

2011

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ANNUAL REPORT

State Timber Corporation

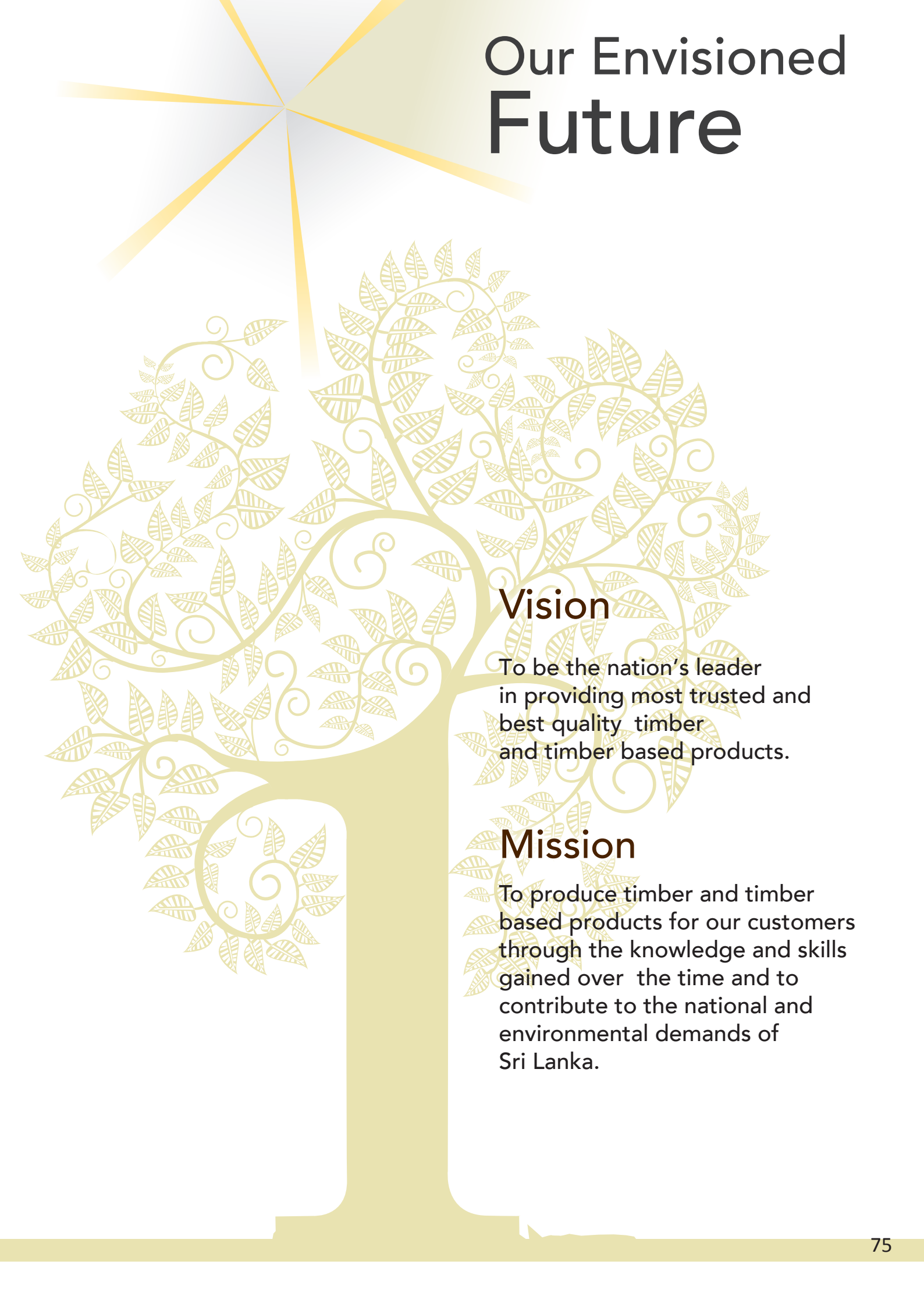
Who we are.....

