



State Timber Corporation



ANNUAL REPORT 2015



Ministry of Mahaweli Development
and Environment

TRUE LEADERSHIP
for
Timber Market...



State Timber Corporation

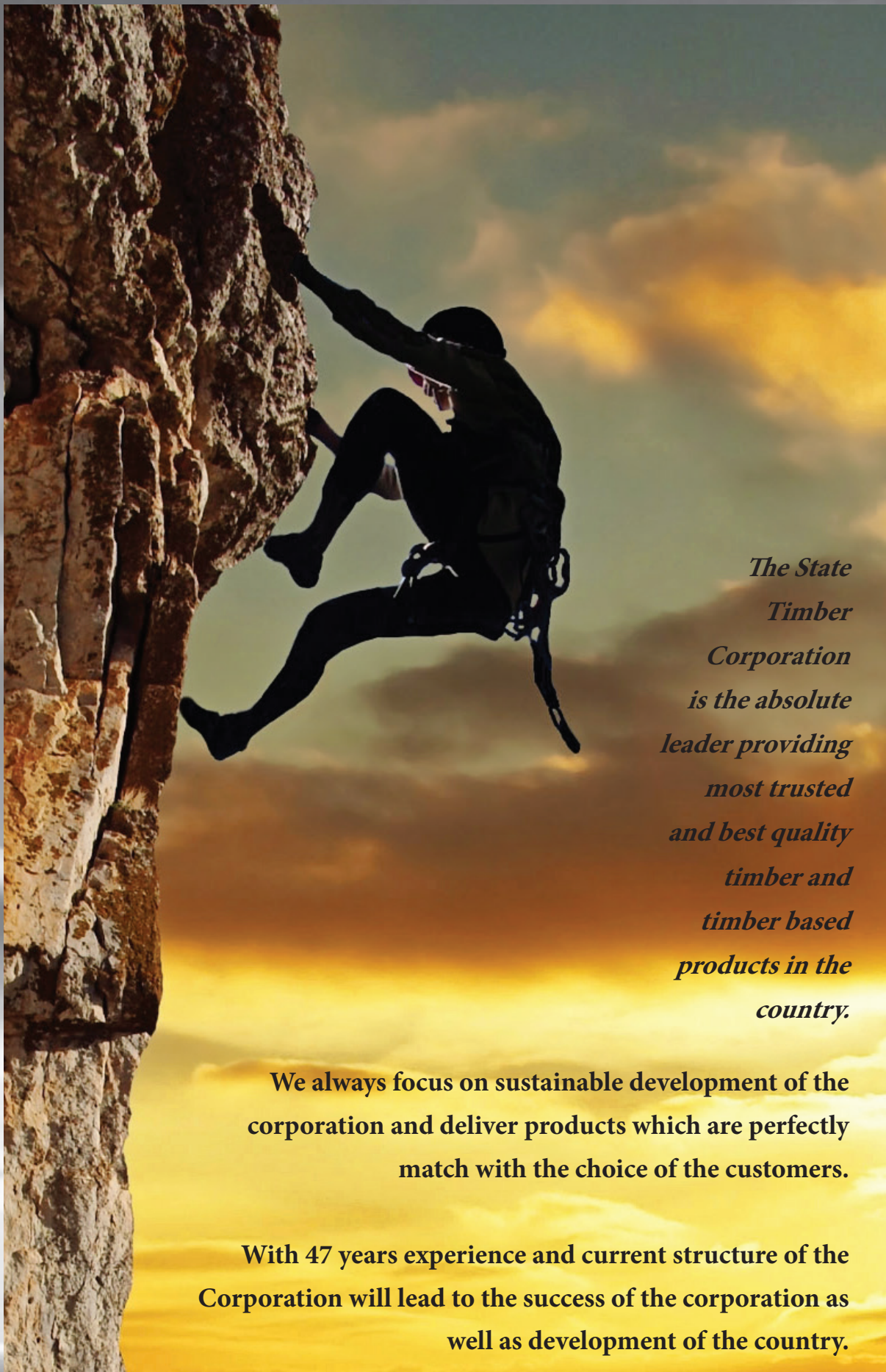
OUR ENVISIONED FUTURE

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



*The State
Timber
Corporation
is the absolute
leader providing
most trusted
and best quality
timber and
timber based
products in the
country.*

We always focus on sustainable development of the corporation and deliver products which are perfectly match with the choice of the customers.

With 47 years experience and current structure of the Corporation will lead to the success of the corporation as well as development of the country.

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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 47 years, State Timber Corporation has been on top of the industry in timber and timber based manufacturing. Over those years we've become the accepted benchmark for Top- Class products.

FINANCIAL HIGHLIGHTS

Revenue (Rs. Million)

2015	2014	Variance
3,836	3,474	10%

Profit before tax and levy (Rs. million)

2015	2014	Variance
769	427	80%

Total equity (Rs. Million)

2015	2014	Variance
3,953	3,583	10%

Total debts (Rs. Million)

2015	2014	Variance
1,906	2,077	-8%

Levy paid to treasury (Rs. Million)

2015	2014	Variance
50	25	100%

Tax expenses (Rs. Million)

2015	2014	Variance
349	196	78%

Debt/ Equity

2015	2014	Variance
48.2%	58.0%	-17%

Debt/ Total assets

2015	2014	Variance
32.5%	36.7%	-11%

Net profit for the year (Rs. Million)

2015	2014	Variance
370	206	80%

Return on equity [ROE]

2015	2014	Variance
9.4%	5.7%	63%

Total employees (Nos.)

2015	2014	Variance
2,145	2,186	-2%

Revenue per employee (Rs. Million)

2015	2014	Variance
1.8	1.6	13%

Profit per employee [before tax & levy] (Rs. Million)

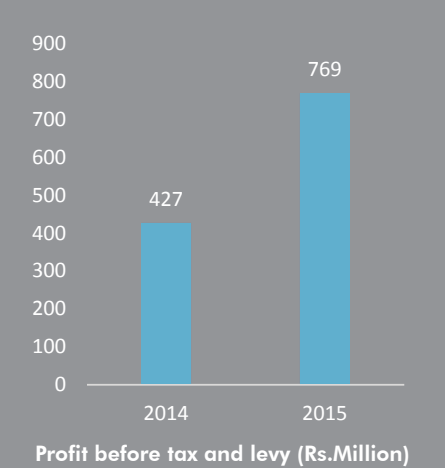
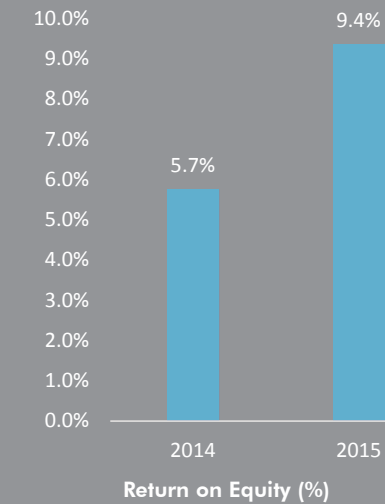
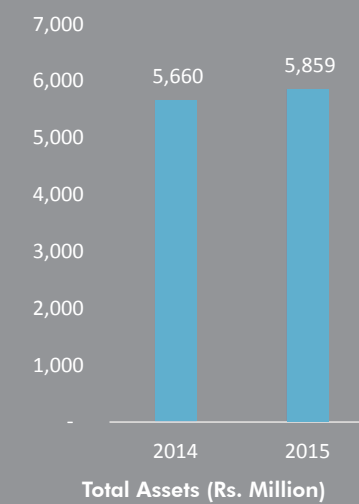
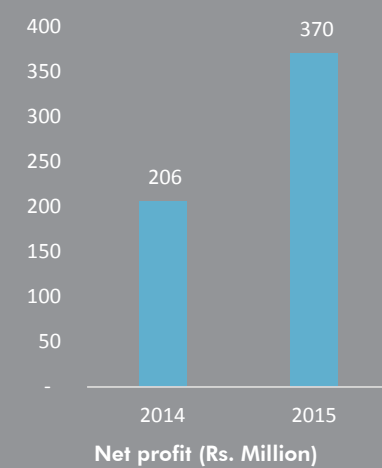
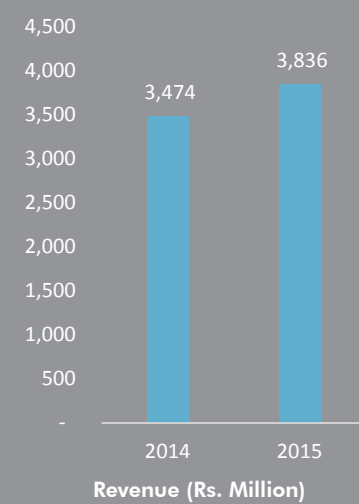
2015	2014	Variance
0.36	0.2	80%

Return on assets [ROA]

2015	2014	Variance
6.3%	3.6%	73%

Total assets (Rs. Million)

2015	2014	Variance
5,859	5,660	4%



CORPORATE INFORMATION - 2015

His Excellency Hon. Maithripala Sirisena - Minister of Mahaweli Development and Environment
 Mr. D.M.A.L.P Jayaratne - Deputy Minister of Mahaweli Development and Environment
 Mr. Udaya R Seneviratne - Secretary, Ministry of Mahaweli Development and Environment

BOARD OF DIRECTORS- 2014

Mr. P. Dissanayake - Chairman (State Timber Corporation)
 Mr. H.Y.T. Pawarakumara - Working Director (State Timber Corporation)
 Mr. M.A. Karunaratna - Director (Treasury representative)
 Mr. S.A.A. Sathurusinghe - Director (Conservator General of Forest)
 Mr. M.V. Karunaratna - Director
 Mr. P. Pansalawatte - Director
 Mr. A.M.C. Perera - Director

Mr. K. Siriniwansa - General Manager (State Timber Corporation)

AUDIT & MANAGEMENT COMMITTEE

Mr. M.A. Karunaratna - Chairman
 Mr. S.A.A. Sathurusinghe - Member
 Mr. M.V. Karunaratna - Member

AUDITOR

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

REGISTERED ADDRESS & HEAD OFFICE

82, " Sampathpaya"
 Rajamalwatta Road
 Battaramulla
 Sri Lanka.

PRINCIPAL BANKER

Bank of Ceylon

FINANCIAL CALANDER

January 1st to 31st of December
 Telephone : #94112866600-5
 Facsimile : #94112866623
 Website : www.timco.lk

TEAM OF MANAGEMENT - 2015

General Manager K. Siriniwansa B.Sc., M.Sc (Forestry), Dip (Bus.mgt), PgDip. (Forest Survey - Netherland), Dip.(Forest products reaserch - Japan)

DEPUTY GENERAL MANAGERS

DGM (IT & MIS) D.U. Dayarathne B.Sc., M.Sc (Com.Sc)
 DGM (Res. Tra. & Dev.) Dr. N. Ruwanpathirana B.Sc., M.Sc., PhD (Forestry)
 DGM (Internal Audit) W.W.M.J. Coorey FCA
 DGM (Finance) G.D.S. Kumarasinghe B.Sc (Acct.Fin. Mgt), MBA, ACA, ACMA
 DGM (Operation) H.P.S. Nawarathna B.Sc., M.Sc (Forestry), PgDip in forestry for Rural Mgt.(Netherland)
 DGM (Marketing) P.G.R . Samaraweera B.Sc., M.Sc (Forestry)

ASSISTANT GENERAL MANAGERS

AGM (Zone I) S.S. Panduwawala B.Sc., M.Sc (Forestry), Post Grad. Dip.(Forest Survey - Netherland), Post Grad. Dip. (Mech. Wood Tech. & Prod.Mgt - Finland)
 AGM (Acting) M.C. Devendra B.Sc., M.Sc. (Forestry)
 AGM (Acting) G. Gunawansa BA (SP), Dip in Forestry

MANAGERS

Manager (Finance) P.D.A.M.D. Wickramasinghe Dip. (FA)
 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 ICAL (I), Hig. Dip. (Accountancy)
 Manager (Finance) P.T.N. Bowatte
 Manager (Finance) K.D.K.C. De Silva
 Manager (Finance) H.G.R. Wijenayake
 Manager (Administration) A.G.H. Kularathne Dip. in English, Dip. in Forestry, Dip in Mgt, PgD LRHRM, ACPM
 Manager (Production) DR.M.G. Mohomed Thariq B.Sc., M.Sc., PhD
 Manager (HR) E.A.D.S.A. Amarasinghe

Manager (Purch. & Ship.)	Aruna De Silva	
Manager (IT)	A.G. Maduwage	
Manager (Res. & Training)	C.K Muthumala	B.Sc (Agric) Hons, M.Sc(Forestry)
Manager (FOR & Donation)	H.P.S. Dissanayaka	BA
Manager (Investigation)	E.G. Thilakarathna	
Manager (Sawmill)	W.B. Samantha	B.Sc. (Gen), M.Sc. (Forestry), National Dip. in Teaching
Manager (Reforestation)	A.P. Rathnasooriya	
Manager (Special Project)	A.N.W.A. Ananda	
Manager (Furniture Plant)	M.K.W. Dissanayaka	B.Com, Post Grad. Dip in International Affairs.
	J.G. Thisara Gamage	B.Sc
Manager (Security)	Chandima Weeraman	
Manager (Timber Grading)	Y.B.M. Ameer	Dip in Forestry

REGIONAL MANAGERS/ PROVINCIAL MANAGERS

Reg. Manager (Polonnaruwa)	R. Edirisingha	
Reg. Manager (Bandarawela)	P.K. Ajith Chandana	B.Sc
Reg. Manager (Colombo)	W. Keerthi Roy	
Reg. Manager (Anuradhapura)	U.S.M. Fernando	BA (SP)
Reg. Manager (Rathnapura)	D.H. Rajapaksha	B.Sc, M.Sc
Reg. Manager (Nuwara-eliya)	H.B. Rajawaththa	BA
Reg. Manager (Monaragala)	U.P.H. Uluwaduge	B.Sc
Reg. Manager (Kandy)	E.M.S. Ekanayaka	
Reg. Manager (Jaffna)	S. Sri Skandaraja	
Reg. Manager (Kurunegala)	A.S. Wijesundara	
Reg. Manager (Matara)	W.I. Saranga	B.Sc (Hons)
Reg. Manager (Ampara)	M.K.G. Wasantharaj	

COMPLEX MANAGERS

Manager - Sleepers & Trans. Poles Kaldemulla	D.M.N. Pushpakumara	B.Sc
Reg. Manager (Keppetipola)	A.B.M. Weerasinghe	BA

DEPUTY MANAGERS

Deputy Chief Internal Auditor	H.M.S. Madhawa	B.Com (sp)
Deputy Manager Timber Gra. & Auc	T.H. Gunadasa	
Deputy Manager (Legal)	K.I.D.P. Kariyawasam	LLB.Attorney at Law
Deputy Manager (Mech. Engineering)	W.P.S.N. De Soyza	
Deputy Manager (Designing & Quality Assurance)	E.M.M. Fernando	
System Analyst	W.H.A. Chandrakumara J.M.M.B. Jayasundara	B.Sc B.Sc (Special Hons)

DEPUTY REGIONAL MANAGERS

Dy. Regional Manager (Anuradhapura)	K.P.C. Rathnasekara	BA
Dy. Regional Manager (Bandarawela)	Sunil Jayarathne	
Dy. Regional Manager (Matara)	R. Wijethunga L.S. Jayasekara	B.Sc (Agri. Sp.)
Dy. Regional Manager (Ampara)	M.D. Chamila Sampath	
Dy. Regional Manager (NuwaraEliya)	D.A. Hendawitharana M.W.U.J. Piyanandana	
Dy. Regional Manager (Ampara) RF	A.C. Jinajudeen	
Dy. Regional Manager (Kandy)	D.G. Siril R.C. Saman Kumara	
Dy. Regional Manager (Monaragala)	Duminda Nawarathna	BA
Dy. Regional Manager (Kurunegala)	R.M.S.K. Rathnayake Sunil Wijitha Bandara	
Dy. Regional Manager (Jaffna)	T.P. Ramesh	
Dy. Regional Manager (Rathnapura)	H.L. Nandana H.A. Gamini Alwis	B.Sc
Dy. Regional Manager (Matale)	D.L. Abenayaka	
Dy. Regional Manager (Kaldemulla)	N.G Nihal T.S Rupasingha	
Dy. Regional Manager (Minneriya)	S.C. Jayamanna	B.Sc

CHAIRMAN'S MESSAGE



"Understanding and balancing of the economic, social, political and biological factors that affect forest management is critical and challenging, it is possible to maintain future supply of timber at stable level through proper management."

I am pleased to present to you the Annual Report and Audited Financial Statements of the State Timber Corporation for the financial year ended on 31st December 2015. It has continued to provide a pioneering leadership as the unique timber and timber based products supplier also securing the reliability of the nation over a period of 10 decades. With its islandwide operational network extending to 12 regional offices, 54 sale centres & over 200 forest working coups to harvest timber from the forest plantations and 03 furniture manufacturing factories including impregnation and seasoning plants, the STC has proved to be the owner of the largest timber producing network of the nation. With the beginning of the year 2015 coupled with several novel experience amidst various political, economic and social transformations, I had to accept the challenge of directing the Corporation towards the path of development. Even in this complicated background we were able to strongly organize production, marketing and financial activities of the institution and reach successful conclusion through introduction of

modern technology and appropriate strategies in overall process.

Sri Lanka has achieved a economic growth of 4.8 percent in 2015 even in the face of restrictive state policies & various internal and external challenges in comparison to the growth of 4.9 percent in 2014. The growth rates of agricultural, industrial and service-providing sectors have been increased by 5.5 %, 5.3% & 3.0% respectively in 2015 and upward trend was shown in the local consumption due to the increase of income of the state sector employees. On the other hand slow progress of the global economy had negative impact on the local economy. Controlling the rate of inflation as well as the rate of interest had been a contributory factor for this to economic growth. Accordingly even under the prevailing economic constrains the STC was able to successfully continue its business during the year 2015.

Whereas understanding and balancing of the economic, social, political and biological factors that affect forest management is

critical and challenging, it is possible to maintain future supply of timber at stable level through proper management. Unlike the demand for other goods, the demand for timber is sensitively associated with the economy and the environment. Therefore the State Timber Corporation is facing challenges on its profitability due to shortage of row material and the higher cost of production. Today deforestation has become a major environmental issue. The increasing demand for timber products give rise to denuding of forest most often illegally. However proper forest management is essential to assure an adequate supply of timber in the future. Deforestation could be minimize through sustainable harvesting of forests. 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 older nature trees will die and replaced by younger forest-growing trees. Our institution is responsible for converting nature forest planting released annually to us by the forest Department into timber adhering to correct scientific methodologies.



The State Timber Corporation has been able to contribute enormously for development of the industry and obtain excellent results through proper management of its activities during 2015. Accordingly it has planned to introduce new technologies and the latest marketing strategies backed by wide range of capital investments with the objective of obtaining competitive advantages, manufacturing of quality timber products and further expanding and the options for consumer selection in the coming financial year.

