk	To minimize losses caused by assets especially from machine breakdowns and damages from fire, employees or theft.	<p>Strategy- Risk Avoidance</p> <p>Obtaining comprehensive insurance covers for plant and machinery.</p> <p>Carrying out planned preventive maintenance programs.</p> <p>Having authority limits and internal controls.</p>
5. Internal Controls	To maintain a sound system of internal controls to safeguard Corporation's assets and to identify failures within the process and to take prompt action to mitigate the risk.	<p>Strategy- Risk Reduction</p> <p>Carrying out continuous internal audits at scheduled times in appropriate manners by internal audit department.</p> <p>Maintaining a proper control system mainly on payment procedures, selection of suppliers, and recruitment process as a state owned business organization.</p> <p>All the financial activities should be carried out in accordance with the finance act.</p>
6. Human Resources	<p>To reduce labor turnover.</p> <p>To ensure smooth flow of operations without interruptions.</p> <p>To ensure adaptability through training and adopting best practices.</p> <p>Attracting and retaining high quality employees.</p> <p>Maintaining good working relations within the Corporation</p>	<p>Strategy- Risk Avoidance</p> <p>Maintaining healthy and cordial relationship with employees at all levels.</p> <p>Providing various employee benefits.</p> <p>Providing specific and general training and development covering all levels of employees wherever necessary.</p> <p>Recruitment process is carried out in accordance with a specific procedure as this is a state owned business enterprise.</p> <div data-bbox="906 1532 1177 1727" style="border: 2px solid #800000; border-radius: 15px; padding: 10px; text-align: center; margin-top: 20px;"> <p>"We treat risk management as a people game"</p> </div>

<p>7. Technological and Quality Related Risk</p>	<p>To keep pace with current technological developments and quality standards to avoid obsolescence.</p> <p>To minimize production of stocks that does not meet the standards.</p> <p>Maintaining a better plan through specific prescribed legal proceedings.</p>	<p>Strategy- Risk Avoidance</p> <p>Developing a long term plan to replace existing machines with technologically advanced machines.</p> <p>Obtaining certifications from relevant authorities and ensuring that products comply with most of the local and international standards.</p> <p>Carrying out research and development activities by Research Division in the Corporation.</p> <p>Already, the equipment required to test the quality of products is in place. Necessary laboratory facilities are provided within the organization to assure the quality of timber products.</p> <p>Conducting internal and external audits.</p>
<p>8. Inventory Management Risk</p>	<p>To reduce stock out situations.</p> <p>To reduce the accumulation of slow moving stocks.</p> <p>To minimize the losses on obsolete stocks.</p> <p>To minimize risk of sub standard material being received.</p> <p>To minimize inventory holding cost.</p>	<p>Strategy- Risk Reduction</p> <p>Planning monthly production based on budgets and sales forecasts at production planning meetings held monthly.</p> <p>Carrying out sales promotions to reduce slow moving stocks. E.g. 'Prasada Abhimani furniture loan provided by STC.</p> <p>Adopting various quality standards at different stages to verify the quality and ensuring this until the product is delivered.</p> <p>Stocks that are not up to standard are separated and disposed as scrap.</p> <p>Continuous stock verification systems to identify non-moving stocks.</p> <p>Regularly monitoring inventory days.</p> <p>Reviewing periodically and providing adequately for slow moving stocks.</p> <p>Ensuring appropriate storage methods.</p>

<p>9. Risk of Competition</p>	<p>To avoid losses of market share due to import of low quality timber products.</p> <p>To increase sales of main products of STC such as logs, sawn timber, sleepers, transmission poles, elephant poles etc.</p> <p>Increase market share through innovations.</p>	<p>Strategy- Risk Reduction</p> <p>To ensure that prevailing quality standards are met.</p> <p>Strengthening STC brand through various paper advertising and promotional campaigns.</p> <ul style="list-style-type: none"> • Ex. Provide 10% interest loan facility by "Prasada Abhimanie" furniture loan with 2 year settlement period for all government employees. • Introduction of credit card sales in 2013. <p>Maintaining product availability in various parts of the country through establishing new and modifying existing showrooms and sales depots.</p> <p>Bringing new concepts to develop existing products and carry out market research for innovate new products to attract more customers.</p> <p>Carry out market research to ascertain customer desires.</p>
<p>10. Investment in Capital</p>	<p>To reduce the risk of loss in present and future investments.</p>	<p>Strategy- Risk Avoidance</p> <p>Investments in assets are properly planned and made on timely basis.</p> <p>Reducing the idle assets to the maximum possible level.</p> <p>Adopting a strict capital expenditure procedure based on level of investment as this is a state owned business enterprise.</p>
<p>11. Information Systems</p>	<p>To minimize possible risks associated with lack of information accuracy, data security, hardware, software and communication systems.</p> <p>To adopt a continuously updated IT policy to keep pace with information technological advances.</p> <p>To ensure uniformity and standardization of IT security measures within the Corporation.</p>	<p>Strategy- Risk Avoidance</p> <p>Constant adherence to IT policy of the Corporation.</p> <p>Data backups are taken regularly and stored in external locations.</p> <p>Mirroring of hard disks with critical data.</p> <p>Vendor agreements for support services and maintenance.</p> <p>Regular upgrading of virus scanners, firewalls and software</p> <p>Regular maintenance of hardware.</p>

<p>12. Environmental Risk</p>	<p>To minimize adverse impact of operations on the environment</p> <p>Adherence to Corporation's environmental policy</p>	<p>Strategy- Risk Avoidance</p> <p>Complying with the standards set by the relevant authorities and ensuring the compliance.</p> <p>Having a strong relationship with stakeholders who are involved in socio-environmental issues in the country.</p>
<p>13. Legal and Regulatory Risk</p>	<p>To minimize possible losses arising from non-compliance with statutory and regulatory requirements.</p> <p>To minimize or take counter measures to reduce the impact arising from changes on regulatory issues</p> <p>To develop robust, effective and flexible structures to successfully face the changes in legal environment.</p>	<p>Strategy- Risk Retention</p> <p>Complying with the requirements of statutory and regulatory bodies.</p> <p>Obtaining advices from the Directors, related officers etc.</p> <p>Monitoring of legal policy trends.</p> <div data-bbox="965 952 1337 1131" style="border: 1px solid black; padding: 5px; text-align: center;"> <p>"We created a risk team to work as an interface with the regulatory authority"</p> </div>
<p>14. Reputaion Risk</p>	<p>To prevent the causes that damages our reputation, brand names and quality of the products.</p> <p>Maintaining strong relationships with stakeholders by building confidence and trust, ensuring operational efficiency and financial transparency.</p>	<p>Strategy- Reduction</p> <p>Having placed a budgetary process and a budgetary control mechanism on a monthly basis to ensure that the Corporation's performance is continuously in line with the targets.</p> <p>Ensuring quality in manufacturing process and compliance with the standards.</p> <p>Ensuring effective communication with various stakeholders such as employees, bankers, regulators, customers, suppliers.</p> <p>Persistent effort in image building through external programmes such as "Ruk ropana" etc.</p>