Under these circumstances, the revenue recorded for the year under review was Rs.3,836 million compared to Rs.3,474 million in the previous year. The increase was well supported by the newly implemented production and operational strategies. Operational profit of this year has been increased up to Rs.546 million compared to Rs.204 million in 2014 and registered a profit before tax and treasury levy of 769 million compared to Rs.427 million in 2014 representing an increase of 80% in comparison with the previous year. Profit after tax and special levy in 2014 was Rs.206 million and it has been increased upto Rs.370 million in 2105. The State Timber Corporation contributed Rs. 1,594 million to the national economy in terms of stumpage, operating taxes and special levy. In 2015 the institution has earned Rs.54 million in foreign exchange through the export of sleepers. In addition, the Corporation has taken measures to import sawn timber to meet the increasing local demand whereby it has been possible to protect the consumer from utilizing low quality timber available in the local market. Furthermore, the STC through acquisition of the latest technologies and modern machinery and equipment was able to upgrade low quality and soft timber varieties and put them into long-term use while ensuring the maximum utilization of much valued timber resources and minimizing timber losses to the highest possible extent. In this manner the Corporation has been able to pave the way for sustainable development through introduction of methodologies to ensure the maximum utilization of timber.

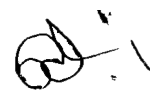
We believe our greatest asset is our human resources. During 2015 we continued to invest in our employees in the form of training and

professional development ensuring our staff has the necessary skills and competency to achieve our targets and save our customers at the highest possible level.

By attending to our duties with dedication also in a team spirit during the year 2015, we were able to achieve improvement in the performance through adoption of all-round controlling standard and entrepreneurship skills. In keeping with the concept of His Excellency the President, we also built our strong track record as a responsible citizen by continuing "Thurujana Sisu Bank" tree planting programme which have been implementing through a special unit established under the State Timber Corporation for identified schools by giving study material and monetary aid, agricultural equipment, seed and planting material and text books written on bio-diversity with the objective of motivating youth population to undertake tree planting. In parallel to this we were able to provide much need physical resources for rural schools categorized as the most difficult schools located within the zonal education areas of Bandarawela, Passara, Badulla and Welimada in Badulla district. We have also laid a foundation in 2015 to create favourable and environmental friendly situation in schools by facilitating to grow local plants and uprooting nature foreign plants. In addition teak cultivations covering 50 acres in Polonnaruwa and Sewanapitiya areas were undertaken while commercial reforestation is in progress in the districts of Anuradhapura and Vavuniya. The Corporation was able to make active contribution for "WanaRopa" tree planting campaign. Under this programme more than 100,000 plants were distributed with the objective of promoting tree planting among various institutions and the community. A series of lectures were conducted to increase the interest of the younger generation on tree planting while valuable plants such as Ebony were distributed with the objective of making them aware of the necessity of preserving of environment, conservation of forest timber and preservation of bio-diversity. In addition awareness was created through distribution of book, posters, leaflets and valuable plants like Ebony threatened with extinction. During the year under review a series of research undertakings were also carried out for the benefit of the society. The State Timber

Corporation considering it as a national endeavor made its maximum contribution to ensure the success of various programmes organized by the Ministry for social welfare and conservation of the environment. While making enormous contribution for successful continuation of various development programmes, the Corporation has actively participated in removing valuable plants in areas being inundated due to the implementation of multi- purpose irrigation schemes such as Umaoya and Moragahakanda. On behalf of the Board of Directors, I wish to express my sincere gratitude to His Excellency, Maithripala Sirisena being the Minister of Mahaweli Development and Environment, Hon. Dy. Minister Anuradha Jayaratne, Secretary and the staff of the Ministry and Conservator General of Forest and the staff attached to that Department and all other state officials who co-operated with us. My special thanks are also extended to the General Manager and his staff on behalf of the Board for their contribution, knowledge and skills and above all for their unstinted loyalty and dedication on our voyage to success.

Whereas it is expected that the coming year would be challenging & decisive, our aim is to achieve all development targets step by step. Therefore we remain committed to continuing to deliver a good return to our stakeholders through achievement of those targets overcoming short term and long term challenges.



P. Dissanayake
Chairman, State Timber Corporation

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

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.



STC 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



GENERAL MANAGER'S REVIEW



"At present we have concentrated heavily on creating favourable and flexible working environment. Accordingly various programmes were implemented throughout the year to achieve higher level of efficiency and productivity by enhancing the living standard of employees and improving their physical and mental health and it paved the way for providing them with an opportunity to improved their knowledge, skills and attitudes."

I'm pleased to present the annual report and the audited financial statements for the year 2015 and it is pleasure to inform that, with the experience we have gained over the past 47 years we were able to record a significant performance for the year 2015 while surfacing all the challenges as in the previous years.

As we provide high quality timber products at a reasonable price, our service is still considered by both regular and new customers as the best. We, as a leader of providing timber and timber related products. State Timber Corporation continued to play a crucial role in the upswing of the manufacturing industry by adopting new technologies to the production. To become the best State Timber Corporation is backed by 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.

In comparison with the previous year, the economy of Sri Lanka has increased by 4.8% in 2015. The State Timber Corporation has formulated its objectives and policies in 2015 in line with the mid-term economic strategies of the government to reach the goal of a sustainable economy. The sale figure went up from Rs.3,474 million to Rs.3,836 million, an increase of 10%. We were able to close the year 2015 with a net profit before tax and levy of Rs.769 million over the previous year figure of Rs.427 million showing 80% increase. Net profit after tax and special levy was Rs.370 million with a contribution of Rs.1594 million to the national economy. Our ability to overcome several challenges during the financial year ending 2015 further consolidating higher production standards was the outcome of the commitment of the management and the staff.

The State Timber Corporation which shoulders the responsibility of directing the institution towards sustainable development amidst the existing concept on the economy and the environment has implemented various programmes in 2015 in an environment friendly manner. We built on our strong track record as a responsible corporate citizen by cantering "Thurujana Sisu Bank" tree planting programme for identified schools by giving material and monetary aids, conducted series of lectures, distributed valuable plants among schools to increase the interest of younger generation on tree planting. In addition small plants were distributed for successful implementation of the national tree planting programme. Furthermore teak and other plants were cultivated to fill the vacancies of reforestations established in STC owned lands in Polonnaruwa, Badulla and Anuradhapura districts. In addition lectures on environment, forestation, forest conservation and bio-diversity



were conducted while magazines, books, posters and leaflets were distributed among selected groups.

The Corporation was able to make action contribution for "Wana Ropa" tree planting campaign. As fulfillment of a social responsibility undergraduates were provided with the opportunity of undergoing training and research. It is also maintaining timber identification and certification service for the benefit of the consumer. In this manner the STC has performed its duties in a responsible manner to achieve its objectives by distributing over one hundred thousand plants. At present we have concentrated heavily on creating favourable and flexible working environment. Accordingly various programmes were implemented throughout the year to achieve higher level of efficiency and

productivity by enhancing the living standard of employees and improving their physical and mental health and it paved the way for providing them with an opportunity to improved their knowledge, skills and attitudes. Accordingly the management was able to direct the staff towards achieving its development goals with higher level of employee satisfaction. During the year under review we have been able to fulfill our national mission by providing employment opportunities to over 2100 individuals and achieving other development targets. Taking correct decisions at correct time has been a key to open the door of success. It is in-deed appreciable the way of co operating with decision of the Board of Directors whereby the management and the staff have displayed their ability to withstand whatever challenge ahead of them.

In conclusion, I am extremely grateful to the Chairman and Board of Directors including the Working director for their continued confidence and support in the effort to nurture the interest of the Corporation. My sincere gratitude is also hereby expressed to our valued customer 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. I am also thankful to His Excellency the President also being the Minister of Mahaweli Development and Environment, Deputy Minister and the Secretary of the Ministry who fully assisted and cooperated with us to achieve desired objectives of the institution.

I am deeply honored by the steadfast support extended to me by all my colleagues in the management team, and the staff of over 2100 committed employees, whose position, drive and dedication on an everyday basis, keep us on firm ground propels us on the road to success and to each and every one, I extend heartfelt thank you.

K. Siriniwansa
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 Buisness 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 - 2015



P. Dissanayake
Chairman - State Timber Corporation



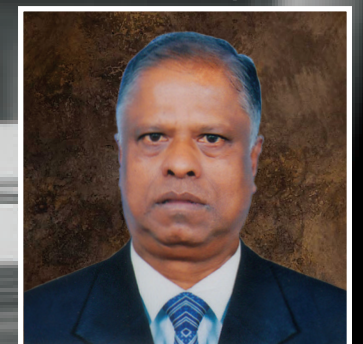
H.Y.T Pawarakumara
Working Director - State Timber Corporation



M.A Karunarathna
Director (Treasury representative)
State Timber Corporation



S.A.A Sathurusinghe
Director (Conservator General of Forest)
State Timber Corporation



M.V Karunarathna
Director - State Timber Corporation



P. Pansalawatte
Director - State Timber Corporation



A.M.C Perera
Director - State Timber Corporation

SENIOR MANAGMENT TEAM - 2015



K. Siriniwansa
General Manager



D.U. Dayarathne
Deputy General Manager
(IT & MIS)



Dr. N. Ruwanpathirana
Deputy General Manager
(Research, training & development)



H.P. S. Nawarathna
Deputy General Manager
(Operation)



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



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



P. G. R. Samaraweera
Deputy General Manager
(Marketing)



S. S. Panduwawala
Assistant General Manager



M. C. Devendra
Assistant General Manager
(Acting)



G. Gunawansa
Assistant General Manager
(Acting)

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

Chapter One

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.



Net profit before tax and levy for the year under review has been increased up to Rs. 769 million by Rs. 342 million when compared with the previous year net profit before tax and levy of Rs.427 million.

BOARD OF DIRECTORS' REVIEW FOR THE YEAR - 2015

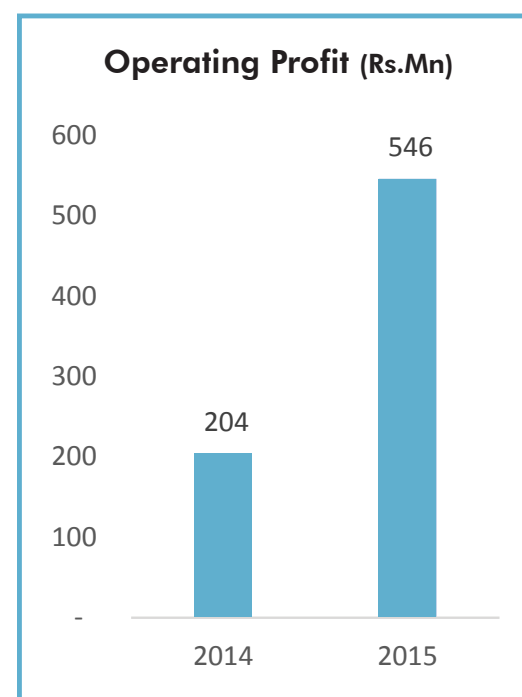
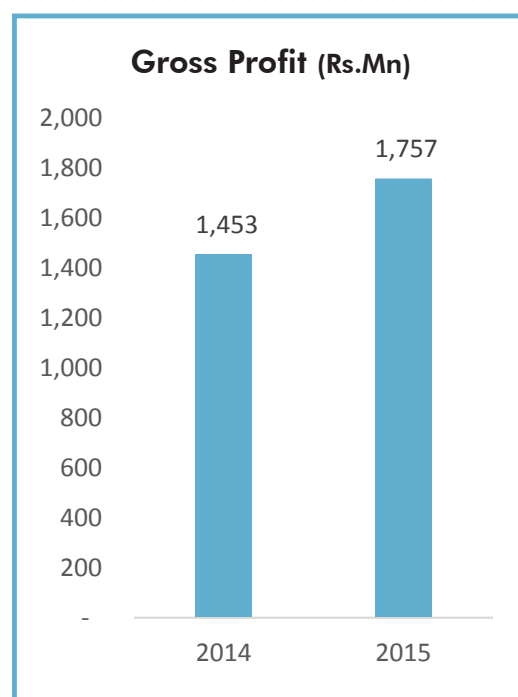
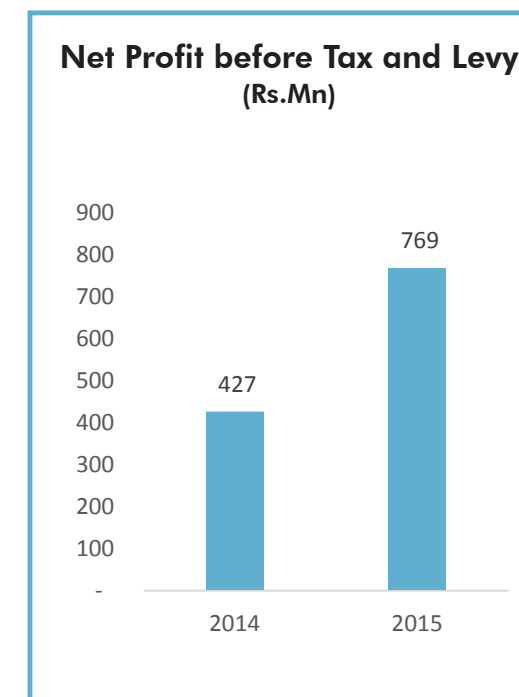
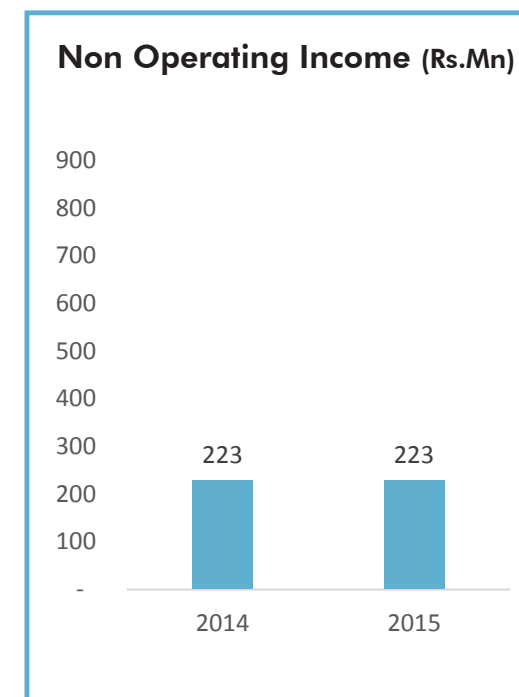
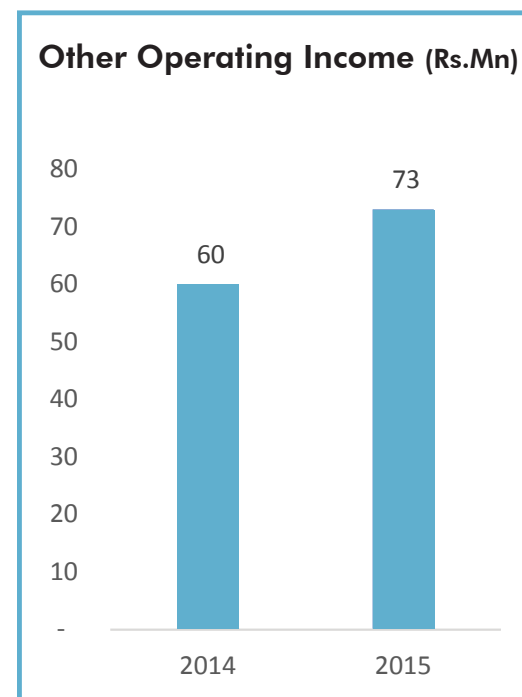
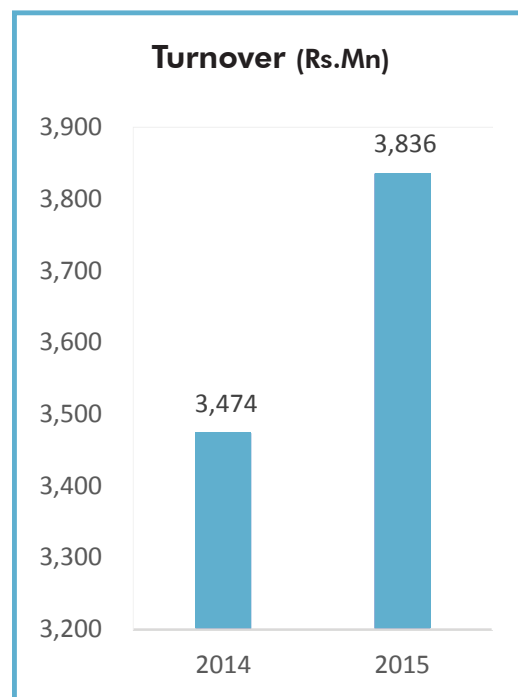
The turnover of the Corporation during the year increased to Rs. 3,836 million, compared to Rs. 3,474 million in the previous year. The total turnover increased by 10% compared with the previous year. Gross Profit for the year was Rs. 1,757 million compared to 1,453 million in the previous year, and it was increase of 21%. Achievement of higher turnover compared with previous years, some policies of the government, economic conditions and political factors directly influenced and caused for the increment of profits and performance of the Corporation.

Performance	2015 Rs.Mn	2014 Rs.Mn
Turnover	3,836	3,474
Gross Profit	1,757	1,453
Other Operating Income	73	60
Profit on Operation	546	204
Non - Operating Income	223	223
Levy Imposed by Treasury	50	25
Net Profit before Tax and Levy	769	427

Net profit before tax and levy for the year under review has been increased up to Rs. 769 million by Rs. 342 million when compared with the previous year net profit before tax and levy of Rs.427 million. Administration, selling and distribution expenses for the year decreased by 2% from Rs.1,308 million to Rs.1,284 million. Administration expenses of the Corporation decreased by 5% from Rs 741 million to Rs 706 million.

In 2015 after deducting all the administration expenses and selling and distribution expenses, net profit after tax and levy is Rs.370 million. It has been increased by Rs 1 64 million in compare with previous year.

Return on assets and return on equity for 2015 was 6% and 9% respectively.



Year	Return on Assets	Return on Equity
2015	6%	9%
2014	4%	6%

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 2014 & 2015 are as follows.

Species	Clear Felling (ha.)		Thinning (ha.)	
	2015	2014	2015	2014
Teak	444.9	538.0	221.70	382.3
Eucalyptus	40.3	20.0	272.54	98.0
Pinus	104.6	136.3	-	-
Kaya	-	-	45.20	-
Akashiya	16.0	9.0	-	6.5

Conversion of Logs into Sawn Timber

During the year 2015, 4,562m³ sawn timber has been produced by the saw mills and 3,124m³ has been sold out by the STC depots throughout the Island as against the 4,239m³ productions in the year 2014.

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.255.6 million worth furniture during the year 2015. Furniture worth Rs.264 million has been sold during the year by the STC show rooms at Ratmalana, Kandy, Rathnapura, Thalalla, Ampara and Boossa. Sales income from furniture has increased by 10% during the year with compared to the previous year.

Treatment of Transmission Poles and Sleepers

During the under review 21,919 sleepers, 21,636 transmission poles and 76,061 elephant poles treated in the STC treatment plants at Kaldemulla, Keppetipola and Boossa. Treatment of transmission poles and elephant

The Corporation's contribution to the Government Revenue for the period under review was Rs. 1,594 million compared to Rs. 1,396 million in the previous year.