**REPORT OF THE
AUDITOR GENERAL**



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AUDITOR GENERAL'S DEPARTMENT



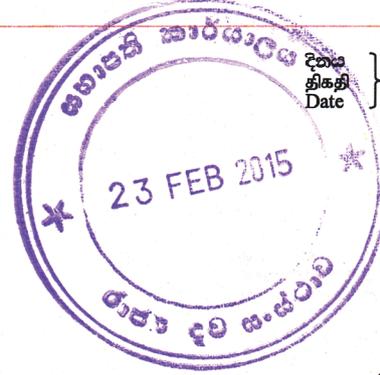
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02. ඉහත සඳහන් ලිපිය සමඟ එවන ලද මාගේ වාර්තාවේ ඉංග්‍රීසි අනුවාදය මේ සමඟ එවා ඇත.


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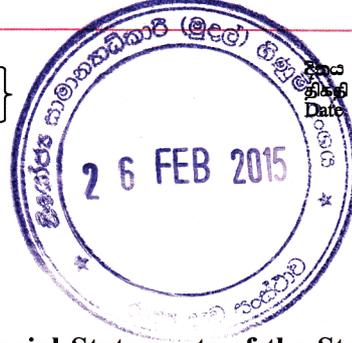
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கணக்காய்வாளர் தலைமை அபிபதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT



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දිනය
திகதி } 12 November 2014
Date }

The Chairman,
State Timber Corporation

Report of the Auditor General on the Financial Statements of the State Timber Corporation for the year ended 31 December 2013 in terms of Section 14(2) (c) of the Finance Act, No.38 of 1971

The audit of financial statements of the State Timber Corporation for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, was carried out under any direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act, No.38 of 1971 and Section, 29 of the State Industrial Corporations Act No.49 of 1957. My comments and observations which I consider should be published with the Annual Report of the Corporation in terms of Section 14(2) (c) of the Finance Act appear in this report. A detailed report in terms of Section 13 (7) (a) of the Finance Act was issued to the Chairman of the Corporation on 19 May 2014.

1.2 Managements Responsibility for the Financial Statements

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

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Accounting Standards consisted with International Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.





An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub- sections (3) and (4) of the Section 13 of the Finance Act, No.38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

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

1.4 Basis for Qualified Opinion

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

2. Financial Statements

2.1 Qualified Opinion

In my opinion except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the State Timber Corporation as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2. Comments on Financial Statements

The following non-compliances with Sri Lanka Accounting Standards were observed.

(a) Sri Lanka Accounting standard-16

- (i) Action had not been taken to revalue and account for the 6,705 items of assets costing Rs.794, 855,634 and with net value of Rs.83,525 as at the end of the year under review and the property, plant and equipment costing Rs.5,827,394 and shown at zero value as at the end of the year which are still being used by the Corporation.
- (ii) The method of depreciation applied in respect of fixed assets should be reviewed at the end of each financial year and if the pattern of economic benefit received therefrom is considerably changed, the method of depreciation should be changed to reflect that pattern. However, the Corporation had not complied with those requirements.
- (iii) Even though the entire class of property should be revalued in the revaluing of property, plant and equipment, action had not been taken to revalue all the lands transferred from the Department of Forests and disclose in the all financial statements.

(b) Sri Lanka Accounting Standard-37

When the liability can be specifically estimated and the liability is specific, provision for contingent liabilities should be made. Nevertheless, provision for the payment of arrears of salaries amounting to Rs.1,957,174 payable to an officer who had been interdicted but subsequently exonerated from the charges, had not been made by the Corporation.



(c) Sri Lanka Accounting Standard-40

A part of the Head Office building of the Corporation had been rented out to private parties. (The net value of the building as at 31, December 2013 amounted to Rs.5) Action had not been taken to assess the rented out part and the part used by the Corporation separately and to disclose in the financial statements as investment assets and property, plant and equipment respectively.

2.2.2 Unreconciled Control Accounts

The following differences were observed in a reconciliation of the balances shown in the accounts presented as at 31 December 2013 with the relevant schedules.

Particulars	Balance according to the Account	Balance according the Schedules	Difference Increase/(Decrease)
	Rs.	Rs.	Rs.
Mechanical Engineering Division-Kaldemulla			
Stock and Spare Parts Account	20,796,319	20,689,413	106,906
Furniture Complex at Boosa			
Provision for Retirement Gratuity	3,973,635	3,734,080	239,555
Timber Complex at Boosa			
Provision for Retirement Gratuity	11,133,346	12,015,148	(881,802)

2.2.3 Unexplained Differences

According to the financial statements, the stumpage payable to the Department of forest as at the end of the year under review amounted to Rs.661,562,629 whereas according to the records of the Department, the stumpage receivable from the Corporation amounted to Rs.706,610,518. The difference of Rs.45,047,889 was not explained to audit.

2.2.4 Lack of Evidence for Audit

The following observations are made.

- (a) Evidence in support of the expenditure of Rs.1,100,000 incurred for food and T-shirts provided to employees participated in the “Shramabhimani” meeting was not made available for audit.
- (b) Ever though payments amounting to Rs.743,295 and Rs.1,113,062 had been made for the first and the second additional works of the construction contract of the Sellakataragama Circuit Bungalow respectively, measurement sheets. work reports or bills were not made available.

2.2.5 Deficiencies in Contract Administration

An overpayment of Rs. 2,174,394 had been made in excess of the of actual expenditure in making payments on the Sellakataragama Circuit Bungalow construction contract.

2.3 Accounts Receivable and Payable

The following observations are made in respect of trade debtors and other accounts receivable.