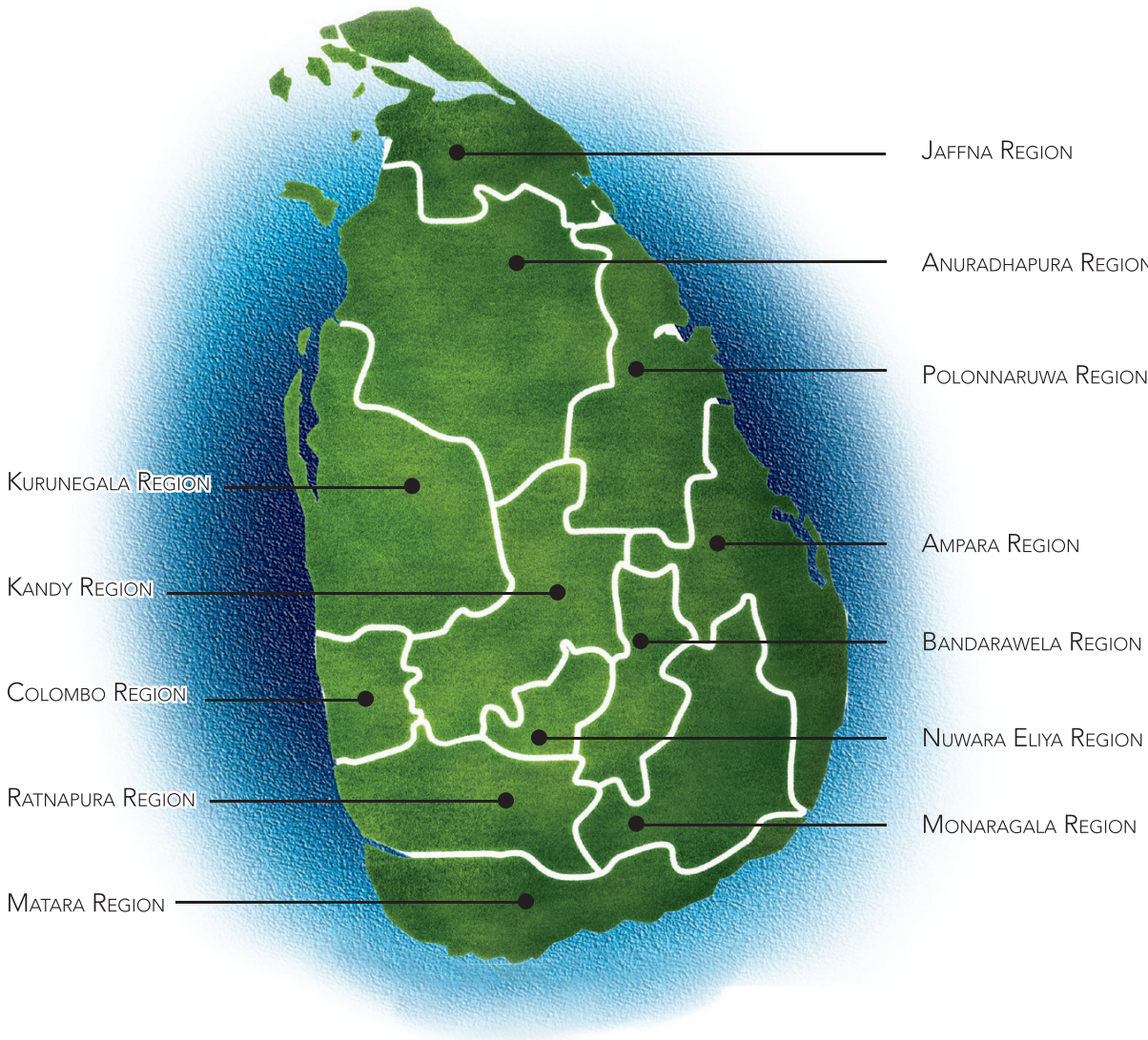
Production Sales and Revenue 2014 - 2015

		Production		Sales Volume		Gross Turnover Rs.(Mn)	
		2015	2014	2015	2014	2015	2014
Logs	M³	126,465	131,162	127,424	118,231	2,889.9	2,336.8
Sawn Timber	M³	4,562	4,239	3,124	2,567	266.8	185.4
Sleepers	No.	21,919	39,389	27,727	64,761	247.5	568.7
Trans. Poles	No.	21,636	41,332	25,637	32,567	259.6	314.0
Elephant Poles	No.	76,061	38,630	81,025	36,088	250.6	104.5
Round Poles	No.	89,927	126,333	88,074	126,130	10.7	12.8
Fire Wood	M³	87,159	105,537	86,541	102,301	56.1	47.0
Fence Post	No.	65,748	110,254	73,179	116,635	9.6	9.8

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



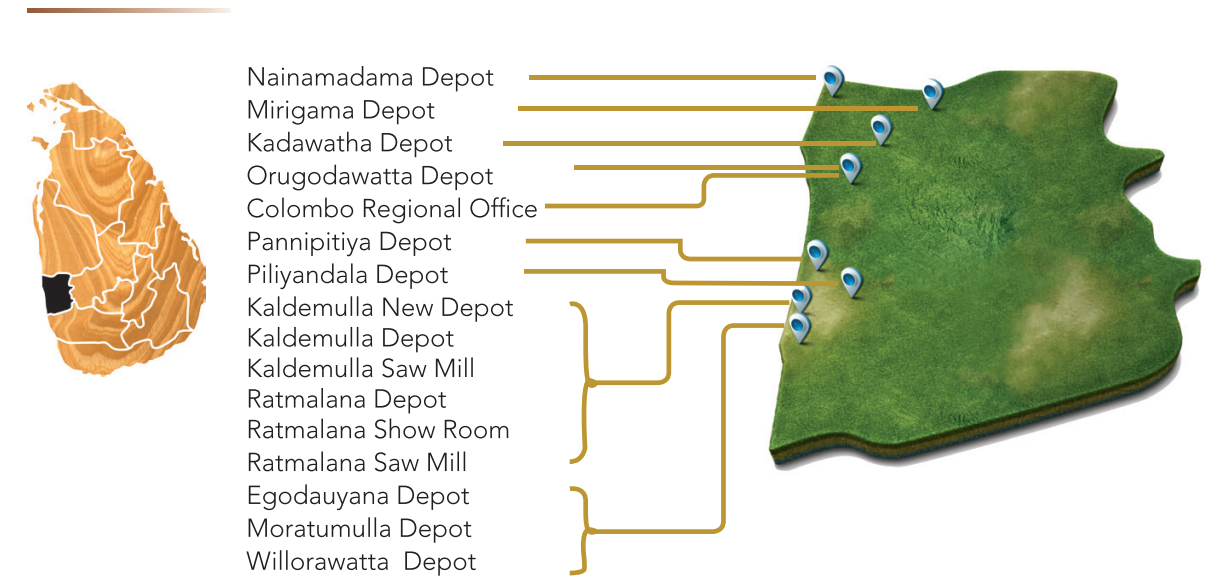
ANURADHAPURA REGION



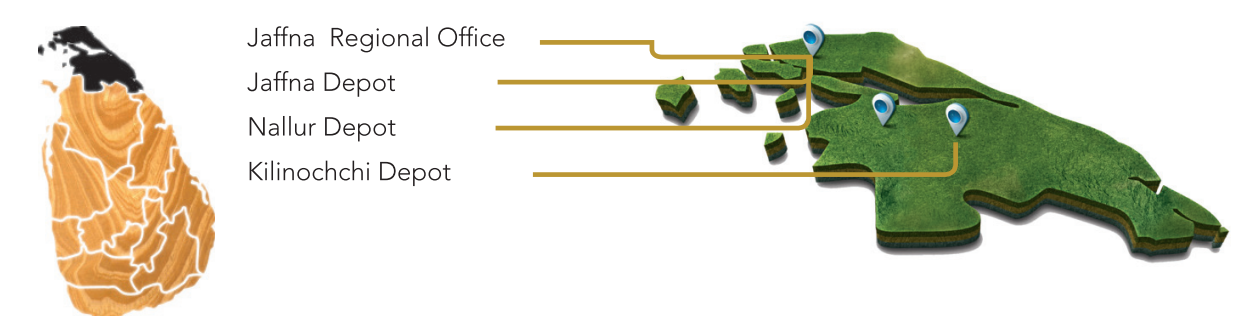
BANDARAWELA REGION



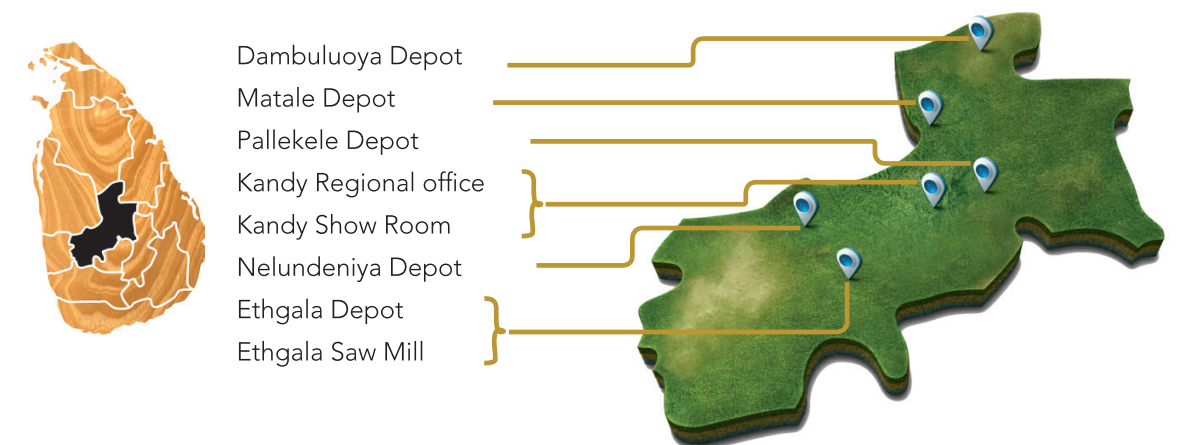
COLOMBO REGION



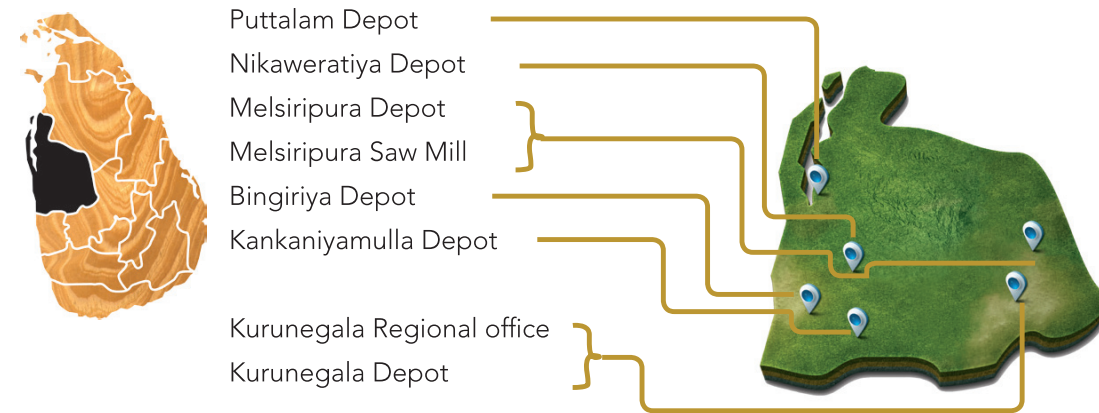
JAFFNA REGION



KANDY REGION



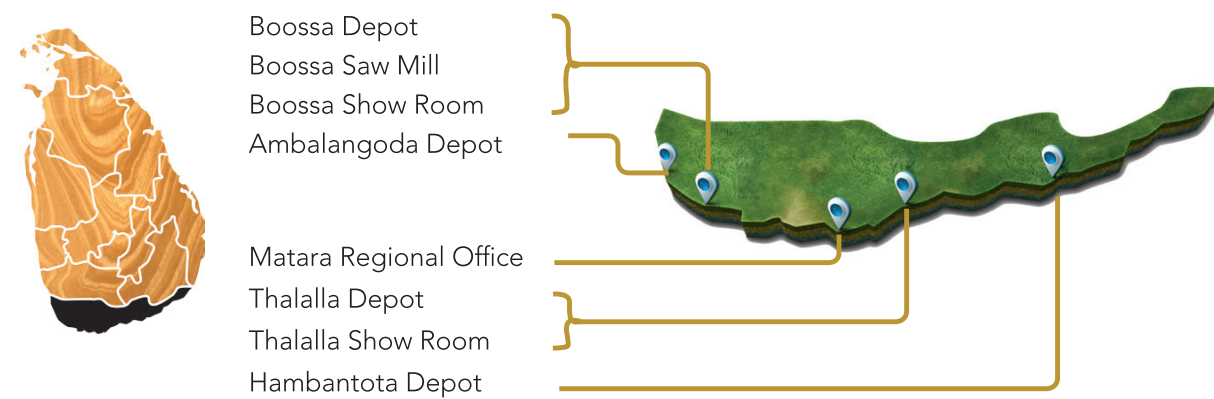
KURUNEGALA REGION



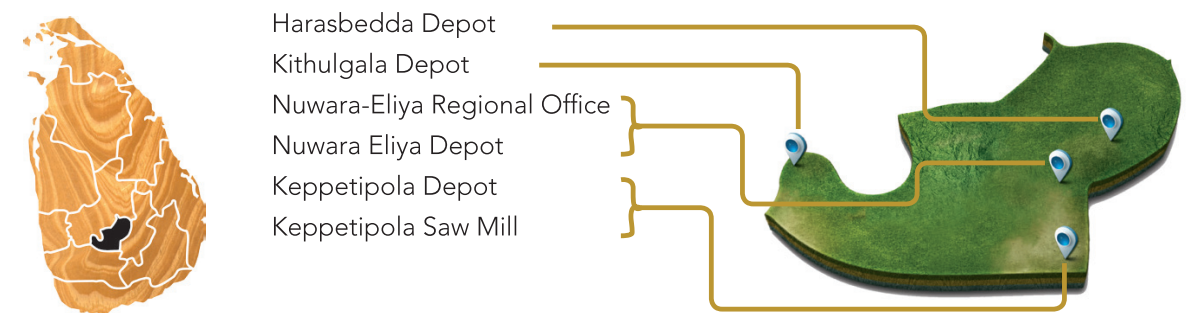
MONARAGALA REGION



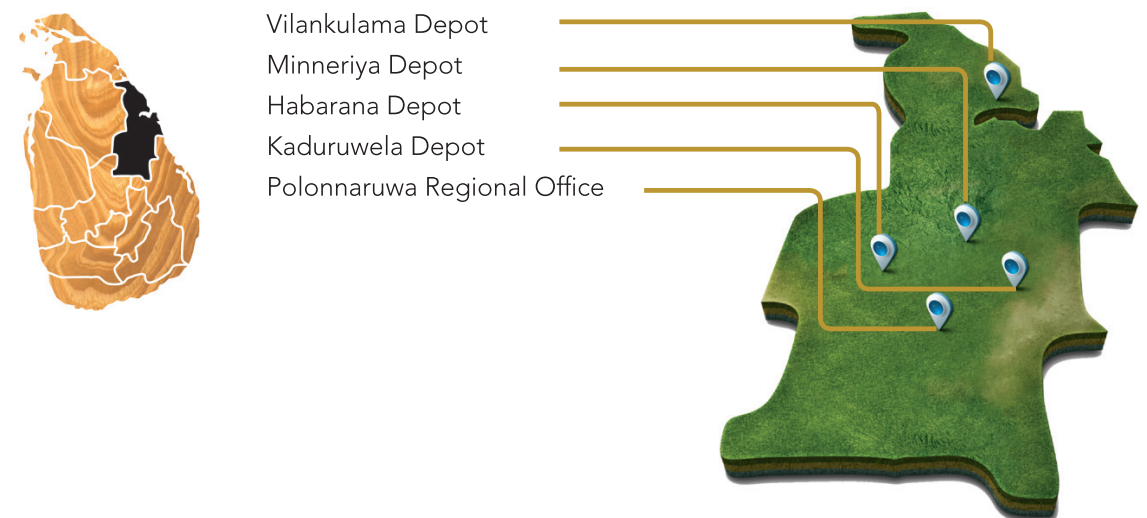
MATARA REGION



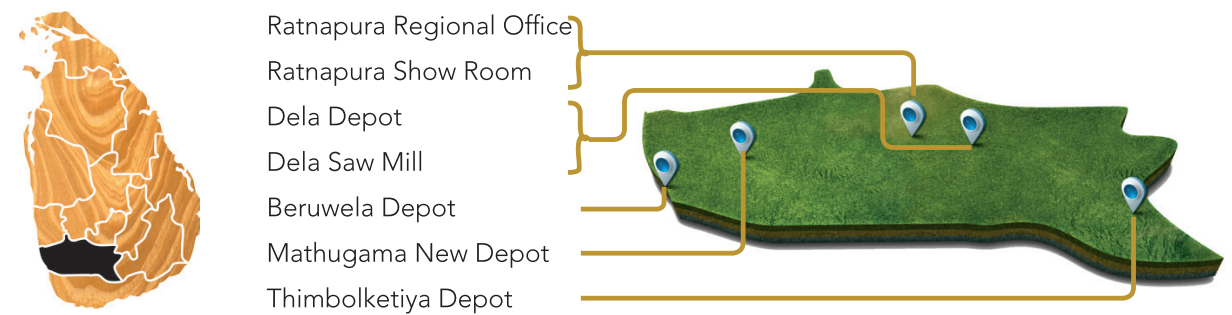
NUWARA ELIYA REGION



POLONNARUWA REGION



RATNAPURA REGION



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.



P. Dissanayake

Chairman, State Timber Corporation

We cover all part
of the country
reaching the entire
national population
via a well-designed
operational
structure

Audit and Management Committee
Report - 2015

Members of the Audit and Management Committee - 2015

Mr. M.A. Karunarathne	-	Chairman
Mr. S.A.A. Sathurusinghe	-	Member
Mr. M.V. Karunarathna	-	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 and physical performance
2. Annual accounts
3. Annual budget and revised budgets
4. Internal audit and Auditor General’s audit queries and replies
5. Personnel and administration matters
6. Legal matters
7. Other matters such as staff loans, advances and awarded tenders etc.

M.A. Karunarathne

Chairman - AMC

Chapter Two

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.

Corporation has worked for the achievement of financial objectives and maintenance of financial stability and sustainability which facilitate the years to come.

FINANCIAL AND PRODUCTION PERFORMANCE

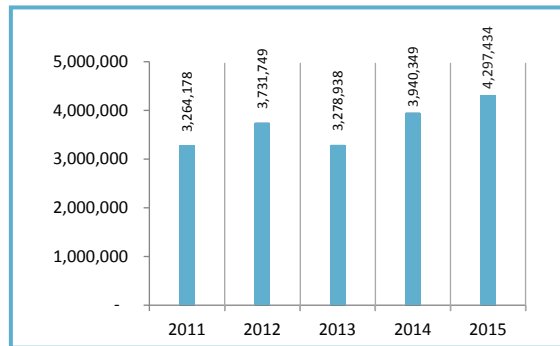
A summary on financial progress made by maintaining financial stability during the previous five years.

Summary on financial performance during previous five years, consist of cashflow, assets and liabilities, capital expenditure and profit 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 five years, Corporation has worked for the achievement of financial objectives and maintenance of financial stability and sustainability which facilitate the years to come.