- (a) According to the financial statements presented, Trade Debtors receivable as at 31 December of the year under review amounted to Rs.475,392,716. Out of this Rs.12,442,454, Rs.5,105,542 and Rs.45,134,668 had been the balances older than 4 years, 3 years and 2 years respectively.



- (b) Action had not been taken to recover the dues amounting to Rs.568,500 receivable from a Government Department from years prior to the year 2009 and Rs.11,873,954 relievable from a private company, term in year 1983 even up to the end of August 2014. The recoverability of these debts appear uncertain.
- (c) Debts receivable from 35 Government Institutions over periods ranging from 1 to 2 years amounted to Rs.48,830,545 and the amount receivable from a private firm since the year 2012 amounted to Rs. 108,329.
- (d) Values written off as bad debts in the years 2010 and 2012 amounted to Rs.1,780,932 and Rs.3,877,002 respectively and the approval of the Treasury for that had not been obtained.
- (e) Loans recoverable from 27 Public Officers who had purchased furniture on credit basis under the “Prasada Abimani” Scheme amounting to Rs.693,435 had remained outstanding from 1 to 4 years and action had not been taken to recover these outstanding debts from the parties concerned.
- (f) Action had not been taken to recover the sundry debtor balances of 7 Regions amounting to Rs.555,346 remaining outstanding for periods from 2010 to 2013.
- (g) Advances paid to timber suppliers should be deducted from the last payment after the completion of the supply. As action had not been taken accordingly, a sum of Rs.1,358,192 relating to 03 Regions respect of the years from 2010 and 2012 had to be further recovered.
- (h) The Corporation had granted an interest free loan of Rs.2, 000,000 in the year 1988 to the Katharagama Ashtapala Fund. A sum of Rs.38, 000 had been recovered during the year under review and the balance further recoverable amounted to Rs.1,037,000.

The following observations are made in respect of the trade creditors and other accounts payable.

- (a) The stumpage payable to the Department of Wildlife and the Department of Forests by the end of the year under review amounted to Rs. 335,619 and Rs.661,562,629 respectively and action had not been taken to settle those amounts.
- (b) Action had not been taken either for writing back to income or the settlement of liabilities included in the refundable bid deposits amounting to Rs.6,565,130 and security deposits amounting to Rs.12,508,011 remaining over periods ranging from 01 year to 05 years.
- (c) Deposits of Rs.4,674,305 retained at the completion of various supplies and constructions included balances that remained for over 1 year. Action had not been taken to settle those.
- (d) Action had not been taken to settle the gang nail deposit of Rs.2,295,360 remaining for more than one year.

2.4 Non-compliance with Laws, Rules, Regulations and Management Decisions

Instances of non-compliance with laws, rules, regulations and management decisions are given below.

Reference to Laws, Rules, Regulations, etc.	Non- compliance
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka (i) Financial Regulation 104 (3)	Long delays were observed in submission of reports through form General 283 relating to 07 events that occurred in the previous years and the year under review.



- (ii) Financial Regulation 104 (4)

The full report in respect of accidents to 03 motor vehicles had not been made available for audit.
- (iii) Financial Regulation 110

A Register of Losses and Damage had not been maintained even up to the date of audit on 31 July 2014.
- (iv) Financial Regulation 571 (2)

Action in terms of this Regulation had not been taken in respect of deposits amounting to Rs.3,319,300 made by suppliers of goods and contractors lapsed for over 2 years.
- (b) Section 10 of the Establishments Code of the Democratic Socialist Republic of Sri Lanka and the Public Enterprises Circular No. 118 (a) dated 23 May 1997

One twentieth allowance totaling Rs.227,256 had been paid to 8 Executive Officers of the Corporation from January to June 2013 as “ex-gratia payment” contrary to the provisions in the Establishments Code.
- (c) Manual Of Consultancy Services of the National Procurement Agency of 2007

 - (i) Section 2.2.1

Although the Technical Evaluation Committee to select the Consultancy firm should be appointed by the Secretary to the line Ministry such instructions had not been complied with in the appointment of relevant committee.
 - (ii) Section 2.6.3

In the establishment of committees for the selection of consultancy services institutions action had not been taken in accordance with instructions of this section.

(d) Procurement guidelines of 2006

(i) Section 2.8.1

Technical Evaluation Committees should be appointed before calling for bides procurements and construction contracts. However the Evaluation Committee had been appointed only after calling for bids and the receipt of Quotations.

(ii) Section 2.8.4

(i) In purchasing technical equipment with high values an outside person who has the expertise knowledge should be appointed to the Technical Evaluation Committee. Nevertheless the Corporation had not appointed such a person to the committee.

(ii) Even though the maximum members of a procurement Technical Evaluation Committee should be 5 a sum of Rs.26,000 had been paid to members who had participated in excess of that limit.

(e) Management Services Circular No.39 of 26 May 2009 and the Scheme of Recruitment

(i) Salary increments had been granted to 16 Senior Management Officers of the Corporation and a sum of Rs.398,320 had been paid by 30 April 2014 contrary to circular instructions. In addition 5 per cent of special allowance amounting to Rs.19,916 and 15 per cent of allowance amounting to Rs.59,748 computed on the value of the salary inovements over paid had been paid .



- (ii) Salary increments had been granted to 2 officers without the approval of the Department of Management Services on merit basis and a sum of Rs.368,200 had been paid thereon.

3. Financial Review

3.1 Financial Results

According to the financial statements presented the operations of the Corporation had resulted in a net profit of Rs.339,127,677 for the year under review as compared with the net profit of Rs.201,681,308 for the preceding year, thus showing an increase of Rs.137,446,369 in the net profit. The decrease of the levy paid to the Treasury in the year under review by Rs.550 million as compared with the preceding year had been the main reason for the increase of pre-tax net profit.

3.2 Analytical Financial Review

Actual operating and the liquidity ratios of the year under review and the preceding year are given below.

	2013 Percentage	2012 Percentage
(a) <u>Operating Ratios</u>		
Gross Profit Ratio	41.38	47.29
Net Profit Ratio	11.48	6.17
(a) <u>Liquidity Ratios</u>		
Current Ratio	3:1	3.74:1
Quick Ratio	2.06:1	2.75:1

The following observations are made in this connection.

- (i) Sales turnover and the gross profit ratios had dropped by 11.5 percent and 5.91 percent respectively in the year under review as compared with that of the previous year.
- (ii) Even though the other operating income had decreased by 19.28 per cent in the year under review as compared with that of the previous year, the levy paid to the Treasury had decreased by 91.67 per cent and as such the net profit ratio had increased by 5.31 per cent. In review of the material decrease of the levy paid to the Treasury net profit ratio of 6.17 per cent in the previous year had increased to 11.48 per cent in the year under review.

4. Operating Review

4.1 Performances

According to the Action Plan for the year under review, it was planned to generate a total income of Rs.1,254 million consisting of Rs.429 million and Rs.825 million from sale of sawn timber and sleepers respectively. However, the actual sales income amounted only to Rs.623 million, representing 50.3 per cent. Failure to implement strategic marketing plans and the preparation of unrealistic estimates by the Corporation had affected this situation.

4.2 Transaction of Contentious Nature

- (a) Due to discrepancies caused by selling the good condition timber removed from the area submerging under “Rambaken Oya” reservoir by classifying as class II timber or lower than that at low prices in wayside sales and by cutting trees outside the approved limit of “Rambaken oya” Project, a loss of Rs.35,169,565 had been caused the Government.

The following matters were observed in this connection.

- (i) According to the agreement entered into by the contractors with the Corporation the contractor had not supplied timber stores in terms of the agreement and rates at Mansala had been reduced on requests made by contractors, contrary to the



conditions of contract in certain instances without written requests of contractors and marketing timber which should be supplied to Corporation timber stores classified as special class and above the class II timber kept for the Mansala sales had been the main reason for these discrepancies.

- (ii) Incorrect price reductions had been recommended by the Assistant Manager and the Manager (Ampara). Those incorrect recommendations were approved by the Head Office authorities and as such timber in good condition had been sold at lesser prices.
- (iii) As the Deputy General Manager Operations had recommended, action had not been taken to fell timber through a Corporation method using plant and machinery, as there are no geological variances in the work sites. However prices had been reduced stating that work sites were in most difficult areas, beneficial to the contractors. Similarly, a contractor had made a request on 17 June 2009 to reduce the rates at wayside sales stating that the work site is in difficult area the Price Committee had reduced the prices on 16 June 2009 request even before the contractor's request was made.
- (iv) In grading timber as good condition and sub grade timber, all timber, not coming under the good condition had been graded as a sub grade. E.g.: Both logs with 5 percent defects and 95 percent defects had been marketed at the same price.
- (v) Even though it was informed that Satin wood should be supplied, without doing so, those were referred to Mansala sales.
- (vi) Trees had been felled outside the approved limit of "Rambaken oya" Project. Statements of the Irrigation Engineer confirmed that trees were felled beyond the limit at the first stage and varieties of trees had been felled specially far beyond the Monaragala District boundary. According to the statements of the District Secretary Ampara "This is not a mistake in an administrative process but an organized grave forest crime purposely done." According to paragraph 21(1) of the report No: 01/01/03/03/27/10 dated 17 September 2011 issued by the Chief Internal Auditor of the Ministry of Environment, very valuable trees such as

Kumbuk, satin wood, etc. had been felled and removed in the area, not within the submergence of the reservoir as well as in the area not approved for removal. Trees were felled beyond the Monaragala District boundary, though not-approved so far.

4.3 Uneconomic Transactions

The following matters were observed.

- (a) Even though then Corporation had set up a joint venture in the year 2001 by incurring an initial expenditure of Rs.468,000 and investing a sum of Rs.30, 000,000 in a company, the Corporation had not received any return up to date.
- (b) In selecting a suitable institution from the quotations submitted by the consultancy firms for consultancy services, the bid had not been awarded to the lowest bid contrary to the inductions in the Manual of Consultancy Services and as such the Corporation had incurred a financial loss of Rs.1,738,000.

4.4 Personnel Administration

Contrary to the instructions stated in the letter No.DMS/E2/2/58/4/371/1/1 dated of March 2011 of the Department of Management Services, 26 posts of Management Trainees had been recruited without the Treasury approval. Similarly 14 unqualified persons had been called for the interview and 03 of them had been recruited to the posts by awarding makes spuriously.

4.5 Motor Vehicles Utilization

A Jeep purchased in the year 2012 at a cost of Rs.9,296,000 for the Chairman had met with accidents in 4 instance out of which 3 accidents had occurred when the vehicle was driven by the Chairman. Losses caused to the vehicle while being driven by the Chairman in 2 instances amounted to Rs.60,788 and Rs.294,276 respectively. However action had not been taken to recover the loss in terms of Financial Regulations. Likewise, this vehicle had been severely damaged due to the last accident occurred on 20 January 2013 but the loss sustained by the Corporation from that accident had not been estimated even up to the end of August 2014.



5. Accountability and Good Governance

5.1 Corporate Plan and Strategic Plan

The following observations are made.

- (a) The Corporate Plan for the period 2013-2017 had been submitted to the Auditor General only on 17 December 2013 contrary to Section 5.1.1 of the Public Enterprises Circular No: PED 12 of 02 June 2003.
- (b) Even though the strategies to be followed in the year under review for the achievement of the goals and targets for the years 2013 - 2017 had been stated in the Corporate Plan the Corporation had not been able to implement the strategies for the year under review due to the delay in the preparation the Corporate Plan.
- (c) Information regarding the performance achieved in the year 2013 out of 50 Programs expected to be implemented during the year under review had not been made available for audit.
- (d) The following objectives stated in the State Industrial Corporations Act, No.49 of 1957 and the Gazette Extraordinary No: 178/10 dated 05 February 1982 and No: 1190/7 dated 26 June 2011 under expansion of the scope of the Corporation had not been included in the objectives of the Corporate Plan and as such action had not been taken to achieve those objectives by the Corporation.
 - (e) Commencement of Agricultural Products.
 - (f) Export of timber related finished and semi-finished products.
 - (g) Import of Cane.

5.2 Procurement Plan

There were differences between the information stated in the Procurement Plan prepared and the budget information but the Procurement Plan had not been reviewed and updated.

5.3 Budgetary Control

Variiances ranging from 4 per cent to 25 per cent were observed between the budget prepared by the Corporation and the actual values thus indicating that the budget had not been made use of as an effective instrument of financial control.

5.4 Unresolved Audit Paragraphs

Even though the Chairman of the Corporation had informed on 28 June 2013 that further action would be taken after the receipt of the Report of the Joint Committee appointed to recommend the action to be taken against the contractor and the Corporation officers in respect of unauthorized felling in the Bangalawatta Chapelton commercial level plot of land, no action whatsoever had been taken in that connect even by 31 July 2014.