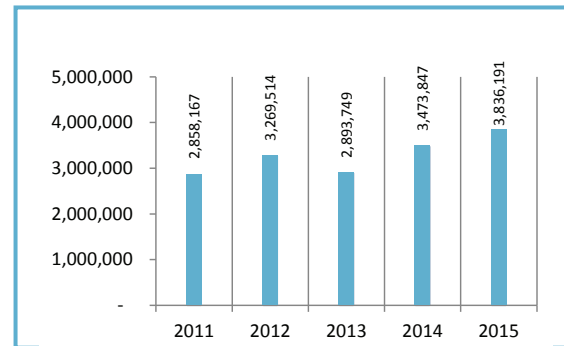


Income Growth Trend Analysis

Including Tax (Rs.'000)

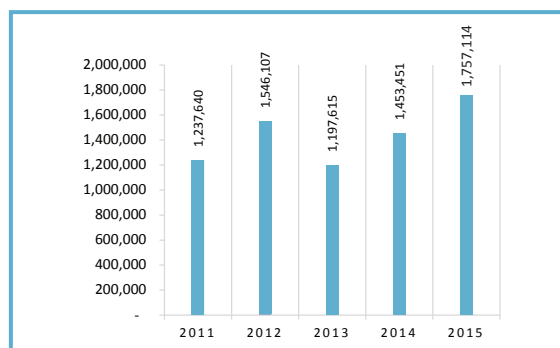


Excluding Tax (Rs.'000)

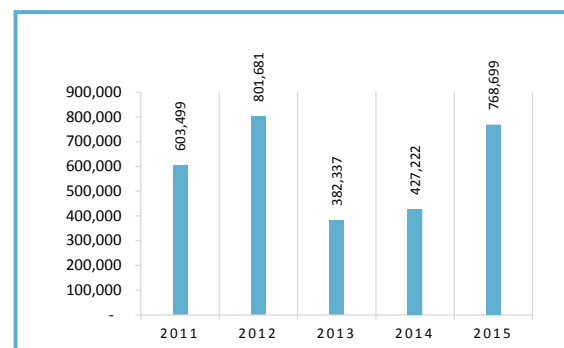


Profit Growth Trend Analysis

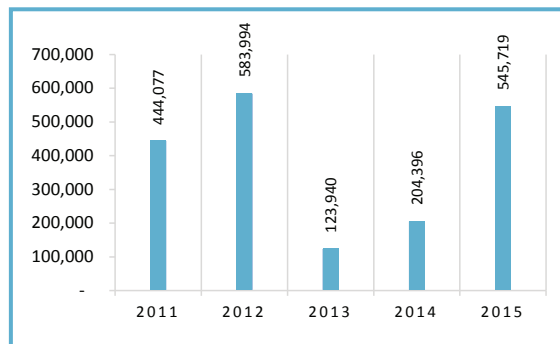
Gross Profit (Rs.'000)



Profit before Levy and Tax

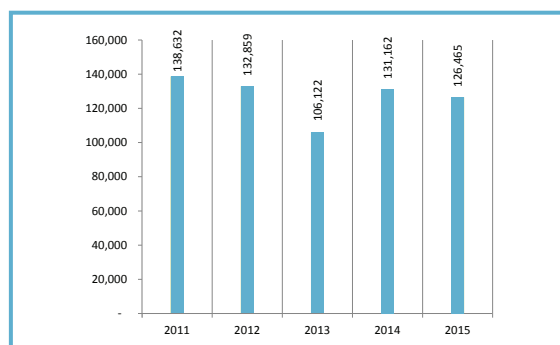


Operating Profit (Rs.'000)

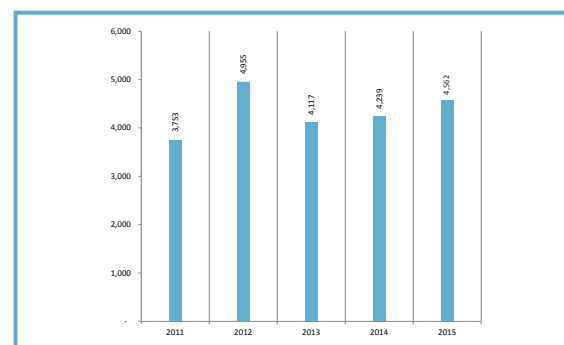


Production Growth Trend Analysis

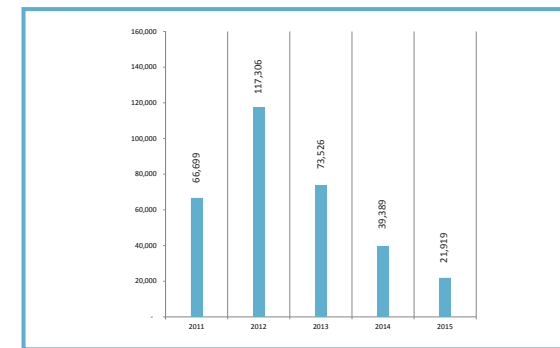
Production of Logs (M³)



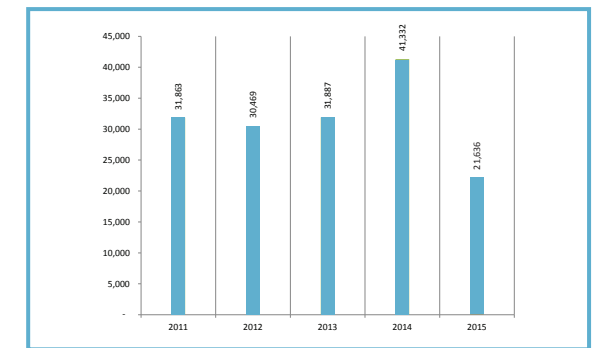
Production of Sawn Timber (M³)



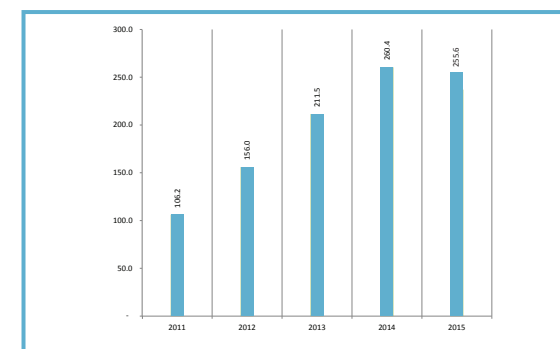
Production of Sleepers (Nos.)



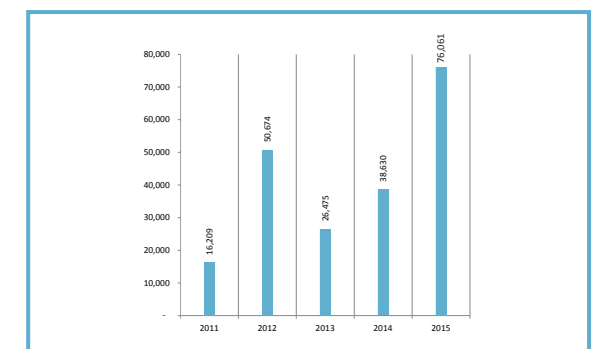
Production of Transmission Poles (Nos.)



Production of Furniture (Rs. Mn.)

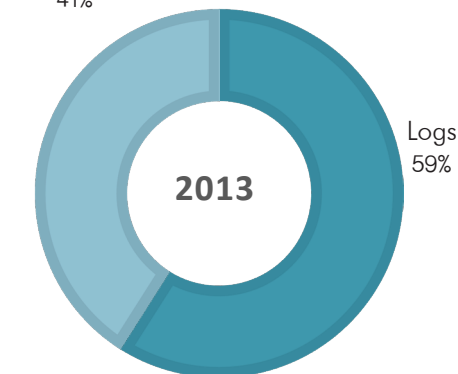


Production of Elephant Poles (Nos.)

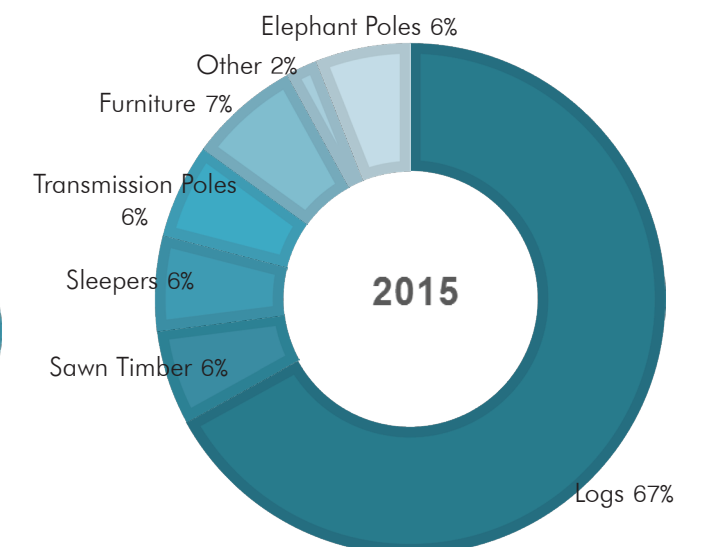
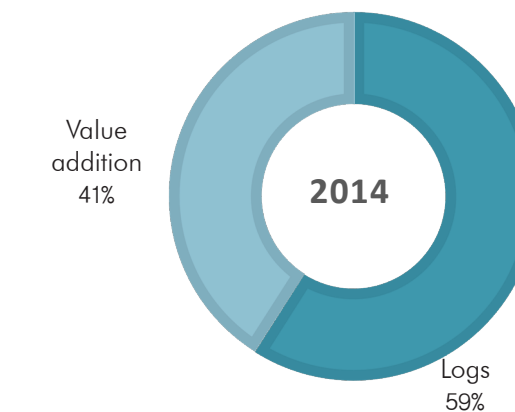


Value Addition

Value addition 41%



Value addition 41%



Capital Expenditure - 2015

Description

Arm office polonnaruwa	
R.m office new quarters nuwaraeliya	
Kadapola new quarters nuwaraeliya	
Kankaniyamulla depot & arm office	
R.m office at rathmalana	
Buildings rathnapura	
Cat - 03 excavator polonnaruwa	
Log loader machine monaragala	
Wide belt sander holytek - s2da kaldemulla ff	
Wood mizer bandarawela	
Toyota 4wd double cab - 3 nos.	
Isuzu - mu - x 400 d jeep	
Mistubishi l200 double cab - 4 nos.	
Toyota hilux 4wd cab - 2 nos.	

Rs.

10,210,054
14,787,684
11,437,881
13,822,991
8,583,796
8,287,497
15,690,000
15,690,000
5,579,911
7,709,007
20,400,000
9,125,000
24,000,000
13,600,000

Investment

Government Ins. Temporary Surplus Trust Fund
People's Bank
Land Reclamation and Development Board
Bank of Ceylon
State Mortgage and Investment Bank
Total

31-12-2015

Rs.

382,550,525
738,673,524
500,000
1,238,592,415
140,049,121
2,500,365,585

31-12-2014

Rs.

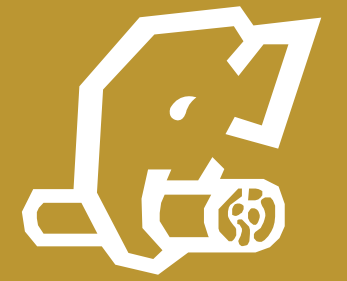
360,226,630
696,410,412
500,000
877,910,713
130,485,324
2,065,533,079

Decade at a Glance

[Absolute Values]

[Absolute Values]		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total revenue for the year	Rs. '000	2,106,155	2,531,611	2,986,925	3,445,141	3,616,164	3,103,744	3,563,390	3,213,547	3,756,482	4,132,052
Gross profit for the year	Rs. '000	966,095	1,050,896	1,210,845	1,351,695	1,365,285	1,237,640	1,546,107	1,197,518	1,453,451	1,757,114
Net profit before interest and tax	Rs. '000	480,641	488,535	647,039	810,612	877,623	603,499	801,681	382,337	427,222	768,699
Total cost of employment	Rs. '000	774,751	841,831	852,879	898,652	901,910	953,498	1,065,052	1,117,036	1,254,516	1,449,746
Capital expenditure for the year	Rs. '000	13,523	95,745	141,327	112,909	237,332	180,546	162,509	332,870	115,132	244,929
Non current assets as at end of the year	Rs. '000	1,579,613	1,338,570	1,523,553	1,793,467	1,801,988	1,739,893	1,479,880	1,658,535	1,654,908	1,743,579
Current assets as at end of the year	Rs. '000	962,569	1,545,428	1,407,022	2,079,543	2,341,020	2,177,892	2,929,185	3,153,777	4,004,860	4,115,259
Current liabilities as at end of the year	Rs. '000	528,005	690,558	455,460	1,028,979	1,034,258	497,229	804,102	1,050,258	1,591,991	1,480,965
Non current liabilities as at end of the year	Rs. '000	341,581	370,816	362,399	364,553	399,057	399,953	409,030	384,831	484,649	424,853
Equity as at end of the year	Rs. '000	1,672,595	1,822,624	2,112,716	2,479,478	2,709,694	3,020,602	3,195,933	3,377,223	3,583,129	3,953,019
Contribution to the consolidated fund	Rs. '000	75,000	150,000	75,000	50,000	413,490	75,000	600,000	50,000	25,000	50,000
No. of employees as at end of the year	No.	2,751	2,634	2,499	2,457	2,346	2,267	2,187	2,139	2,186	2,145
Investment of surplus fund as at end of the year	Rs. '000	1,267,102	834,037	777,101	858,717	605,235	764,328	298,546	338,010	360,227	382,550
Key performance indicators											
Net profit before tax to equity	%	28.74	26.80	30.63	32.69	32.39	19.98	25.08	11.32	11.92	19.45
Net profit before Levy & tax to total Assets	%	18.91	16.94	22.08	20.93	21.18	15.40	18.18	7.94	7.55	13.12
Current ratio	Times	1.82	2.24	3.09	2.02	2.26	4.38	3.64	3.00	2.52	2.78
Total cost of employment per employee	Rs. '000	282	320	341	366	384	421	487	522	574	676
Equity : Asset ratio	Times	0.66	0.63	0.72	0.64	0.65	0.77	0.72	0.70	0.63	0.67
Return on assets	%	18.91	16.94	22.08	20.93	21.18	15.40	18.18	7.94	7.55	13.12
Total revenue growth	%	37.74	20.20	17.99	15.34	4.96	(14.17)	14.81	(9.82)	16.89	10.08





Contribution to the National Economy

STC explores new opportunities and encourages effective resource utilization of capital and skill, brings new products, services, methods and develops markets for growth of the economy.

Contribution to the National Economy

State Timber Corporation operates in timber industry as a business leader who looks for ideas and places them into effect in fostering economic growth and development. State Timber Corporation plays a vital role not only in the development of timber industrial sector

of a country but also in the development of other sectors. In 2015, the State Timber Corporation contributed Rs 1,594 million to the national economy as stumpage, VAT and NBT, income tax and special levy. Five years summary is as follows,

	2011	2012	2013	2014	2015
Stumpage	777,852,620	831,555,555	706,779,429	743,675,772	891,797,062
VAT/NBT	433,254,605	447,825,030	387,928,678	424,740,460	418,055,273
Income Tax	242,640,682	192,453,384	131,882,763	202,347,603	234,000,000
Special Levy	75,000,000	600,000,000	50,000,000	25,000,000	50,000,000
Total	1,528,747,907	2,071,833,969	1,276,590,870	1,395,763,835	1,593,852,335

The major roles play by the STC in the economic development of an economy is specified in below.

1. STC provides direct and indirect employment opportunities to many more. STC plays an vital role in reducing the problem of unemployment in the country which helps economic development of the nation.

2. STC promotes regional development and removes regional discrepancies by setting up regional offices in less developed and backward areas. The establishment of business in these areas provides large number of public benefits.

3. STC explores new opportunities and encourages effective resource utilization of capital and skill, brings new products, services, methods and develops markets for growth of the economy.
4. Increase in the standard of living of the people is a core feature of economic development of the country. STC enables the people to supply better quality goods at a reasonable price and adopting latest innovations to the production to provide wide range of product and services for the benefit of the society as well as environment.

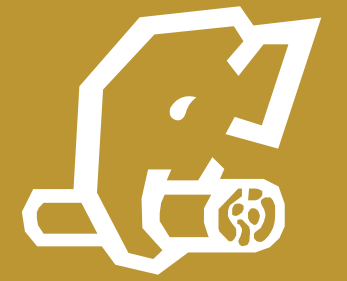
5. STC carries out exports to earn foreign exchange in order to combat the import dues requirement to ensure economic independence and development.

6. STC involves by reducing the growth of monopoly in the timber market by involving the overall process and controlling timber industry for some extent for the benefit of public and national level.

7. It stimulates equitable redistribution of wealth and income to more people and geographic areas.

8. STC as a social responsible person who operates various programs to protect environment and promote sound environmental practices to the society.





Corporate Governance

Corporate Governance is most often viewed as both structure and the relationship which determine corporate direction and performance. The board of directors is typically central to corporate governance.

Corporate Governance

Corporate governance is most often viewed as both structure and the relationship which determine corporate direction and performance. The board of directors is typically central to corporate governance.

The Board of Directors, senior management and all employees of State Timber Corporation are required to embrace and, through their behavior, augment this culture in the performance of their official duties, and in other situations, to uphold the State Timber Corporation's image and reputation.

The Board of Directors

- ▶ The basic role of the Board of Directors is to manage or to supervise the management of the corporation.
- ▶ Directors and officers are "Fiduciaries" of the corporation. Fiduciary is a legal term that means that they owe the utmost loyalty and good faith to the corporation, and must act only in its best interests.
- ▶ Directors and officers must comply with their duties under every applicable law.

There are seven members of the board consisting of the Chairman, Working Director, Forest Conservation General, Treasury Representative and Lawyers. The Board meetings are conducted monthly to take all major decisions. The Directors are responsible for protecting the rights and interest of stakeholders and are accountable to them for the overall management of the Corporation.

Statutory Obligations

1. The Board approved budget should be forwarded to line ministry, Treasury and auditor general before the commencement of the year.
2. The draft of the annual report and accounts should be rendered to the

auditor general within 60 days after closing of the financial year.

3. The final audited accounts together with the auditor's report in all three languages should be tabled in Parliament within 150 days after the closing of financial year.
4. Corporate plan approved by the Board should be forwarded to line Ministry, Treasury and Auditor General.

Audit Committee

Committee comprised members of both Non-Executive Board members chaired perfectly by a treasury representative or person possessing financial management skill. This committee meet on regularly at least once in three months for the purpose of reviewing financial statements, performance of the Corporation, Annual audit plan, Internal and external audit reports etc.

Management Meetings

Senior managers of State Timber Corporation are attended to the management meetings. In this meeting Production, marketing and sales performances are reviewed and evaluated. And also major problem and constraints are discussed and solutions and decisions are taken at these management meetings.

Regional Performance Management Meetings

This meeting is specially held for coup officers in charge of forest coups, depot officers in charge of sales and other regional staff. This meeting is for evaluate the performance of the regions and set targets on production. Various kinds of weaknesses and opportunities can be identified and decisions taken with regard to the problem areas by holding these meetings.

Technical Evaluation Committee

This committee is appointed according to the government procurement guidelines to evaluate tender and make recommendations.

Annual Report

STC publishes its Annual Report every year within stipulated times. The report is prepared for the benefit of the stakeholders and the public in accordance with Guidelines for Good Governance, which has been prepared to improve the Financial Management Systems of the Corporation.

Relationship with Stakeholders

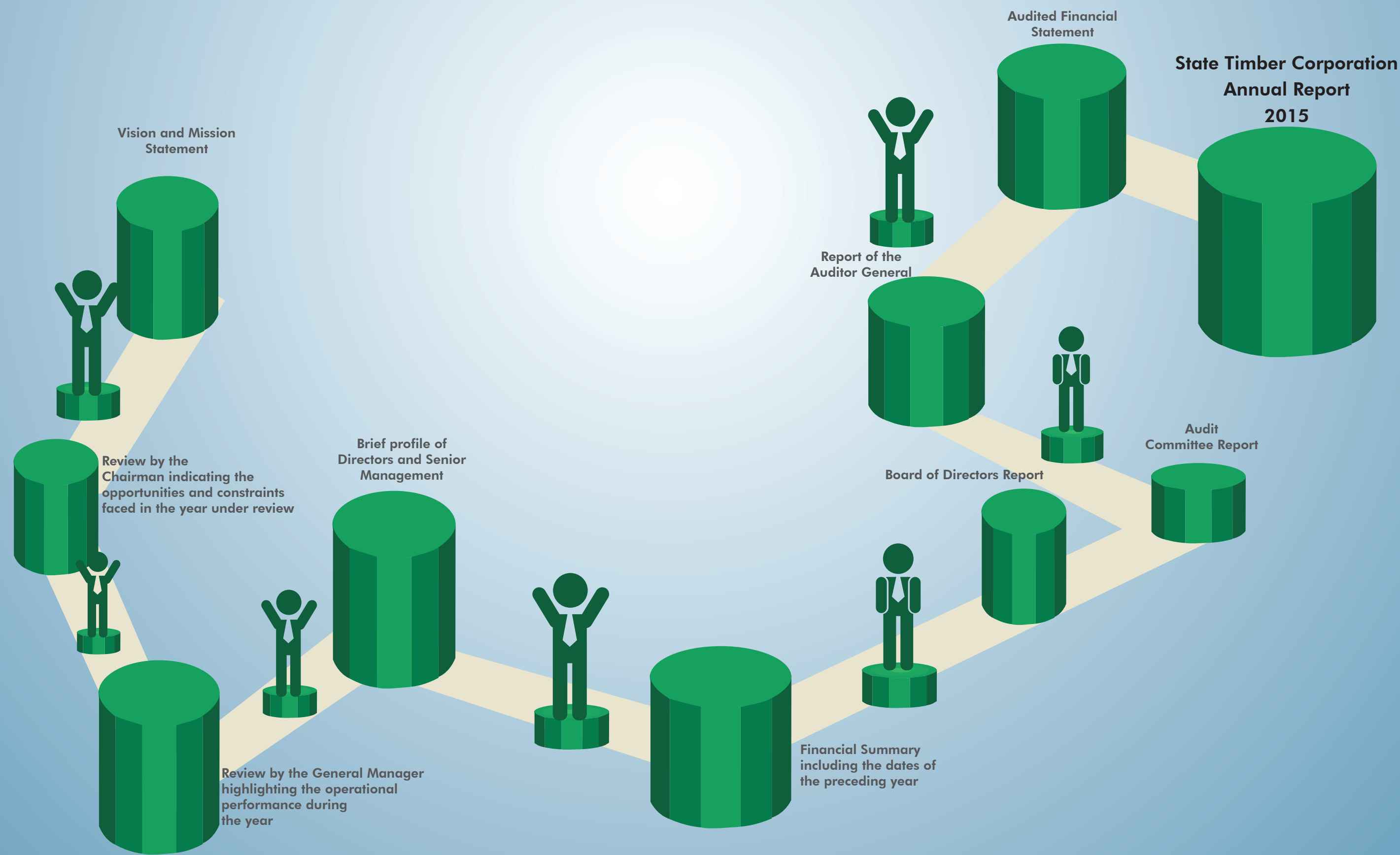
The Board identifies the importance of maintaining a healthy relationship with its key stakeholders. Internal communication is mainly conducted through the, emails, memorandum and circulars and notices. The Board also ensures that the Corporation's policies and practices are in line with the Corporation's values and social responsibility. The Corporation promotes protection of environment of inside and outside the Corporation.

Compliance with Statutory and Regulatory Requirements

The State Timber Corporation enjoys the unique position in the country as the leader providing most trusted and best quality timber and timber based products to the nation for the past 46 years. The State Timber Corporation was incorporated in 1968 by Hon. Minister of Land, Irrigation and Power under the provision of State Industrial Corporation Act No.49 of 1957 and further amended and updated by the Gazette Extraordinary No 178/10 of 5.2 of 1982 and Gazette Extraordinary No. 11907 of 26.6 2009.

The State Timber Corporation can be pleased over its contribution to the national economy. The biggest challenge was when the Government with aim of protecting and conserving the natural resources promulgated

Structure of Annual Report





several rules unauthorized felling of trees in specified areas and this had adverse impact on the business activities of the Corporation.

As a responsible corporate citizen, STC in compliances with Acts and Ordinance along with their subsequent amendments successfully conducts its operations.

- Forest Ordinance Act No. 13 of 1966
- Finance Act No. 38 of 1971
- The Shop and Office Employees Act No. 15 of 1954
- Employee's Trust Fund Act No. 46 of 1980
- Employee's Provident Fund established under the Act No. 15 of 1958
- Inland Revenue Act No. 10 of 2006
- Value Added Tax Act No. 14 of 2002
- Nation Building Tax Act No. 09 of 2009

Apart from the State Acts & Ordinance Sri Lanka Accounting Standards (SLFRS & LKAS) & Sri Lanka Auditing Standards (SLAUS) also applicable for accounting & auditing functions in STC.

The Parliamentary Committee on Public Enterprises (COPE) is empowered to review the annual accounts and performance, to ascertain the extent to which the corporation achieve performance targets and fulfill social responsibilities.

The most prominent raw material of our corporation is trees, which is one of the most important natural resources and also the entire operational processes are directly as well as indirectly connecting with the environment. Under such scenario, it is compulsory to comply with the legal framework. Our Corporation has already complied with the rules and regulations imposed by the Central Environment Authority (CEA)

Our island wide operational network consists with factories like saw mills, impregnation pressure plant and boiler & kilning house and furniture production plant. Along with the final output of all these factories, it generates side effects which affects to the environment.

Corporation is practicing a controlling system in order to minimize the bad effects of the operational activities. For that CEA has imposed scheme of conditions under different areas to maintain our operational activities in environmental friendly manner.

Accordingly Corporation follows environmental controlling system in the areas of noise pollution, water pollution, air pollution, solid wastage maintenance and other environmental related conditions.

Service units of STC which consists with factories have been issued Environmental Conservation license by CEA annually. Accordingly each and every factories of the corporation keen to comply with those conditions as much as possible.

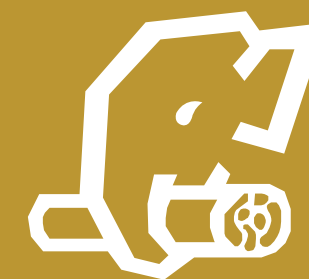
In order to minimize the frequency of corruption occurrence, corporation is conducting relevant disciplinary actions against the particular parties. Accordingly, employees are subjected to penalize such as interdictions, discounting per day salary,

annual increment and promotion, suspending the salary, charging particular loss. These punishments depend on the nature of the corruption has been done by the employees.

If an employee is suffering from any harassment or discrimination, then employee has the opportunity to inform those things to their superior. Superior and top management of the corporation are actively involving to make necessary actions related to particular situation.

These types of actions will benefit for the employees and stakeholders as well as whole country.

Finally, corporate governance boosts corporation's reputation in compliance with local, state and federal rules and regulations and decreases the conflicts and frauds from bad behavior of employees and employers.



For Sustainable Future

Sustainable development can be defined as a process, which use biosphere to satisfy the needs of present generation without compromising the ability of future generation needs.

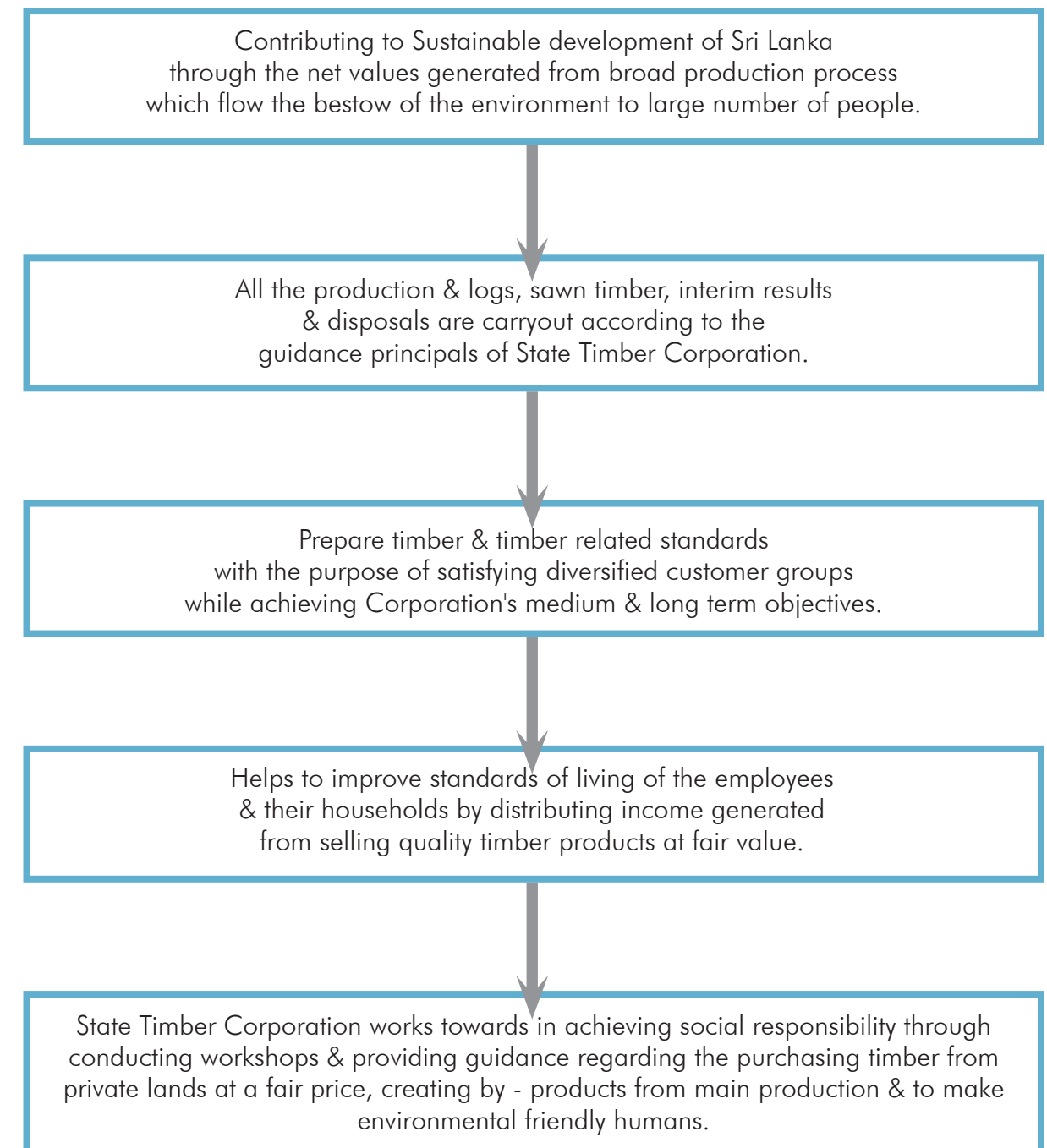
For Sustainable Development...



Sustainable development is a topic which is subject to global discussions. Natural resource management can be identified as an important objective of the journey to meet sustainable development goals.

Specially a country like Sri Lanka, which is rich from natural resources, it is very important to create a balanced ecological system through forest management. Forest management is important to achieve two main objectives. One is to protect forest resources for future needs while using for current needs.

As a state owned business, State Timber Corporation make sure to protect environment from its business activities through new cultivations & guidance while generating maximum output from the resources to fully satisfy the customer needs & wants by producing exactly what they want. Main objective of this process is to open the ways to achieve sustainable development by improving present & future quality of the lives of the households.



Customer

Attracting customer is the primary goal and making customer delight is a key to achieve sustainable development. Through this theme, Corporation make sure to do its operations environmental friendly manner while improving the standards of living of the household of Sri Lanka by providing innovative wood products with high quality.

Customer satisfaction is the consent that the customer feel regarding the products or services that an institute provide. Because of the quality goods we provide, lot of new customers are adding to the current customer base. Satisfied customers are a asset to the corporation. Therefore making satisfied customers delight is a key to sustainability of the corporation. Though the state timber corporation is fully state owned institute it is

proud to say both state & private institute are include in our customer base.

As a government institute, State Timber Corporation always carry out its operations

by giving prominent place to customer within the process of identifying new needs & wants of the customers while creating environmental friendly business environment by protecting the values of the corporation.

Making customer satisfied & confirmation.



Employees

With the purpose of making employees satisfied, State Timber Corporation identify its staff as a "Internal Customer". Satisfied customer is the person who received exactly what they want to satisfy their needs, therefore State Timber Corporation take decisions & arrange operations in a manner where both corporation goals & employee goals are achieved.

Though our Institute were unable to identify exact employee needs, based on the assumptions we take actions to satisfy their needs as we believe satisfied employees work towards to achieve corporation goals & objectives.

Through a proper guidance, corporation has been able to develop satisfied staff who always try to create core values within our unique culture, who respect to each other, who value the collectivity within the corporation to achieve goals & objectives & they are the backbone of the corporation.

Employee training & development programmes conducted by State Timber Corporation.



Training programmes carried out by Timber Technology Traning Institute

Training Programme	No: of employees
Timber Grading workshop (3 days)	70
2 months workshop for Depot officers	23
Furniture Manufacturing workshop	12
Workshop about the timber seasoning (3 days)	14

Traning programmes carried out by other recognized institutes

Training Programme	No: of employees
Wheel loader training	06
Excavator training	05
Dozer training	02
Fork lift training	03
Training on furnace oil	06
Stock control	52
Tamil language	15
Microsoft excel	08
Timber utilization	15

Through proper training & attitudes development State Timber Corporation can bring employee utilization to the maximum level which allow them to achieve their personal goals also.

Environment & Community

The motel of us is this environment where we obtain almost all the things which needs live. From the birth to last breath we are bound to our environment. Therefore, in order to protect the endure of the earth State Timber Corporation focus on to achieve sustainable development by reducing the negative impacts which arise from its operations while adjusting to the climate changes.

One of our main aim is to increase the living conditions of the community through the environmental friendly activities which can achieve by working in line with the current rules & regulations, cultural factors, customs & business values. Well trained employees backed by previous experiences on community development activities, always create path to identify the ways of community development.

"Timber land management" concept is another activity of the Corporation which prove the sustainable operations of the business, by which STC make sure to manage the harmful effect that can be occur when satisfying the customer needs.

Through proper scientific researches STC use plants which has woody values & new plants instead of older plants, for re-cultivate degraded forests, empty lands & waste lands which ultimately generate benefits to both environment & community.

The motel of us is this environment where we obtain almost all the things which needs live. From the birth to last breath we are bound to our environment. Therefore, in order to protect the endure of the earth State Timber Corporation focus on to achieve sustainable development by reducing the negative impacts which arise from its operations while adjusting to the climate changes.

Social Responsibility

social responsibility can be defined as "Promoting the interest of related parties" than "earning profits for its owners". This is a responsibility of the business than just earning profits to owners. State Timber Corporation often perform as responsible citizen & always work towards in achieving the common goal of employees, customers, community & other related parties.

Activities carried out during 2015 to build a better society

♦ Tree planting programmes & its parallel programmes

Several programmes were conducted to celebrate 'World Environment Day'



- "Thurujana sisu Bank" - tree planting program was continued successfully. Identified schools were given materials & monetary aids to buildup interest of the young generation on tree planting & it will tend to give a clear idea of timber species & its development and the significance of correct utilization of timber trees after they reached maturity.
- Distributed 5552 seeds to Badulla, Bandarawela, Welimada & Passara education zones & 350 seeds to Bandarawela & Kahagolla "aranya senasanaya".
- Conduct exhibition regarding the timber preservation at Madirigiriya Central Vidyalyaya.
- Established 20 hectares teak land in Sewanapitiya region of Polonnaruwa district & used 1000 plants for vacancy filling of the madawachchiya land owned by State Timber Corporation.
- Organized lectures for schools, institutes

& community regarding the environment, timber preservation & bio - diversity.

- Distributed brochures & books which include information about timber & environment among the school children & community
- Distributed valuable plants like 'Ebony' among school children with the purpose of encouraging the gardening.
- Actively contributed to the "Wana Ropa" tree planting programme.
- Contributed 88000 seeds plants to tree planting programmes in order to distribute among the community & institutes.

♦ Garbage Disposal Management

We STC tend to manage day today waste in a sustainable manner by categorizing them as paper, polythene & organic waste.

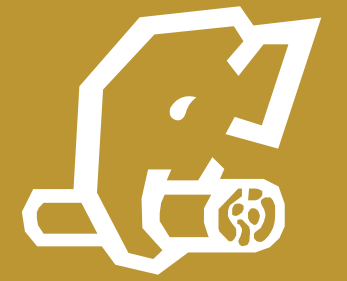
♦ Timber identification & certification service

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

♦ Services provided by the TTTI unit

STC took a land mark step to setup training institute, Timber Technology Training Institute at Kaldemulla in 2006. The main purpose is to strengthen the work of all who engage participating forestry & timber technology through capacity building & updating of knowledge in Sri Lanka to achieve their goals in the context to national development.





Risk Management

The State Timber Corporation is exposed to several risks associated with the operational processes, product, design, distribution & underwriting in the economic and political environment within which it operates.

Risk Management

The State Timber Corporation is exposed to several risks associated with the operational processes, product, design, distribution& underwriting in the economic and political environment within which it operates.

Management of business risks is given due attention with an effective system of financial, operational and other controls put in place, to mitigate same.

Persistent changes in the economic and business factors as well as consumer preferences present the group with a host of risks and opportunities. Identification, measurement, monitoring and treatment of these risks are an integral part of the business planning process and risk considerations from a crucial input in to all the business decisions.



The Board of Directors holds ultimate responsibility for ensuring that the risks are identified and managed appropriately. And also the responsibility has been delegated to the Audit Committee for reviewing the risk management in place and monitoring compliances to define policies and procedures. The risk management policy is updated and reviewed regularly to reflect changes in economic and market conditions. The Policy explains the processes, procedures and guidelines in place to identify, monitor

and mitigate the company’s risk exposures. Through training and awareness building, we also strive to develop a risk culture within the organization in which all employees have a clear understanding of their roles and responsibilities pertaining to risk



management. The risk that the company exposed to and mitigating actions that are in place are detailed in the below.

Financial Risk Management

1. Credit Risk

STC follow risk retention strategy to manage the risk arise from the debtor’s defaults. Therefore following tactics have been adhered.

- Maintain comprehensive policy to adequately review & provide for doubtful debts.
- Maintain general provision for bad debts in every financial year.
- Limited credit sales & follow strict credit policies.
- Ex - Allow credit sales only to government employees who purchase through ‘PrasadaAbhimanie’ Loan scheme & government institutions use the treasury to transfer the payments.
- All the receivables & payables are closely assessed.
- Measure credit worthiness of customers & implement tailor made credit policies for each customer.

2. Interest Rate Risk

Since the interest rate fluctuation effect on profitability and cash flows of the corporation, STC follow-up risk reduction policy to minimize the adverse effects which occurs from the variation.