6. Systems and Controls

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

- (a) Budget
- (b) Stock Control
- (c) Fixed Assets Management
- (d) Contract Administration
- (e) Procurement
- (f) Accounting
- (g) Human Resources Management

W.P.C. Wickramaratne
Acting Auditor General





ANNUAL ACCOUNTS

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st December

2013

2012

	Notes	Rs.	Rs.
Turnover	2	2,893,651,289	3,269,514,359
Cost of sales	3	(1,696,133,479)	(1,723,407,642)
Gross profit on operation		1,197,517,810	1,546,106,717
Other income			
Operating	6.2	61,498,711	76,187,627
Non-operating	6.1	258,397,070	217,687,637
Total net income		1,517,413,591	1,839,981,981
Selling and distribution expenses	4	(483,276,150)	(454,741,376)
Administration expenses	5	(651,800,681)	(583,559,297)
Profit before levy		382,336,761	801,681,308
Levy paid to treasury		(50,000,000)	(600,000,000)
Profit after levy		332,336,761	201,681,308
Taxation for the year	7	(150,222,702)	(37,029,955)
Profit after taxation		182,114,059	164,651,354
Other comprehensive income		-	-
Total comprehensive income for the year		182,114,059	164,651,354

STATEMENT OF FINANCIAL POSITION

2013

As at 31st December

2012

	Notes	Rs.	Rs.
ASSETS			
Non-current assets			
Property plant and equipment	8	906,902,528	708,405,958
Intangibles	9	2,237,142	2,839,450
Biological assets		3,184,890	-
Deposits with treasury		2,966,000	2,966,000
Security deposits - staff		44,231,056	41,134,306
Investments	10	567,085,340	520,071,129
Prepaid staff benefit		46,927,158	48,204,913
Deferred tax asset	7.2	33,396,804	51,736,743
Capital work in progress		51,603,590	104,521,423
Total non-current assets		1,658,534,509	1,479,879,922
Current assets			
Inventories	11	988,883,042	770,970,524
Trade and other receivables	12	890,708,037	1,138,101,907
Income Tax recoverable	17	-	29,473,789
Investments in fixed deposits	10.2	1,203,491,399	865,105,783
Cash and cash equivalents	13	70,694,647	125,532,889
Total current assets		3,153,777,126	2,929,184,893
TOTAL ASSETS		4,812,311,635	4,409,064,815
EQUITY AND LIABILITIES			
Capital and reserves			
Authorized		75,000,000	75,000,000
Contributed capital	14	41,503,668	41,503,668
Revenue reserves		3,110,175,859	2,935,644,568
		3,151,679,527	2,977,148,236
Staff loan revolving fund	15	225,543,133	218,784,628
Total equity		3,377,222,660	3,195,932,864
Non current liabilities			
Retirement benefit obligation	16	340,599,947	367,895,815
Security deposits - staff		44,231,056	41,134,306
Total non-current liabilities		384,831,003	409,030,121
Current liabilities			
Income tax liabilities	17	88,581,787	-
Trade and other payables	18	961,676,185	804,101,830
Total current liabilities		1,050,257,972	804,101,830
Total liabilities		1,435,088,975	1,213,131,951
TOTAL EQUITY AND LIABILITIES		4,812,311,635	4,409,064,815

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



Chairman - State Timber Corporation
On behalf of the Board of Directors



General Manager
State Timber Corporation

Date: 07th July 2014

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STATEMENT OF CHANGES IN EQUITY

	Contributed capital Rs.	Staff loan revolving fund Rs.	Revenue reserves Rs.	Total Rs.
Balance as at 1st January 2012	41,503,668	208,105,464	2,770,993,214	3,020,602,346
Adjustment during the year	-	915,971	-	915,971
Comprehensive income for the year			164,651,354	164,651,354
Staff loan interest for the year		9,763,193	-	9,763,193
Balance as at 1st January 2013	41,503,668	218,784,628	2,935,644,568	3,195,932,864
Adjustment during the year	-	(824,263)	-	(824,263)
Comprehensive income for the year			182,114,059	182,114,059
Staff loan interest adjustment		7,582,768	(7,582,768)	-
Balance as at 31st December 2013	41,503,668	225,543,133	3,110,175,859	3,377,222,660

CASH FLOW STATEMENT

For the year ended 31st December

2013

2012

	Rs.	Rs.
<u>Cash flows from operating activities</u>		
Cash receipts from customers	3,100,220,273	3,002,183,743
Cash paid to suppliers and employees	(2,692,082,754)	(2,480,260,536)
Cash generated from operating activities	408,137,519	521,923,207
Income tax paid	(13,827,187)	(216,105,005)
Special levy paid to the treasury	(50,000,000)	(600,000,000)
Net cash inflow/(outflow) from operating activities	344,310,332	(294,181,798)
<u>Cash flows from investing activities</u>		
Purchase and construction of property, plant & equipment	(329,685,077)	(162,337,308)
Developments of biological assets	(3,184,890)	-
Investments	(385,399,827)	349,222,033
Income from investments	247,383,991	132,563,949
Proceeds from disposal of property, plant and equipment	9,112,038	4,751,835
Work in progress	52,917,833	(45,911,084)
Staff loan revolving fund	9,707,359	9,763,193
Net cash inflow/(outflow) from investing activities	(399,148,574)	288,052,618
<u>Cash flows from financing activities</u>	-	-
Net increase/(decrease) in cash and cash equivalents	(54,838,242)	(6,129,180)
Cash and cash equivalents at the beginning of the year (Note-13)	125,532,889	131,662,069
Cash and cash equivalents at the end of the year (Note-13)	70,694,647	125,532,889

State Timber Corporation

Notes to the Financial Statements

For the year ended 31st December 2013

1.1 Reporting Entity

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

1.1.1 Date of authorization for issue

The Financial Statements of the Corporation for the year ended 31st December 2013 were authorized for issue in accordance with a resolution of the Board of Directors on 7th July 2014.

1.1.2 Responsibility for financial statements

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

1.1.3 Number of employees

The employees' strength of the Corporation as at 31st December 2013 is 2,139. (2012-2187).