- STC manages and minimize the interest rate risk by utilising low cost funding from banking and financial services sector to minimize high cost borrowing such as overdraft.
- Negotiating & taking supplier credit to reduce the high cost & avoid adverse fluctuations in local interest rate.
- Maintaining low gearing.

- Effective working capital management.
- Applying financial risk management techniques.
- Negotiating with banks to take special rate on the Corporation's deposits.
- Deposit excess funds under the special deposit rates, after thorough analysis about the time, the corporation need to withdraw them.

3. Liquidity Risk

As the liquidity issues may effect to labour unrest, continuous supply of input materials& it has an adverse impact on the sooth business operations. Therefore STC implement risk reduction strategy to maintain robust liquidity position & implement regular financial planning & monitoring systems.

- Cash flow forecasting & maintaining adequate cash & cash equivalent balance
- Corporation has sufficient asset to offer as collateral for future funding requirements.
- All the major funding facilities are handled by Head office.
- Prevent increase in debts by adopting proper debt collecting policies.
- Placement of proper authority levels in order to control expenditure.

4. Investment in Capital

As Investments are key to the sustainability of the business STC practice risk avoidance strategy to reduce the risk of loss in present & future investments. STC take below remedies to manage the risk.

- Used to take investment decision based on the proper planning & the corporation's budget.

- Take maximum output from the prevailing assets.
- Adopting a strict capital expenditure procedure based on level of investment as this is a state owned business enterprise.

Operational Risk

1. Internal Controls

STC adhere risk reduction strategy to safeguard Corporation's assets & to identify failures within the process & to take prompt action to mitigate the risk. Following strategies have been implemented to minimize the risk arise from the internal control.

- Carrying out continuous internal audits at scheduled times in appropriate manner by internal audit department.
- Maintaining proper control system mainly on payment procedure, selection of suppliers & recruitment process as a state owned business organization.
- All the financial activities carried out in accordance with the finance act.

2. Production Risk

Production process is one of the main factors which affect to the existence of the corporation. Unavailability of proper production process make dissatisfied customer which ultimately affect the success of the corporation. Therefore Corporation adhere following procedures to minimize or prevent the risk that can be come up from its production process.

- Adopting various quality standards at different stages to verify the quality & ensure this process happen until the product is delivered.
- Take actions to sale or dispose the stocks that are not up to standards in a way which does not affect to the goodwill of the corporation.

- Corporation used to purchase timber from the timber lands which are released by the forest department, as those timber are more than 35 years old & as a result corporation have ability to supply timber products with good finishing level.

3. Human Resource risk

To have smooth flow of business operations, STC implement risk avoidance strategy to avoid the risk arise from human resources by reducing labour turnover, providing training & development facilities, attracting & retaining high quality employees & maintaining good working relations within the corporation. Therefore below practices are implemented.

- Maintain healthy & cordial relationship with employees at all levels.
- Provide various employee benefits
- Provide specific & general training & development covering all levels of employees wherever necessary.
- Recruitment process is carried out in accordance with a specific procedure as this is a state owned business enterprise.

4. Inventory Management Risk.

By minimizing the risk arise from inventory management through risk reduction strategy, STC reduce stock out situations, reduce accumulation of slow moving stocks, reduce the losses on obsolete stocks, minimize risk of sub-standard material being received & minimize inventory holding cost. To achieve those benefits STC has been implemented following practices.

- Plan monthly production based on the budgets & sales forecast which decide at the monthly production committee meetings.
- Carrying out sales promotions to reduce slow moving stocks.



E.g. – 'PrasadaAbhimani furniture loan provided by STC'

- Adopting various quality standards at different stages to verify the quality & ensure this happen until the product deliver.
- Stocks that are not up to standard are separated and disposed as scrap.
- Carry out stock verification systems continuously to identify non-moving stocks.
- Regularly monitoring inventory days.
- Provide appropriate storage methods to slow moving stocks after reviewing them periodically.

5. Environmental Risk

To minimize adverse impact which can be arise from operations on the environment & to work according to the corporation's environmental policy STC adhere below practices through risk avoidance strategy.

- Carry out different types of projects to educate society, institutes & specially

school children about the environment.

- Complying with standards set by the relevant authorities & ensuring the compliance.
- Having a strong relationship with stakeholders who are involved in socio-environmental issues in the country.
- Establish timber lands projects as a remedy to timber land decrease.

6. Asset Risk

In order to prevent the losses caused by assets especially from machine breakdowns & damages from fire, employees or theft STC focus on risk avoidance strategy. Following treatments has been implemented to avoid the risk.

- Obtain comprehensive insurance covers for plant & machinery.
- Carry out well planned maintenance programs for assets.
- Establish special policies for all the matters related to assets & carry out internal audit timely.

Compliance Risk

1. Legal Regulatory Risk.

Non-compliance with laws and regulations would lead to cause of operations, loss of reputation and Brand name, huge fines and penalties. Therefore, to minimize possible losses that can arise from non-compliance, STC develop robust, effective & flexible structures to manage the changes in legal environment & adhere risk retention strategy with below practices.

- Complying with the rules & regulations.
- Work according to the advices of the directors, related officers etc.
- Monitor of legal environment frequently.
- work according to the government policies & circulars.

2. Technological & Quality Related Risk.

STC used to avoid harmful impact that can come up from the expired technologies, low quality goods & non compliance with rules, through risk avoidance strategy & focusing on the quality standards. Following tactics has been implemented under the risk avoidance strategy.

- Develop a long term plan to replace existing machines with technologically advanced machines.
- Obtain certifications from relevant authorities to ensure the products of STC comply with most of the local & international standards.
- Carry out research & development activities by research division in the corporation.
- Necessary laboratory facilities & equipments are provided within the

organization to assure the quality of timber products.

- Conduct internal & external audit.

Strategic & Business Risk

1. Reputation Risk

STC focus on the risk reduction strategy to prevent the causes that damage STC's reputation, brand image. As a result, STC can work on preventing activities which make negative impact on the good will & the quality of the products, reduce operational inefficiencies, Build confidence & trust through financial transparency. Therefore STC have been implemented following treatments to reduce the risk of reputation.

- 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.
- Ensure quality in manufacturing process & compliance with the standards.
- Ensure effective communication with various stakeholders such as employees, bankers, regulators, customers, suppliers.
- Persistent effort in image building through external programmes as 'Rukropana' etc.

2. Competition Risk

With the purposes of, avoiding losses of market share due to import of low quality timber products, increase sales value of main products of STC such as logs, sawn timber, sleepers, transmission poles, elephant poles via innovations, STC adhere risk avoidance strategy to minimize the risk from the competitors. Under the risk avoidance strategy STC follow below treatments.

- Ensure prevailing quality standards are met.

- Strengthen STC brand name through paper advertising & promotional campaigns.

Ex: Provide 10% interest loan facility by 'PrasadaAbhimanie' furniture loan with 2 year settlement period for all government employees. Introduction of credit card sales in 2013

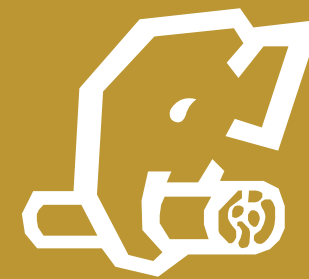
- Maintaining product availability in various parts of the country through establishing new showrooms & modifying existing showrooms & sales depots.
- Bringing new concepts to develop existing products & carry out market research for innovations to attract more customers.
- Carry out market research to ascertain customer desires to satisfy customer better than competitors.
- Produce high quality products at a lower price by reducing the wastage.
- Develop new operation methods by using different techniques.

3. Information System Risk

State Timber Corporation adopt following steps in order to assure that the accurate information are in place when needed, information are secured, risk related to software, hardware & communication systems are minimized, technological policies are up to date & policies which measure the security are in line with the standards.

- Assure that the technologies used at State timber corporation are always in line with the standards.
- Make sure to keep copy of the original data in external devices.
- Keep copy of the CD's which contain important information of corporation.
- Get in to agreement with the suppliers regarding the maintenance & other services.
- Maintain proper antivirus software's to prevent the damages can be caused by the viruses & maintain strong security system to prevent unauthorised access from external parties.





REPORT OF THE AUDITOR GENERAL

*Report of the Auditor General on the
financial statements of the state timber
corporation for the year ended 31
December 2015 in terms of section 14(2)
(c) of the Finance Act, 38 of 1971*



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கணக்காய்வாளர் தலைமை அபிபதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT

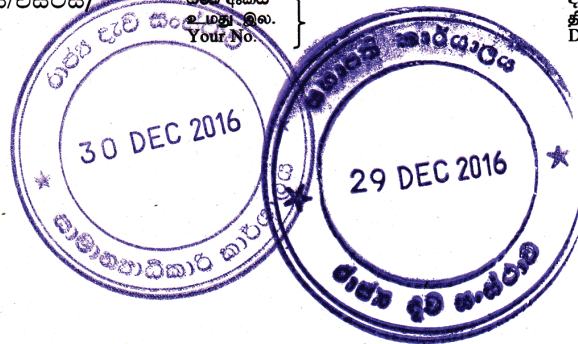


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- පිටපත් : 1. ලේකම් - මහවැලි සංවර්ධන හා පරිසර අමාත්‍යාංශය
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AUDITOR GENERAL'S DEPARTMENT



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Your No. }

27 September 2016
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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 2015 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 2015 comprising the statement of financial position as at 31 December 2015 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, will be furnished to the Chairman of the Corporation in due course.

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.

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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 2015 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

2.2.1 Sri Lanka Accounting Standards

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

(a) Sri Lanka Accounting Standard -01

Even though surpluses or deficiencies occurred in the provisions made for the pensions gratuity commitments should be disclosed separately in the comprehensive income statement, the Corporation had not identified the surpluses or deficiencies disclosed in the comprehensive income statement.

(b) Sri Lanka Accounting Standard-16

(i) Even though the useful life of property, plant and equipment reviewed at the end of the year of accounts and the provisions for depreciations should be revised accordingly, assets costing Rs.879,187,990 had been fully depreciated and stated the value of each item at Rs.5.00. Action had not been taken either to revise the rate of depreciation if they are further



utilized or to take suitable action if they are not utilized to show their fair value or to disclose in the accounts.

- (ii) Even though walls, gates, boundary fence valued at Rs.25,410,700 with a defined useful life included in the lands valued at Rs.84,467,845 had been shown and being brought forward at cost since the year 1968. Depreciation had not been made as those assets were shown under lands. Action had not been taken to revalue the assets to show its fair value, though the current market prizes of the lands which had been accounted from a long period at cost had considerably changed.

(c) Sri Lanka Accounting Standard-37

When the value of loss can be identified, provision for contingent liabilities should be made in terms of the standard. Nevertheless, no provision had been made for the arrears of salaries amounting to Rs.1,957,174 which had to be paid to an interdicted officer who had been acquitted from his charges.

(d) Sri Lanka Accounting Standard -40

A part of the Head Office building of the Corporation the value of which had been stated as Rs.5 had been rented out to 2 Government institutions and an income of Rs.14,714,790 had been earned. However, the value of this building had not been brought to account after being revalued under the investment assets.

2.2.3 Unexplained Differences

Differences ranging from Rs.21,774 to Rs.878,986,690 were observed in the comparison of 4 items of taxes and the stumpage value payable included in the financial statements with tax returns. and the registers of the Department of Forest Conservations.

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) Action had not been taken to recover the dues amounting to Rs.11,873,954 recoverable from a private company included in the trade and other balance receivable as at 31 December in the year under review from more than 30 years and the deposits totaling Rs.1,132,198 over 5 years receivable from Government and Semi-Government Institutions, loan balances totaling Rs.13,018,508 over 2 years even up to May 2016, the date of audit.
- (b) Recovery of a sum of Rs.69,249 recoverable from 06 officers who had obtained furniture under the "Prasada Abhimani" loan scheme had remained idle from the year 2011 and action had not been taken even up to May 2016 to recover these money from the relevant officers or the guarantors.
- (c) It was observed that the credit control was at a weak level due to the reasons such as to write off a large values as bad debts during the previous several years, non-recovery of debtor balances in an updated manner, action not taken to recover the debts by imposing a surcharge on them on delayed payments.
- (d) Advances amounting to Rs.95,000 and Rs.13,822,462 paid in the years 2011 and 2014 respectively to obtain goods and services and the contractors of the work sites of the Corporation had not been settled even in the year under review.

- (e) A sum of Rs.13,223,972 had not been recovered from the year 2014 as the electricity, water and buildings rent from the Department of Forest Conservation.
- (f) The amount payable as stumpage to the Department of Conservation of Forests by the Regional Offices of the Corporation from the year 2010 to the year under review amounted to Rs.97,540,310.
- (g) Action had not been taken to settle or bring it into revenue the retention money of the contractors and security deposits remained for a period more than 2 years totaling Rs.4,913,467 and Gang nail deposits of Rs.484,450 remained for a period of more than one year .

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

The following instances of non-compliance with laws, rules, regulations and management decisions were observed.

Reference to Laws, Rules, Regulations, etc.	Non- compliance
(a) Financial Regulation of the Democratic Socialist Republic of Sri Lanka	Even though committees had been appointed to submit preliminary reports and full reports in terms of Financial Regulations in respect of 14 vehicle accidents occurred from the year 2013 up to the end of the year under review, the number of accidents for which preliminary reports were not submitted was 07.
(i) Financial Regulations 104(3) and 104(4)	
(ii) Financial Regulation 571(2)	Even though the security deposits made by

- (b) Procurement Guidelines
- (i) Section 2.8.4

contractors and refundable tender deposits made by the suppliers should be refunded after the completion of the relevant task, action had not been taken accordingly. There were deposits amounting to Rs.2,082,701 and tender deposits amounting to Rs.20,750 lapsed for over two years.

In purchasing technical equipment with high values ,an outside person who has the expertise knowledge in the subject of procurement should be appointed to the Technical Evaluation Committee by the line Ministry or procurement entity. Nevertheless, the Corporation had not appointed such a person to the committee.

After receiving the Technical Evaluation Committee recommendations , the goods should be purchased within 4 weeks. Contrary to that, purchase had been made in two occasions after a delay of 07 months since the receiving of the Technical Evaluation Committee report.

- (ii) Section 4.2.3

- (c) Sections 8.3.9 and 9.4 of Public Enterprises Circular No.PED/12 of 02 June 2003. Three employees had been released from the service of the Corporation for the service of a Company contrary to the provisions of the Circular.

- (d) Section 5.2(c) of the Public Finance Circular No.01/2014 dated 17 February 2014 A Human Resources Development Plan had not been included in the Action Plan. Further, development activities made on behalf of the Government and the development activities implemented as commercial purposes should be identified separately in terms of the said Circular but it had not been so identified.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result for the year under review amounted to a surplus of Rs.369,890,477 as compared with the corresponding surplus of Rs.205,997,864 for the preceding year. Accordingly, an increase of Rs.163,892,613 in the financial results as compared with that of the preceding year was observed. Even though, the tax expenses had increased by Rs.152,584,280, increase of the gross income by Rs.303,664,054 had been the main reasons for the increase in the financial result.

In the analysis of the financial results in the year under review and 4 preceding years, the financial result had increased continuously from the year 2012 to the year under review. The contribution had decreased in the year 2013 as compared with the years 2011 and 2012 in considering the employee emoluments ,taxes and depreciation on non-current assets. However, it had increased again in the in the years 2014 and 2015. The increase of the contribution in the year under review as compared with the preceding year was 23 per cent.

3.2 Analytical Financial Review.

According to the information made available to audit, significant financial information for the year under review and the preceding year is given as follows.

Item	Year Under Review	Preceding Year	Percentage of difference increase/(decrease) as compared with the preceding year.
	Rs.	Rs.	Percentage
Turnover	3,836,191,364	3,473,847,448	10.43
Cost of Sales	2,079,076,399	2,020,396,537	2.90
Gross Profit	1,757,114,965	1,453,450,911	20.89
Administrative Expenses	706,105,228	740,913,217	(4.70)
Profit Before-Tax	768,699,335	427,222,442	79.93
Taxes paid to the Treasury	50,000,000	25,000,000	100
Profit after Tax	718,699,335	402,222,442	78.68
Income Taxes	348,808,858	196,224,578	77.76
Total Comprehensive Income	390,148,289	205,997,864	89.39
Stock Turnover Ratio	1.96	1.96	
Stock Turnover Period(Days)	186	185	

- (a) The increase of the gross profit ratio in the year under review as compared with the preceding year is 20.89 per cent. Even though, the cost of sales of the year under review had increased by 2.9 per cent as compared with the preceding year, increase of income by 10.3 per cent had been the reason for this improvement.

(b) The increase of the net profit in the year under review as compared with the preceding year was 79.93 per cent. Decrease of administration expenditure by 5 per cent and increase of operating income by 21.85 had been caused to this increase. Eighteen per cent of the other operating income had been the over provisions of pensions gratuity whereas 47 per cent of the operating income had been the over provisions of doubtful debts and stock losses . Therefore, the increase of this net profit was not generated from operating activities and it was an increase of the nominal value other than the increase of financial value . Therefore, a significant increase of the operating efficiency of the Corporation was not observed.

(c) It was observed that the manufactured goods remained in stores during a long period as the stock turnover ratio and stock turnover period being 1.96 and 186 days. respectively due to the closing stock had been maintained consistently by the Corporation. It indicated that the Corporation had not paid attention on marketing strategies to turn the trading stock expeditiously into the turnover.

3.3 Legal Cases Initiated Against the Corporation or by the Corporation

Twenty four legal cases comprising of 02 labour office cases, 02 Arbitration cases, 03 Labour Tribunal cases, 03 Magistrate Court cases ,06 District Court cases, 03 High Court cases, 03 Appeal Court cases and 02 Supreme Court cases had been instituted against the Corporation by end of the year under review. A case instituted before the Magistrate Court by the Corporation was being heard by the end of the year under review .

4. Operating Review

4.1 Performance

The following observations are made.

- (a) The State Timber Corporation was established with the following objectives defined by the Gazette notifications No.14796 of 04 April 1968 , No.178/10 of 05 February 1982, and No.1190/7 of 26 June 2001 Under the State Industrial Corporation's Act, No.49 of 1957 .
 - (i) Extraction of Timber from State Forests, conversion of such timber into sawn timber and finished products, sale of logs, sawn timber and finished products and construction of forest roads required for the above purpose
 - (ii) Acquisition, construction and operation of logging units, sawmills, impregnation and preservation plants, seasoning and drying kilns and other necessary equipment and installations.
 - (iii) Operation of timber and firewood sales depots, manufacture and marketing of any by-products from timber, import of timber.
 - (iv) Afforestation, reforestation and scientific management of forests and forest plantations .
 - (v) Import of agricultural production and cane.
 - (vi) Export of timber related finished and semi-finished products and purchase of timber from private lands.
 - (vii) Processing of forest related products
 - (viii) Identification and certification of local and imported timber species.

- (ix) Conduct training programmes on timber industry related subjects and issue certificates and undertake environmental awareness programmes.
- (x) Planning and making investments so as to optimize the return from the lands and buildings owned by the Corporation.

Action had not been taken to achieve the objectives of import of agricultural production and cane among the objectives stated above.