1.2 Basis of Preparation

1.2.1 Statement of compliance

The Statement of Financial Position, Statement of Comprehensive Income, Changes in Equity and Statement of Cash Flow, together with the notes, (the "Financial Statements") of the Corporation as at 31st December 2013 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.

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 Foreign currency transactions

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

1.2.5 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.

1.2.6 Taxation

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

1.3 Assets and Basis of the Valuation

1.3.1 Property, plant and equipment

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

1.3.2 Gains and losses on disposal

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

in Statement of Comprehensive Income.

1.3.3 Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Corporation, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

1.3.4 Derecognition

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 derecognised.

1.3.5 Depreciation

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

Buildings Permanent	2.5%
Buildings Semi-Permanent	30.0%
Plant and Machinery	10.0%
Vehicles	20.0%
Roadways and Railways	5.0%
Leasehold Lands	5.0%
Road Construction	10.0%

Furniture and Fittings	15.0%
Office Equipment	15.0%
Miscellaneous Assets	20.0%
Computers	20.0%

Lands taken over from the Forest Department had not been revalued in accordance with Sri Lanka Accounting Standard due to absence of clear title deeds and action will be taken for revaluation in due course.

1.3.6 Intangible assets

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

1.3.7 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.

Tea, rubber, other plantations and nurseries are classified as biological assets.

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.

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. The cost is treated as approximation to fair value of young plants as the impact on biological transformation of such plants to price during this period is immaterial.

1.3.8 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.

1.3.9 Investments

1.3.9.1 Long term investments stated at cost

1.3.9.2 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.

1.3.9.3 Investment at Lanka Timber Plantation Industries Ltd

No dividend ever been received from this investment and also the possibility of recovery of this investment amounting to Rs.30 Million is uncertain.

1.3.10 Current assets

Assets classified as current assets on the Statement of Financial Position are cash and bank balances and those which are expected to be realized in cash during the normal operating cycle or within one year from the Statements of Financial Position date, whichever is shorter.

1.3.11 Debtors and receivables

Debtors and other receivables are stated at the amount that they are expected to realize. Bad debts are written off and provisions for doubtful debts are made against those debtors to cover expected losses as follows.

Specific provision – 100% in respect of debtors of which age is over 5 years

General provision – 5% in respect of the balance debtors as at 31.12.2013

1.3.12 Inventories

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

1.4. 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.

1.4.1 Retirement benefit

Employees who have completed 5 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 2013. The defined

benefit obligation is calculated annually using the Formula method. The Corporation has invested in fixed deposit account, in People's Bank in order to meet future liabilities.

1.4.2 Trade and other payables

Trade and other payables are stated at their cost.

1.4.3 Contingencies

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

Corporation has a dispute with a trade supplier regarding import of creosote from previous year. LC margin amounting to US \$ 54,490.51 is not released and withheld at the bank due to this dispute.

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

The Government had sustained a loss due to discrepancies occurred in removing timber from submerging areas of Rambakenoya reservoir. "B" report has been presented by Forest department to the Dehiaththakandiya court. Corporation has explained reasons regarding the issue to Attorney General's Department and still Attorney General's Department has not filed a case.

1.5. Statement of Comprehensive Income

For the purpose of presentation of the Statement of Comprehensive Income, the function of expenses method is adopted, as it represents fairly the elements of Corporation performance. Income and expenditure are recognized on accrued basis.

1.5.1 Revenue recognition

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. The timber has been issued to the employees of the State Timber Corporation and the Forest Department, under the scheme of 25% concessionary rate. This is included in the account of welfare facilities.

1.5.2 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.

1.5.2.1 Income tax

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

Current tax is the expected tax payable or receivable on

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

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

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

1.5.2.2 Stumpage payment

The stumpage payment for the year 2013 has been calculated on actual felled timber volume basis.

1.5.2.3 Cost allocation

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

1.5.3 Events occurring after the statements of financial position Date

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

1.6 Staff Loan Revolving Fund

This fund is created to grant the loans to corporate employees. The amount of interest received from staff loans stated as other income in Statement of Comprehensive Income. Interest income received after tax is transferred to staff loan revolving fund to buildup fund. Employee loans disbursements limit to the available fund balance in the staff loan revolving fund.

1.7 Statement of Cash Flow

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

Notes to the Accounts

02. Turnover	2013	2012
	Rs.	Rs.
Logs - crown lands	1,557,424,218	1,746,652,321
Logs - private lands	8,242,305	25,253,058
Sawn timber	170,298,367	205,378,107
Sleepers - private lands	218,085,380	94,220,880
Sleepers - crown lands	234,746,032	649,355,187
Transmission poles - crown lands	208,271,838	246,099,640
Transmission poles - private lands	4,511,925	14,542,820
Elephant poles	86,554,236	62,338,327
Others	24,707,962	28,847,923
Forest offence timber	39,668,133	26,697,383
State land donated timber	201,425,749	105,927,554
Furniture	198,529,090	129,648,584
Gross turnover	2,952,465,235	3,334,961,784
Less:		
Nation building tax	(58,716,558)	(65,163,299)
Commission on sales	(97,388)	(284,126)
Total	2,893,651,289	3,269,514,359

03. Cost of sales	2013	2012
	Rs.	Rs.
Depots and wayside depots	723,341,531	703,426,840
Impregnation plants	604,406,762	715,799,997
Furniture plants	146,648,802	105,398,942
Wayside sales	221,736,385	198,781,863
Total	1,696,133,479	1,723,407,642

04. Selling and distribution expenses	2013	2012
	Rs.	Rs.
Depots	447,048,227	432,308,448
Impregnation plants	9,821,782	190,050
Furniture plants	17,261,135	14,324,490
Regional manager office and head office	9,145,006	7,918,388
Total	483,276,150	454,741,376

05. Administration Expenses		2013	2012
		Rs.	Rs.
Impregnation plants		22,184,888	29,515,865
Furniture plants		24,573,880	20,532,566
Regional manager office and head office		597,934,435	529,432,952
Circuit bungalows		7,107,478	4,077,914
Total		651,800,681	583,559,297
06. Other Income		2013	2012
	Notes	Rs.	Rs.
6.1 Non-operating income	6.3		
Interest income - investments		226,670,712	200,306,818
Foreign exchange gains/(losses)		4,723	2,226,331
House rent		14,991,686	15,154,488
Gratuity over provision		6,198,327	-
Staff loan interest		10,531,622	-
		258,397,070	217,687,637
6.2 Operating income	6.3		
Miscellaneous income		38,025,841	60,105,414
Fines-contractors and suppliers		543,947	1,235,994
Over provision of stock		10,046,557	10,802,317
Debtors over provision		9,894,147	1,378,584
Recovery on shortages and losses		1,000,453	1,145,652
Non refundable tender deposits		1,987,765	1,519,666
		61,498,711	76,187,627
Total		319,895,781	293,875,264

6.3 Analysis of other income for the year 2013

Income source	Unit							Total
	Depots	Impregna- tion plants	Furniture plants	Regional offices and Head office	Circuit Bunglows	Timber cost	Saw- mills	
Non-operating income								
Interest income - investments	-	-	-	226,670,712	-	-	-	226,670,712
Foreign exchange gains/(losses)	-	-	-	4,723	-	-	-	4,723
House rent	-	-	-	14,991,686	-	-	-	14,991,686
Gratuity over provision	2,660,942	118,219	685,688	1,515,478	-	628,445	589,555	6,198,327
Staff loan interest	-	-	-	10,531,622	-	-	-	10,531,622
	2,660,942	118,219	685,688	253,714,221	-	628,445	589,555	258,397,070
Operating income								
Miscellaneous income	30,331	105	-	37,204,518	790,887	-	-	38,025,841
Fines-contractors and suppliers	-	-	-	543,947	-	-	-	543,947
Over provision on stock deterioration	8,856,052	1,136,872	53,632	-	-	-	-	10,046,557
Over provision on doubtful debtors	380,313	9,478,515	35,319	-	-	-	-	9,894,147
Recovery on shortages and losses	-	-	-	1,000,453	-	-	-	1,000,453
Non refundable tender deposits	-	-	-	1,987,765	-	-	-	1,987,765
	9,266,696	10,615,492	88,951	40,736,684	790,887	-	-	61,498,711
Total	11,927,639	10,733,711	774,640	294,450,905	790,887	628,445	589,555	319,895,781

07. Taxation expenses	Notes	2013	2012
		Rs.	Rs.
<u>Current tax expenses</u>			
Income tax on profit for the year	7.1	131,882,763	88,766,698
Over/under provision of previous year		-	-
		<u>131,882,763</u>	<u>88,766,698</u>
<u>Deferred tax expense</u>			
Origination and reversal of temporary differences	7.2	18,339,939	(51,736,743)
		<u>18,339,939</u>	<u>(51,736,743)</u>
Tax charge for the year		<u>150,222,702</u>	<u>37,029,955</u>

7.1 Income tax on profit for the year	2013	2012
	Rs.	Rs.
Profit before taxation	332,336,761	201,681,308
Aggregate disallowable expenses	103,786,686	126,099,101
Aggregate allowable expenses	(445,416,409)	(362,866,281)
Profit from business	(9,292,962)	(35,085,872)
Non business income	241,667,121	217,687,637
Taxable income	<u>232,374,159</u>	<u>182,601,765</u>
Income tax at 28%	65,064,764	51,128,494
Deemed dividend tax	66,817,999	37,638,204
Total	<u>131,882,763</u>	<u>88,766,698</u>

7.2 Deferred tax	Temporary difference	Tax effect (asset)/ liability
	Rs.	Rs.
Balance as at 01st January 2013	(184,774,082)	(51,736,743)
Amount origination during the year	65,499,781	18,339,939
Balance as at 31st December 2013	<u>(119,274,301)</u>	<u>(33,396,804)</u>
Temporary difference of property plant and equipment	221,325,646	61,971,181
Temporary difference of retirement benefit obligations	(340,599,947)	(95,367,985)
Carried forward tax losses	-	-
Balance as at 31st December 2013	<u>(119,274,301)</u>	<u>(33,396,804)</u>

08. Property, plant & equipment

Description	Cost				Depreciation				Carrying amount as at 31.12.13
	Balance as at 01.01.13	Additions	Dispos- als	Balance as at 31.12.13	Balance as at 01.01.13	Disposals	Charge for the year	Balance as at 31.12.13	
Land	70,787,331	15,243,849	9,452,458	76,578,722	-	-	-	-	76,578,722
Buildings	469,178,798	159,684,616	30,213,126	598,650,288	133,882,312	3,426,157	11,824,409	142,280,565	456,369,723
Stacking sheds and other buildings	17,936,852	1,319,925	-	19,256,777	16,729,401	-	586,703	17,316,104	1,940,673
Roadways and railway lines	16,598,376	-	-	16,598,376	4,193,295	-	795,744	4,989,039	11,609,337
Plant and machinery	555,650,767	70,738,492	490,000	625,899,259	439,220,447	250,773	22,583,866	461,553,541	164,345,719
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	4,752,792	395,469	-	5,148,261	4,627,344	-	98,631	4,725,977	422,284
Electrical equipments	10,245,098	3,224,348	15,870	13,453,576	6,594,154	9,522	712,901	7,297,534	6,156,042
Vehicles	451,552,432	53,981,650	3,342,727	502,191,355	318,554,165	3,180,452	46,531,677	361,905,390	140,285,966
Furniture and fittings	23,397,846	12,034,044	43,180	35,388,711	13,979,799	43,150	3,326,212	17,262,861	18,125,849
Office equipments	28,649,008	2,312,874	42,000	30,919,882	21,981,430	41,995	1,968,537	23,907,972	7,011,910
Computers and accessories	46,006,362	6,156,175	-	52,162,537	30,367,349	-	4,391,389	34,758,738	17,403,799
Miscellaneous assets	16,296,600	4,593,634	-	20,890,234	12,516,608	-	1,721,121	14,237,729	6,652,505
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	1,716,879,656	329,685,077	43,599,361	2,002,965,372	1,008,473,698	6,952,048	94,541,191	1,096,062,844	906,902,528

09. Intangible assets

Description	Cost			Amortization				Carrying amount as at 31.12.13
	Balance as at 01.01.13	Additions	Disposals	Balance as at 31.12.13	Balance as at 01.01.13	Disposals	Charge for the year	
Compute Software	3,011,537	-	-	3,011,537	172,087	-	602,307	2,237,142
Total	3,011,537	-	-	3,011,537	172,087	-	602,307	2,237,142