(b) Sales Turnover

- (i) An increase of Rs.396,150,785 or 10.41 in total sales turnover was shown in the year under review as compared with the preceding year and 59 per cent from timber logs, 4.4 per cent from sawn timber, 4.05 per cent from sleepers 5.7 per cent from electricity transmission polls and 6.8 per cent from sale of furniture had been contributed to the sales turnover in the year under review. An increase of 27 per cent from timber logs had existed as compared with the preceding year and the increase of normal price of teak had affected in this connection.
- (ii) It was shown that the contribution of sales income decreased from sleepers by 55.19 per cent and electricity transmission polls by 30.66 in the year under review as compared with the preceding year. A deterioration in the life cycle of the production of sleepers and electricity transmission polls had been shown in considering the contributions of the preceding five years. The government monopoly in respect of these productions had existed to the State Tiber Corporation up to now and the use of these products are being gradually minimized and a threat of losing the sales income was shown.

(b) Sales Turnover

- (i) An increase of Rs.396,150,785 or 10.41 in total sales turnover was shown in the year under review as compared with the preceding year and 59 per cent from timber logs, 4.4 per cent from sawn timber, 4.05 per cent from sleepers 5.7 per cent from electricity transmission polls and 6.8 per cent from sale of furniture had been contributed to the sales turnover in the year under review. An increase of 27 per cent from timber logs had existed as compared with the preceding year and the increase of normal price of teak had affected in this connection.
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(c) Sale of Furniture

Even though a sales growth rate of 20 per cent had shown in the year 2014 as compared with the year 2013, there was a decrease up to 13 per cent in the sales growth rate in the year 2015 as compared with the year 2014. Even though the sale of furniture could be identified as one of the main income of the State Timber Corporation, the sale of furniture represented as low value as 6 per cent from the total sales turnover of the year under review. Even though, there was a monopoly existed in obtaining government

timber, failure to offer competent productions to the market with modern technology, failure to follow a competitive and flexible pricing policy, failure to carry out a market survey, showrooms not extended as to cover the whole island, failure to focus on new marketing strategies and non-pursuing market opportunities are mainly attributed on this decrease.

(d) According to the Corporate Plan prepared for the period from 2013 to 2017, the observations in relation to the achievement of the targets included in the Action Plan of the year 2015 are given below.

- (i) No any action whatsoever had been taken to fulfill the following activities.
- To conduct 03 advisory services programmes to make attitudinal change in the employees.
 - To provide necessary facilities for the employees for the favorable work environment. (Project Proposals)
 - To conduct a programme to develop the skills and capacity building of the employees.
 - To create a network control system of sawn timber.
 - To establish and maintain a separate server exterior to the Corporation's premises.
 - To create a network stock control system for the factories at Kaldemulla, Boralanda, Keppetipola and Boossa.
 - To create a network documentation measurement system.
 - To create a network stock control system for the stores at the Head Office.
 - To increase the production by 2 per cent as compared with the whole existing productions.
- (iii) Out of the objectives to be achieved in the year 2015, 68 percent of the target of obtaining matured teak trees as discussed with the Department of Wildlife, 88 per cent of the target of import the high quality sawn timber and 50 per cent of the target of creating a network statistical information system had not been fulfilled.

4.2 Transactions of Contentious Nature

Twelve constructions works such as official quarters, timber stores and circuit bungalows by spending Rs.49,689,568 in the lands which had no legal ownership to the State Timber Corporation had been carried out.

4.3 Idle and Underutilized Assets

The following observations are made.

- (a) The employees' hostel at Kandapola which was constructed by spending a cost of Rs.12,796,781 had been used by an officer contrary to the objective of the construction. Although 12 beds and 14 mattresses had been purchased and paid a sum of Rs.491,235 for the use of the hostel, they had remained idle without being used. Fans had also been fixed by spending Rs.105,000 without considering the weather condition of the area.
- (b) Two machines which were not used and had not been accounted under the fixed assets, handed over to the Corporation from the River Valleys Development Board had remained at the Ampara saw mill and action had not been taken to repair and use or to dispose them.

4.4 Identified Losses

The following observations are made.

- (a) Hundred Carbide plates out of 256 plates purchased by spending a sum of Rs.698,124 in the year 2012 had been returned to the company from which they had been purchased as they were not in the prescribed standard and 78 plates out of

them , valued at Rs.149,078 had not been received to the Corporation even by 30 April 2016.

- (b) A surcharge of Rs.44,889 as encroachment charges had been paid to the Nuwaraeliya Municipal Council as construction of Nuwaraeliya employees quarters had been carried out without getting approved the building plans
- (c) Surcharge of Rs.54,570 had been paid by the Corporation as the gratuity had not been paid to a female officer on time.

4.5 Deficiencies in Contract Administration

The following observations are made.

(a) Construction of Dela Tiber Stores

- (i) Even though goods valued at Rs.194,100 and Rs.33,120 had been purchased for the construction of the water tank and concreting the access road to the official quarters respectively in the year under review , those activities had not been done even by 30 April 2016.
- (ii) It had been decided to supply the raw materials by the Corporation in the construction of employees quarters and boundary wall and to obtain labour by Measure and Pay basis . However, it was not revealed whether the raw materials purchased for the constructions exactly obtained only for the required quantity as the estimates for materials and labour had not been prepared separately.

- (iii) An over estimate of Rs.696,863 and an under estimate of Rs.72,031 had been prepared due to non- preparation of accurate estimates for the construction of employee quarters.

(b) Construction of Ampara Employees Quarters (A and B)

The following observations are made at the physical verification of the employee quarters which the construction cost which was of Rs.33,880,099.

As a result of weak designing and supervision of the consultancy services firm the construction faults such as the door of the outdoor kitchen fixed so as to open it to outside and fixed with iron tee hinges and therefore the houses were unprotected, a methodology had not been arranged to flow the water remained in the balconies to outside, stagnation of water due to the drainage system not constructed with a proper slope ,the cover of the drainage system had fit in an unprotected manner, interlocks fixed in front of the complex had not been made in a proper standard, the walls of the drainage system of the backyard were in an upper position from the ground level were observed.

(c) Construction of the Ground Floor and the First Floor of the Employee Quarters at Nuwaraeliya

The following observations are made.

- (i) Despite the consultancy firm had stated that, it had not been satisfied the adequate working capital requirement, bank facilities and the similar work done previously on contractor selected, the contract work had been granted to the same contractor without being paying attention on that matter by the Procurement Committee in awarding of the contract.

- (ii) A sum of Rs.237,808 had been paid, based on the Engineering Estimate in making payment to the consultancy institute.

- (d) Construction of the Second Floor of the Employee Quarters at Nuwaraeliya belonging to the State Timber Corporation

The ceiling of the hostel had been completed by using a plastic material by spending Rs.513,920 for 128.48 square meters, though it could have been completed with using Corporation's timber. Constructions had also been carried out by using aluminium and iron bars in many places where timber could be used.

- (e) The construction of the side wall of the Nuwaraeliya employee quarters had been fulfilled by a private institution at Rs.682,734 without calling for tenders .

4.6 Personnel Administration

Observations on the approved and actual cadre of the Corporation by 31 December 2015 are given below.

- (a) The approved cadre of the middle level management was 64 and the number in service was 62. Even though 02 vacancies existed as a whole, excess of 7 Deputy Managers had been covered by the vacancies of other officers.
- (b) Out of the middle management level posts ,the number of excess employees of Regional Manager, Deputy Manager (Finance), (Legal and Administration) Engineer and system analyst was 07 , the number of excess cadre was 45 than the approved cadre in the posts of Cost Officer, Engineering Assistant(Civil), Investigation Officer belonging to the lower management and the number of excess cadre in the posts of management assistants (semi technical) was 59.

- (c) In considering the approved cadre and the actual cadre of the Corporation, the cadre approved to achieve the objectives and strategies of the Corporation had not been recruited.

- (d) Despite recommendations had been received after conducting a preliminary inquiry in respect of a misconduct of an officer that a sum of Rs.64,329 should be recovered from the officer and transfer him from the present work place , this officer had been called for an interview and promoted to the post of Manager (Show rooms) and he had been appointed to his former work place.

5. Accountability and Good Governance

5.1 Procurement Plan

The following observations are made.

- (a) Twenty six goods of capital nature valued at Rs.979,673 not included in the Procurement Plan and 12 items valued at Rs.1,489,110 exceeding the planned quantity had been purchased.
- (b) Even though, it had been planned to purchase 522 capital items in the year under review, only 92 items had been purchased.
- (c) Even though, a sum of Rs.990,000 and Rs.2,161,000 had been budgeted to purchase Dot matrix printer and a Laser printer respectively those values as per procurement plan were Rs.1,890,000 and Rs.1,286,000 respectively. As such difference between the budget and the procurement plan were observed.
- (e) Even though a Procurement Plan had been prepared, it had not been prepared in a realistic manner .As such the procurement plan had not been made use of

as an effective instrument of management control.

5.3 Budgetary Control

Variances ranging from 20 per cent to 738 per cent were observed between the budget and actual income and expenditure, thus indicating that the budget had not been made use of as an effective instrument of management control.

5.4 The Adverse Effect Caused to the Environment due to the Activities of the Corporation

The following observations are made.

- (a) The number of work sites fully fallen for the activities of the Corporation in the year under review was 605.8 hectares (1505.0 acres) and the contribution given from the year 2013 for the re-forestation was 68 hectares (169 acres). The contribution given for the re-forestation was at a minimum level as compared with the fully fallings. Further, the activities of the Corporation depend on trees whereas there had been often damages caused to the animals and destroyed the premature trees when attenuating forest plantations for manufacturing.
- (b) The products of the Corporation consisted of timber logs, sawn timber, sleepers, electricity transmission poles, tance poles, elephant poles and furniture. Sleepers to the Sri Lanka Railways, transmission poles to the Ceylon Electricity Board, elephant poles for the Department of Wild Life are supplied under concessionary credit periods. In the supply of furniture, a loan scheme of "Prasada Abhimānee" is implemented which targeted only Government Servants but not targeted the private sector employees. However, it could not be satisfied for not to supply of

furniture to the general public at a concessionary method and very high furniture prices as compared with the competitors.

5.6 Unresolved Audit Paragraphs

Even though the Chairman of the Corporation had informed on 28 June 2013 that further action would be taken against the contractor and the Corporation officers in respect of unauthorized felling in the Bagawanthalawa Chapelton commercial level plot of land, no action whatsoever had been taken in that connection even by 20 May 2016.

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

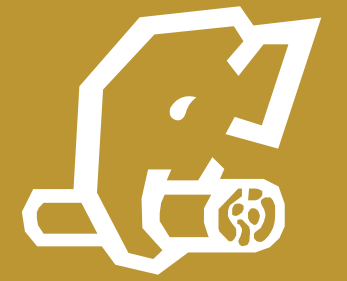
Areas of Systems and Controls	Observations
(a) Debtors and Creditors Control	Action not taken to recover the loan balances recoverable within The credit period, action not taken to pay the royalty to be paid to the external parties and action not taken to refund the various deposits which had elapsed the period.



- | | |
|---|---|
| (b) Budgetary Control | The budget had not been made use of as an effective instrument of management control of the Corporation and non- preparation of accurate estimates. |
| (c) Fixed Assets Control | The ownership of the fixed assets had not been established and assets notutilized in a proper manner. |
| (d) Procurement and Contract Administration | Action not taken according to the instructions of the ProcurementGuidelines, specific services had not been obtained properly fromthe Consultancy services in contract administration and contracts had not been carried out properly by following suitableactions. |
| (e) Personnel Administration | Recruitments and Promotions had not been carried out in terms of institutional rules and regulations. |

H.M Gamini Wijesinghe,

Auditor General



ANNUAL ACCOUNTS

For the year ended 31st December 2015

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st December		2015	2014
	Note	(Rs.)	(Rs.)
Turnover	2	3,836,191,364	3,473,847,448
Cost of sales	3	(2,079,076,399)	(2,020,396,537)
Gross profit on operation		1,757,114,965	1,453,450,911
Other income	6		
Operating	6.2	72,879,875	59,808,848
Non-operating	6.1	222,980,543	222,826,052
Total net income		2,052,975,383	1,736,085,811
Selling and distribution expenses	4	(578,170,820)	(567,950,153)
Administration expenses	5	(706,105,228)	(740,913,217)
Profit before levy		768,699,335	427,222,442
Levy paid to treasury		(50,000,000)	(25,000,000)
Profit after levy		718,699,335	402,222,442
Taxation for the year	7	(348,808,858)	(196,224,578)
Profit after taxation		369,890,477	205,997,864
Other comprehensive income		-	-
Total comprehensive income for the year		369,890,477	205,997,864

STATEMENT OF FINANCIAL POSITION

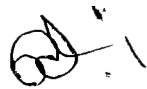
As at 31st December	Note	2015 (Rs.)	2014 (Rs.)
ASSETS			
Non-current assets			
Property plant and equipment	8	1,022,918,340	905,640,314
Intangibles	9	1,676,332	1,634,835
Biological assets	10	5,317,379	4,836,929
Deposits with treasury		2,966,000	2,966,000
Security deposits - staff		55,275,308	48,717,776
Investments	11.1	523,099,646	491,211,954
Prepaid staff benefit		34,491,982	43,149,305
Deferred tax asset	7.2	-	41,757,543
Capital work in progress		97,834,789	114,993,567
Total non-current assets		1,743,579,776	1,654,908,223
Current assets			
Inventories	12	1,051,179,907	1,068,260,904
Trade and other receivables	13	725,589,567	1,050,972,162
Investments in fixed deposits	11.2	1,977,265,939	1,574,321,125
Cash and cash equivalents	14	361,223,645	311,305,958
Total current assets		4,115,259,058	4,004,860,150
TOTAL ASSETS		5,858,838,835	5,659,768,372
EQUITY AND LIABILITIES			
Capital and reserves			
Authorized		75,000,000	75,000,000
Contributed capital	15	41,503,668	41,503,668
Revenue reserves		3,674,865,183	3,311,070,808
		3,716,368,851	3,352,574,476
Staff loan revolving fund	16	236,650,441	230,554,340
Total equity		3,953,019,293	3,583,128,816
Non current liabilities			
Retirement benefit obligation	17	366,887,129	435,931,143
Security deposits - staff		55,275,308	48,717,776
Deferred tax liability	7.2	2,691,425	-
Total non-current liabilities		424,853,862	484,648,919
Current liabilities			
Income tax liabilities	18	291,486,919	232,193,834
Trade and other payables	19	1,189,478,761	1,359,796,803
Total current liabilities		1,480,965,680	1,591,990,637
Total liabilities		1,905,819,542	2,076,639,556
TOTAL EQUITY AND LIABILITIES		5,858,838,835	5,659,768,372

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



General Manager
State Timber Corporation

The accounting policies on pages 105 to 111 and Notes on pages 112 to 121 form and integral part of these Financial Statements. The board of Directors is responsible for the preparation and presentation of these Financial Statements. These Financial Statements were approved by the Board of Directors and signed on their behalf,



Chairman
State Timber Corporation
On behalf of the Board of Directors



Director

Date:21.06.2016

STATEMENT OF CHANGES IN EQUITY

	Contributed capital (Rs.)	Staff loan revolving fund (Rs.)	Revenue reserves (Rs.)	Total (Rs.)
Balance as at 1st January 2014	41,503,668	225,543,133	3,110,175,859	3,377,222,660
Adjustment during the year	-	(91,708)	-	(91,708)
Profit for the year	-	-	205,997,864	205,997,864
Staff loan interest adjustment	-	5,102,915	(5,102,915)	-
Balance as at 1st January 2015	41,503,668	230,554,340	3,311,070,808	3,583,128,816
Profit for the year	-	-	369,890,477	369,890,477
Staff loan interest adjustment	-	6,096,101	(6,096,101)	-
Balance as at 31st December 2015	41,503,668	236,650,441	3,674,865,183	3,953,019,293

CASH FLOW STATEMENT

For the year ended 31st December

	2015 (Rs.)	2014 (Rs.)
Cash flows from operating activities		
Cash receipts from customers	4,170,532,250	3,114,095,334
Cash paid to suppliers and employees	(3,382,894,088)	(2,679,852,677)
Cash generated from operating activities	787,638,162	434,242,657
Income tax paid	(245,066,805)	(60,973,270)
Special levy paid to the treasury	(50,000,000)	(25,000,000)
Net cash inflow/(outflow) from operating activities	492,571,357	348,269,387
Cash flows from investing activities		
Acquisition and construction of property, plant & equipment	(244,929,234)	(113,479,867)
Development of biological assets	(480,450)	(1,652,039)
Investments	(434,832,507)	(294,956,339)
Income from investments	206,687,772	353,965,156
Proceeds from disposal of property, plant and equipment	7,645,869	6,843,786
Work in progress	17,158,778	(63,389,977)
Staff loan revolving fund	6,096,101	5,011,207
Net cash from/(used in) investing activities	(442,653,671)	(107,658,075)
Cash flows from financing activities	-	-
Net increase/(decrease) in cash and cash equivalents	49,917,687	240,611,311
Cash and cash equivalents at the beginning of the year ^(Note-14)	311,305,958	70,694,647
Cash and cash equivalents at the end of the year^(Note-14)	361,223,645	311,305,958

Notes to the Financial Statements

1.1 REPORTING ENTITY

1.1.1 Legal Form

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

1.1.2 Date of Authorization for Issue

The Financial Statements of the Corporation for the year ended 31st December 2015 were authorized for issue in accordance with a resolution of the Board of Directors on 21st June 2016.

1.1.3 Number of Employees

The employees' strength of the Corporation as at 31st December 2015 is 2,145. (2014-2,186).

1.1.4 Responsibility for Financial Statements

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

1.2 BASIS OF PREPARATION

1.2.1 Statement of Compliance

The Statement of Financial Position, Statement of Comprehensive Income, Changes in Equity and Statement of Cash Flow, together with the notes, (the "Financial Statements") of the Corporation as at 31st December 2015 and for the period then ended have been prepared in accordance with Sri Lanka Accounting Standards (LKAS & SLFRS) and statements of recommended practices promulgated by The Institute of Chartered Accountants of Sri Lanka (ICASL).

1.2.2 Basis of Measurement

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

1.2.3 Functional and Presentation Currency

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

1.2.4 Use of Estimates and Judgments

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

1.2.5 Foreign Currency Transactions

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

1.2.6 Taxation

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

1.3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

1.3.1 Assets and Basis of the Valuation

1.3.1.1 Property, Plant and Equipment

1.3.1.1.1 Basis of Recognition

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

1.3.1.1.2 Gains and Losses on Disposal

Gains and losses on disposal of an item of property, plant and

equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net within "other income/other expenses" in Statement of Comprehensive Income.

1.3.1.1.3 Subsequent Costs

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

1.3.1.1.4 De-Recognition

The carrying amount of an item of Property, Plant & Equipment is derecognized on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from derecognition of an item of Property, Plant & Equipment is included in profit or loss when the item is derecognized.

1.3.1.1.5 Depreciation

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

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

Road Construction	10.0%
Furniture and Fittings	15.0%
Office Equipment	15.0%
Miscellaneous Assets	20.0%
Computers	20.0%
Electrical Equipment	10.0%
Tools and Implements	20.0%
Land Improvements	10.0%

1.3.1.2 Capital Work in Progress

Capital expenses incurred during the year which are not completed as at the statement of financial position date are shown as capital work-in-progress, while the capital assets which have been completed during the year and put to use are transferred to property, plant and equipment.

1.3.1.3 Intangible Assets

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

1.3.1.4 Biological Assets

Biological assets are classified as mature biological assets and immature biological assets. Mature biological assets are those that have attained harvestable specifications or are able to sustain regular harvests. Immature biological assets

are those that have not yet attained harvestable specification.

Biological assets are further classified as bearer biological assets and consumable biological assets. Bearer biological asset are not intended to be sold or harvested, however used to grow for harvesting agriculture produce. Consumable biological assets includes managed timber trees those that are to be harvested as agricultural produce from biological assets or sold as biological assets. The entity recognize the biological assets when, and only when, the entity controls the assets as a result of past event, it is probable that future economic benefits associated with the assets will flow to the entity and the fair value or cost of the assets can be measured reliably.

Life span of Teak Tree to maturity is expected to be 35 years from the date of planting. It is assumed that one teak tree takes 10 year period from the date of planting for its biological transformation. The cost is treated as approximation to fair value of immature plants as the impact on biological transformation of such plants to price during this period is immaterial. The managed timber trees are measured on initial recognition and at the end of each reporting period at its fair value less cost to sell in terms of LKAS 41.

1.3.1.5 Financial Instruments

1.3.1.5.1 Non-derivative financial assets

The Company initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party

to the contractual provisions of the instrument. The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks

1.3.1.5.1.1 Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Loans and receivables comprise trade and other receivables, including staff loan receivables. Cash and cash equivalents comprise cash balances and call deposits are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

1.3.1.6 Investments

1.3.1.6.1. Investment in Fixed Deposits stated at cost.

1.3.1.6.2 Long Term Investments Stated at Cost

1.3.1.6.3 Investment at State Mortgage and Investment Bank

This investment has been made with the State Mortgage and Investment Bank for granting housing loan facilities to the employees of the State Timber Corporation.

1.3.1.6.4 Impairment

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A

financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

1.3.1.6.5 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.30,000,000/- is doubtful. Therefore the impairment loss of investment is Rs. 30,000,000/-.

1.3.1.7 Inventories

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

1.3.2 Liabilities and Provisions

Liabilities classified as current liabilities on the Statements of Financial Position are those which fall due for payment on demand or within one year from the Statement of Financial Position date. Non-

current liabilities are those balances that fall due for payment later than one year from the Statement of Financial Position date. All known liabilities have been accounted for in preparing the Financial Statements.

1.3.2.1 Trade and Other Payables

Trade and other payables are stated at their cost.

1.3.2.2 Retirement Benefit Obligation

Employees who have completed five years of continued service with the Corporation are eligible for retirement benefit in accordance with the payment of Gratuities Act No.12 of 1983. However provision has been made in the accounts for the retirement benefit for all employees of the corporation taking into consideration their last drawn salary and the years of services as at 31st December 2015. The defined benefit obligation is calculated annually using the Formula method.

1.3.2.3 Provisions, Contingent Assets and Contingent Liabilities

Provisions are recognised, if as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation.

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

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 the reasons regarding the issue to Attorney General's Department and still Attorney General's Department has not filed a case.

Department of Labour had raised a case against the State Timber Corporation regarding EPF and ETF contribution, which STC had not included Cost of Living allowance when calculating monthly EPF and ETF contribution for the period 2006 to 2012. Still discussions are going between STC and Department of Labour to settle this issue immediately and not yet arrived a final conclusion.

Bank guarantees are issued after 29.07.2015 against Bank of Ceylon fixed deposits A/C numbers 77777554 and 77902580 as collateral.

1.3.3 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.

1.3.3.1 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.

1.3.3.2 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.

1.3.3.2.1 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.

Current applicable income tax rate is 28% and deemed dividend tax rate is 25%.

Deferred tax is provided using the liability method, providing for

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

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

1.3.3.2.2 Stumpage Payment

The stumpage payment for the year 2015 has been calculated on actual felled timber volume basis.

1.3.3.2.3 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.

1.3.4 Events Occurring After the Reporting Date

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

1.3.5 Staff Loan Revolving Fund

This fund is created to grant the loans to employees of the Corporation. The amount of interest received from staff loans stated as other income in the Statement of

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.

1.3.6 Statement of Cash Flows

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

NOTES TO THE FINANCIAL STATEMENTS

02. Turnover

	2015 (Rs.)	2014 (Rs.)
Logs - crown lands	2,257,131,657	1,774,835,926
Logs - private lands	57,716,183	41,521,752
Sawn timber	172,613,302	156,973,992
Imported sawn timber	51,284,256	-
Sleepers - private lands	74,746,345	324,619,571
Sleepers - crown lands	107,808,862	155,478,174
Sleepers - export	54,239,413	48,297,160
Transmission poles - crown lands	171,860,038	142,153,826
Transmission poles - private lands	62,020,251	195,127,486
Elephant poles	222,846,588	88,672,100
Others	21,989,976	23,903,788
Forest offence timber	38,933,047	37,669,004
State land donated timber	349,568,783	315,497,163
Furniture	269,460,443	238,318,417
Gross turnover	3,912,219,144	3,543,068,359
Less: Nation building tax	(76,027,780)	(69,220,911)
Net turnover	3,836,191,364	3,473,847,448

03. Cost of Sales

	2015 (Rs.)	2014 (Rs.)
Depots and wayside depots	1,051,253,845	906,772,371
Impregnation plants	486,500,651	661,198,073
Furniture plants	199,687,421	165,251,217
Wayside sales	341,634,483	287,174,876
Total	2,079,076,399	2,020,396,537

04. Selling and Distribution Expenses

	2015 (Rs.)	2014 (Rs.)
Depots	530,990,321	505,088,613
Impregnation plants	5,775,907	23,390,634
Furniture plants	33,163,963	27,587,476
Regional manager office and head office	8,240,628	11,883,430
Total	578,170,820	567,950,153

05. Administration Expenses

	2015 (Rs.)	2014 (Rs.)
Impregnation plants	17,065,901	21,945,543
Furniture plants	21,964,163	29,144,333
Regional manager office and head office	660,082,480	683,100,131
Circuit bungalows	6,992,684	6,723,210
Total	706,105,228	740,913,217

06. Other Income

	2015 (Rs.)	2014 (Rs.)
6.1 Non-Operating Income (Note 6.3)		
Interest income - investments	156,091,113	197,513,358
Foreign exchange gains	14,336	1,136
House rent	15,488,165	15,042,601
Gratuity over provision	40,812,838	-
Staff loan interest	10,574,092	10,268,957
	222,980,543	222,826,052

6.2 Operating Income (Note 6.3)

Miscellaneous income	28,389,377	20,952,428
Fines-contractors and suppliers	823,764	568,079
Disposal income	6,431,412	6,474,636
Over provision of stock	25,455,651	27,245,757
Debtors over provision	9,072,801	2,003,952
Recovery on shortages and losses	1,048,605	1,153,737
Non refundable tender deposits	1,658,265	1,410,260
	72,879,875	59,808,848
Total	295,860,418	282,634,900

6.3 Analysis of Other Income for the Year 2015

Income source	Depots	Impregnation plants	Furniture plants	Timber Cost	Regional offices & head office	Sawmills	Circuit bungalows	Total
Non-operating income								
Interest income - investments	-	-	-	-	156,091,113	-	-	156,091,113
Foreign exchange gains	-	-	-	-	14,336	-	-	14,336
House rent	-	-	-	-	15,488,165	-	-	15,488,165
Gratuity over provision	10,822,677	378,492	3,925,266	8,010,028	16,084,137	1,592,238	-	40,812,838
Staff loan interest	-	-	-	-	10,574,092	-	-	10,574,092
	10,822,677	378,492	3,925,266	8,010,028	198,251,843	1,592,238	-	222,980,543
Operating income								
Miscellaneous income	296,615	-	39,252	-	24,718,988	2,274,212	1,060,309	28,389,377
Fines-contractors and suppliers	-	-	-	-	823,764	-	-	823,764
Disposal income	-	-	-	-	6,431,412	-	-	6,431,412
Over provision on stock deterioration	20,005,625	5,441,032	8,993	-	-	-	-	25,455,651
Over provision on doubtful debtors	852,551	7,925,603	294,647	-	-	-	-	9,072,801
Recovery on shortage and losses	-	-	-	-	1,048,605	-	-	1,048,605
Non refundable tender deposits	-	-	-	-	1,658,265	-	-	1,658,265
	21,154,792	13,366,636	342,892	-	34,681,034	2,274,212	1,060,309	72,879,875
Total	31,977,469	13,745,127	4,268,158	8,010,028	232,932,876	3,866,451	1,060,309	295,860,418

07. Taxation Expenses

Current tax expenses

Income tax on profit for the year	Note 7.1	304,359,828	202,347,540
Over/under provision of previous year		63	2,237,777

Deferred tax expense

Origination and reversal of temporary differences

Tax charge for the year

7.1 Income Tax on Profit for the Year

Profit before taxation	718,699,335	402,222,442
Aggregate disallowable expenses	104,679,569	293,664,679
Aggregate allowable expenses	(411,808,542)	(423,720,740)
Profit from business	411,570,362	272,166,381
Non business income	182,167,706	212,557,094
Taxable income	593,738,068	484,723,475
Income tax at 28%	166,246,659	135,722,573
Deemed dividend tax	138,113,169	66,624,967

Total

7.2 Deferred Tax

Balance as at 01 st January 2015	(149,134,081)	(41,757,543)
Amount origination during the year	158,746,313	44,448,968
Balance as at 31 st December 2015	9,612,232	2,691,425

Temporary difference of property plant and equipment	376,499,361	105,419,821
Temporary difference of retirement benefit obligations	366,887,129	102,728,396
Carried forward tax losses	-	-
Balance as at 31 st December 2015	(9,612,232)	(2,691,425)

08. Property, Plant & Equipment

Description	Cost			Depreciation		
	Balance as at 01.01.15	Additions	Disposals	Balance as at 31.12.15	Disposals	Charge for the year
Land	56,873,092	3,628,401	1,444,347	59,057,146	-	-
Land Improvement	19,856,631	5,554,068	-	25,410,700	-	12,357,688
Buildings	630,353,815	78,563,939	1,667,356	707,250,398	-	14,109,113
Stacking sheds and other buildings	19,256,777	-	-	19,256,777	-	508,130
Roadways and railway lines	16,679,376	1,742,356	-	18,421,732	-	793,900
Plant and machinery	639,552,770	57,624,822	12,917,552	684,260,040	11,994,016	29,577,255
Leasehold land and building	148,311	-	-	148,311	-	-
Road construction mach. and equi	60,450	-	-	60,450	-	-
Tools & implements	5,645,229	346,646	-	5,991,875	-	231,725
Electrical equipments	14,980,705	2,499,136	-	17,479,841	-	1,134,980
Vehicles	540,469,054	78,035,714	5,093,210	613,411,558	4,802,290	49,839,606
Furniture and fittings	39,564,603	3,474,622	-	43,039,225	-	4,440,846
Office equipments	32,484,131	834,893	-	33,319,024	-	1,782,069
Computers and accessories	56,382,226	7,450,367	-	63,832,594	-	5,410,577
Miscellaneous assets	22,119,263	4,453,001	-	26,572,264	-	2,417,892
Pre fabricated structure	4,938,333	-	-	4,938,333	-	-
Leasehold land-Rathnapura	680,300	-	-	680,300	-	-
Total	2,100,045,065	244,207,967	21,122,466	2,323,130,566	16,796,306	122,603,780

* The Corporation owns the cost of Rs. 879,155,884/- fully depreciated property, plant and equipments at the reporting date.

*Land improvements which were included under the description of land is presented separately in the property plant & equipment in 2015

*The corporation has started depreciation land improvements from the current year onwards & total accumulated depreciation has been charged for the current year

09. Intangible Assets

Description	Cost			Depreciation		
	Balance as at 01.01.15	Additions	Disposals	Balance as at 31.12.15	Disposals	Charge for the year
Computer software	3,011,537	721,267	-	3,732,804	-	679,769
Total	3,011,537	721,267	-	3,732,804	-	679,769

10. Biological Assets

As at 31st December

Balance as at the beginning of the year

Increase due to replantation

Balance as at the end of the year

Locations of the Teak plantations held by the Corporation are Puliyankulama,Madawachchiya,Sevanapitiya, Vinaeethagama

11. Investment

11.1 Investment - LongTerm

As at 31st December

Investment in fixed deposits

Government ins,temporary surplus trust fund

State mortgage and investment bank

Investment in shares

Land reclamation and development (pvt) ltd

Lanka timber plantation ltd.

(-) Impairment of investment

Total

11.2 Investment - Short Term

As at 31st December

Investments in fixed deposits

People's bank

Bank of ceylon

Total

12. Inventories

As at 31st December

Stock-in-trade

Note 12.1

Stock deteriorations

Goods in transit

Work in progress

Stores and spares

Preservatives

Fuel and oil

Stationary stock

Total

2015
(Rs.)

4,836,929

480,450

5,317,379

2014
(Rs.)

3,184,890

1,652,039

4,836,929

2015
(Rs.)

382,550,525

140,049,121

522,599,646

2014
(Rs.)

360,226,630

130,485,324

490,711,954

500,000

30,000,000

(30,000,000)

500,000

523,099,646

500,000

30,000,000

(30,000,000)

500,000

491,211,954

2015
(Rs.)

738,673,524

1,238,592,415

1,977,265,939

2014
(Rs.)

696,410,412

877,910,713

1,574,321,125

2015
(Rs.)

916,935,326

(113,437,199)

803,498,128

25,131,126

45,183,310

116,767,921

41,783,742

5,873,480

12,942,201

1,051,179,907

2014
(Rs.)

919,995,872

(116,548,545)

803,447,328

76,743,448

36,902,197

104,376,621

27,987,940

2,590,469

16,212,901

1,068,260,904

12.1 Analysis of inventories

As at 31st December	2015 (Rs.)	2014 (Rs.)
Crown land logs	428,517,605	477,644,908
Crown land sawn timber	176,236,771	196,148,449
Imported sawn timber	10,795,467	-
Private land logs	1,233,350	669,081
Crown land sleepers	1,056,247	103,896
Private land sleepers	28,431,995	1,377,702
Crown land transmission poles	44,214,166	49,274,718
Private land transmission poles	44,388,282	38,529,211
Others	21,374,105	13,242,339
Furniture	160,687,338	143,005,568
Total	916,935,326	919,995,872

13. Trade and Other Receivables

As at 31st December	2015 (Rs.)	2014 (Rs.)
Trade debtors	488,719,334	760,981,262
Allowance for impairment	(40,995,580)	(49,869,309)
	447,723,754	711,111,953
Staff debtors (Note 13.2)	146,612,656	162,274,544
Other debtors (Note 13.1)	20,747,208	17,898,395
Deposits and prepayments		
Advances local purchases	2,057,894	38,659,265
Advances pre -payment	5,323,161	29,189,005
Advances timber supplies	13,822,462	13,001,712
Interest receivable -deposits	63,387,345	57,683,002
Returned cheques	-	110,552
Kataragama astapala funds	962,000	1,000,000
Deposit courts	8,752,033	8,752,033
Ministry of environment	2,413,385	3,817,263
Forest department	13,223,972	6,910,741
Ports authority	563,698	563,698
Total	725,589,567	1,050,972,162

13.1 Other debtors

As at 31st December	2015 (Rs.)	2014 (Rs.)
Miscellaneous debtors	8,362,516	3,828,645
Deposits- general	12,713,812	14,433,370
Provision	(366,620)	(366,620)
Deposit tender	37,500	3,000
Total	20,747,208	17,898,395

13.2 Staff debtors

As at 31st December	2015 (Rs.)	2014 (Rs.)
Staff receivables		
Vehicle loan	3,073,052	3,899,083
Distress loan	104,696,844	112,815,515
Electrical equipment loan	34,134	50,067
Bicycle loan	821,634	1,527,351
Laptop loan	30,333,084	35,085,981
Furniture loan	1,534,994	1,945,513
	140,493,741	155,323,510

Advances and other receivables

Salaries and wages advance	3,000	7,900
Travelling advance	28,233	45,687
Festival advance	4,240,222	4,239,279
Internal debit notes	894,739	1,767,994
Staff recoveries	858,962	790,174
Salusala textile loan	93,758	100,000
	6,118,914	6,951,034
Total	146,612,656	162,274,544

14. Cash and Cash Equivalents

As at 31st December	2015 (Rs.)	2014 (Rs.)
Cash in hand	975,777	959,167
Cash in transit	13,648,009	7,914
Bank of ceylon	116,529,360	119,169,001
Bank of ceylon - call deposits	230,070,498	191,169,876
Total	361,223,645	311,305,958

15. Contributed Capital

As at 31st December	2015 (Rs.)	2014 (Rs.)
Sri Lanka government fund	25,584,808	25,584,808
Assets taken-over from forest department	10,714,815	10,714,815
World bank - grant	708,202	708,202
C.A.D. british aid fund	4,495,843	4,495,843
Total	41,503,668	41,503,668

16. Staff Loan Revolving Fund

As at 31st December	2015 (Rs.)	2014 (Rs.)
Balance at the beginning of the year	230,554,340	225,543,133
Staff loan interest received	6,096,101	5,102,915
Adjustment during the year	-	(91,708)
Total fund at the end of the year	236,650,441	230,554,340
Nominal value of utilized fund balance as at 31st December	173,194,551	196,135,203
Unutilized fund balance as at 31st December	63,455,891	34,510,845

17. Retirement Benefit Obligation

As at 31st December	2015 (Rs.)	2014 (Rs.)
Provision at the beginning of the year	435,931,143	340,599,947
charge for the year	(38,170,626)	123,790,345
Payment/payable during the year	(30,873,388)	(28,459,149)
Gratuity balance at the end of the year	366,887,129	435,931,143

As at December 31,2015 the gratuity liability was calculated using formula method for all existing employees as required by LKAS 19 - 'Employee benefits'. However under the gratuity Act No:12 of 1983, gratuity liability arises only upon an employee completing continuous service of five years. The following key assumptions were used in arriving at above gratuity liability.

	31.12.2015	31.12.2014
Discount interest rate	10.51%	7.05%
Salary increment rate	5%	5%
Staff turnover rate	4.57%	2.77%
Retirement age	60	60

18. Income Tax Payable

As at 31st December	2015 (Rs.)	2014 (Rs.)
Balance at the beginning of the year	232,193,834	88,581,787
With holding tax on deposits	(11,066,805)	(30,153,705)
Payment during the year	(234,000,000)	(30,819,565)
Under provision of tax for 2014	63	2,237,777
Provision for income tax	304,359,828	202,347,540
Balance at the end of the year	291,486,919	232,193,834

19. Trade and Other Payables

As at 31st December	2015 (Rs.)	2014 (Rs.)
Central bank- EPF	13,621,019	14,086,637
Labour department-ETF	1,634,641	1,698,070
Accrued expenses	144,405,634	128,298,983
Refundable tender deposits	8,497,920	11,862,050
Security deposits - except staff	42,110,289	33,239,095
Audit fees payable	2,357,828	3,073,028
Retention money	14,280,554	13,969,943
Other creditors	72,631,161	165,386,186
Conservator of forests	856,100,427	964,283,581
Stumpage - wild life department	297,946	388,363
Value added tax	33,541,343	23,510,868
Total	1,189,478,761	1,359,796,803

20. Related Party Transaction

Conservator General of the Forest who is the director of the Corporation is also the head person of Forest Department which is released commercial forest plantation according to national forest management plan to extract timber. The Corporation has received the worth of Rs.782,276,144 trees from forest department during the year. Balances arising from above related party transactions as at the Statement of Financial Position date are as follows.

As at 31st December

Payable to related parties

Department of Forest	856,100,427	964,283,581
	856,100,427	964,283,581

Receivable from related parties

Department of Forest	13,223,972	6,910,741
	13,223,972	6,910,741

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.