Notes to the Accounts

10. Investment			
10.1 Investment - Long term		2013	2012
As at 31 st December 2013		Rs.	Rs.
<u>Investments in fixed deposits</u>			
People's bank		117,100,000	117,100,000
Government ins. temporary surplus trust fund		338,010,495	298,546,189
State mortgage and investment bank		81,474,845	73,924,940
		536,585,340	489,571,129
<u>Investment in shares</u>			
Land reclamation and development board		500,000	500,000
Lanka timber plantation Ltd.		30,000,000	30,000,000
		30,500,000	30,500,000
Total		567,085,340	520,071,129
10.2 Investment - Short term		2013	2012
As at 31 st December		Rs.	Rs.
<u>Investment in fixed deposits</u>			
People's bank		694,408,552	606,972,649
Bank of Ceylon		509,082,847	258,133,134
Total		1,203,491,399	865,105,783
11. Inventories		2013	2012
As at 31 st December		Rs.	Rs.
Stock-in-trade	Note 11.1	899,863,184	713,426,744
Stock deteriorations		(118,981,084)	(86,559,171)
		780,882,100	626,867,573
Goods in transit		45,141,546	32,030,180
Work in progress		21,137,014	10,328,209
Consumables and spare parts		107,385,216	79,815,620
Preservatives		20,049,766	3,677,605
Fuel and oil		2,903,761	2,480,543
Stationary stock		11,383,639	15,770,792
Total		988,883,042	770,970,524
11.1 Analysis of inventories		2013	2012
As at 31 st December		Rs.	Rs.
Crown land logs		513,390,101	398,386,561
Crown land sawn timber		166,901,181	166,602,300
Private land logs		1,962,491	2,359,272
Crown land sleepers		67,246,138	3,271,864
Private land sleepers		22,816,418	18,707,816
Crown land transmission poles		11,341,942	23,001,369
Private land transmission poles		-	289,409
Others		9,548,955	51,761
Furniture		106,655,959	100,756,392
Total		899,863,184	713,426,744

12. Trade and other receivables		2013	2012
As at 31 st December		Rs.	Rs.
Trade debtors		475,392,716	637,121,375
Provision for doubtful debts		(35,589,882)	(43,136,231)
		<u>439,802,834</u>	<u>593,985,144</u>
Staff debtors	Note 12. 1	158,191,032	137,966,759
Other debtors	Note 12. 2	19,995,516	179,851,645
<u>Deposits and prepayments</u>			
Advances local purchases		16,332,025	7,242,395
Advances pre -payment		24,903,941	23,723,694
Advances timber supplies		7,533,576	12,843,873
Interest receivable -deposits		206,023,255	167,249,237
Returned cheques		29,928	239,296
Kataragama astapala fund		1,037,000	1,075,000
Deposit courts		8,752,032	8,752,033
Ministry of environment		6,886,714	3,677,627
Forest department		322,398	891,109
Value added tax recoverable		293,689	-
Ports authority		604,095	604,095
Total		890,708,037	1,138,101,907

12.1 Staff debtors		2013	2012
As at 31 st December		Rs.	Rs.
Staff loans			
Vehicle loan		4,681,265	4,713,075
Distress loan		122,716,321	124,113,494
Electrical equipment loan		156,973	414,570
Bicycle loan		1,672,180	833,591
Furniture loan		2,440,004	1,781,763
		<u>131,666,743</u>	<u>131,856,493</u>
Advances and other loans			
Salaries and wages advance		9,500	108,167
Travelling advance		70,945	112,163
Festival advance		2,183,467	2,266,134
Internal debit notes		2,296,463	3,447,478
Staff recoveries		215,879	-
Computer loan		21,626,814	-
Salusala textile loan		121,220	176,324
		<u>26,524,289</u>	<u>6,110,266</u>
Total		158,191,032	137,966,759

12.2 Other debtors	2013	2012
As at 31 st December	Rs.	Rs.
Miscellaneous debtors	4,861,555	173,817,827
Deposits- general	15,480,581	6,357,438
Provision for general deposit	(366,620)	(366,620)
Refundable tender deposits	20,000	8,000
Advance death donation	-	35,000
Total	19,995,516	179,851,645

13. Cash and cash equivalents	2013	2012
As at 31 st December	Rs.	Rs.
Cash in hand	1,104,893	1,168,814
Cash in transit	15,027,593	21,390,140
Bank of Ceylon	24,200,953	27,571,575
Bank of Ceylon - Call deposits	30,361,209	75,402,360
Total	70,694,647	125,532,889

14. Contributed capital	2013	2012
As at 31 st December	Rs.	Rs.
Sri Lanka government fund	25,584,808	25,584,808
Assets taken-over from forest dept.	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

15. Staff loan revolving fund	2013	2012
As at 31 st December	Rs.	Rs.
Balance at the beginning of the year	218,784,628	208,105,464
Staff loan interest received	7,582,768	9,763,193
Adjustment during the year	(824,263)	915,971
Total fund at the end of the year	225,543,133	218,784,628

16. Retirement benefit	2013	2012
As at 31 st December	Rs.	Rs.
Balance at the beginning of the year	367,895,815	363,194,017
Provision for the year	639,601	32,405,952
Payment during the year	(27,935,470)	(27,704,154)
Balance at the end of the year	340,599,947	367,895,815

17. Taxation	2013	2012
As at 31 st December	Rs.	Rs.
Balance at the beginning of the year	(29,473,329)	97,864,518
With holding tax on deposits	(13,827,648)	(7,351,476)
Payment during the year	-	(192,453,383)
Economic service charge	-	(16,300,146)
Provision for the year	131,882,764	88,766,698
Balance at the end of the year	88,581,787	(29,473,329)

18. Trade and other payables	2013	2012
As at 31 st December	Rs.	Rs.
Employees' provident fund	12,964,959	9,704,625
Employees' trust fund	1,555,815	1,179,309
Business turnover tax	-	398,627
Accrued expenses	170,814,175	188,667,206
Refundable tender deposits	6,566,130	11,371,565
Security deposits - except staff	30,033,745	32,091,211
Audit fees payable	2,323,028	1,573,028
Deposits by customers	10,400	7,704
Retention money	10,118,269	14,576,322
Other creditors	43,223,330	38,582,904
Conservator of forests	661,562,629	474,283,658
Stampage - wild life department	335,619	12,511,511
Value added tax	22,168,086	19,154,160
Total	961,676,185	804,101,830

Glossary of Financial Terms

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



State Timber Corporation
Ministry of Environment and Renewable Energy