The State Timber Corporation is a Government owned business organization coming under purview of the Ministry of Environment. The Head Office of State Timber Corporation is situated in "Sampathpaya", Battaramulla and is the core of the Corporation with its peripheral units located in every part of the country. It is the centre of Administration and oversees the functioning of 12 Regional Offices. It is the only State Sector Institution empowered to extract timber from state lands.

This high grade commercial enterprise surpassed the targets for 2011 and contributed the considerable revenue to carry out the numerous development projects undertaken by the Government.

With 375 Coupes and 54 timber Depots spread throughout the country, State Timber Corporation supply quality timber to 18 saw mills, 03 manufacturing complexes and supply timber products from 06 show rooms and is the absolute leader providing most trusted and best quality timber & timber based products in the country.





Our Envisioned Future

Vision

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

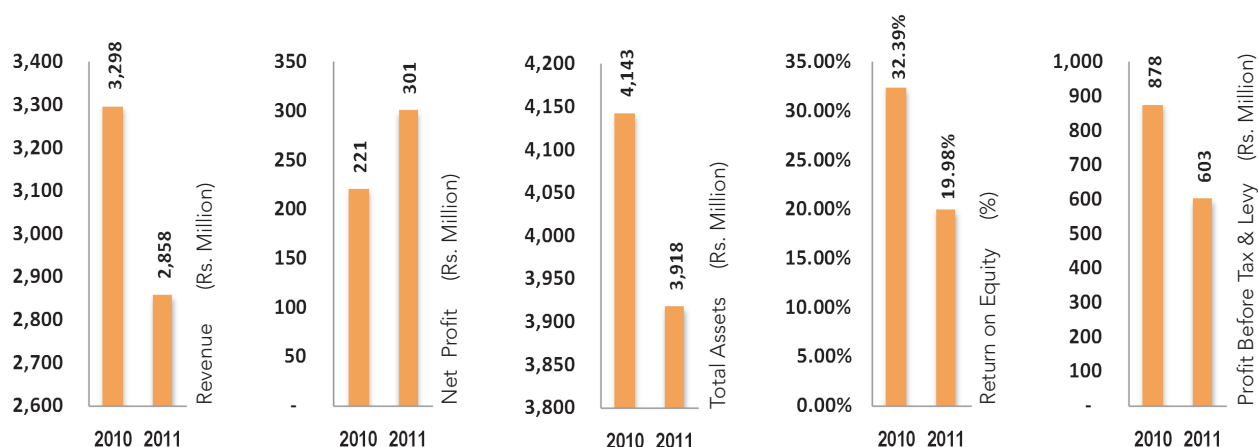
Mission

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.

FINANCIAL HIGHLIGHTS

State Timber Corporation has recorded an outstanding performance during the 2011 financial year. The key performance indicators are as follows.

For the year ended 31 st December		2011	2010	Variance %
EARNINGS HIGHLIGHTS AND RATIOS				
Revenue	Rs. '000	2,858,167	3,298,480	(13.35)
Profit before tax and levy	Rs. '000	603,499	877,623	(31.23)
Levy paid to treasury	Rs. '000	75,000	413,490	(81.86)
Tax expenses	Rs. '000	227,542	243,577	(6.58)
Net profit for the year	Rs. '000	300,957	220,556	36.45
Return on Equity [ROE]	%	19.98	32.39	(38.31)
Return on Assets [ROA]	%	15.40	21.18	(27.28)
BALANCE SHEET HIGHLIGHTS AND RATIOS				
Total assets	Rs. '000	3,917,785	4,143,008	(5.44)
Total equity	Rs. '000	3,020,602	2,709,693	11.47
Total debts	Rs. '000	897,182	1,433,315	(37.41)
Debt / Equity	%	29.70	52.90	(43.85)
Debt / Total assets	%	22.90	34.60	(33.81)
OTHER INFORMATION				
Total employees	Nos.	2,267	2,346	(3.37)
Revenue per employee	Rs. '000	1,261	1,406	(10.33)
Profit per employee [before tax & levy]	Rs. '000	266	374	(28.84)



CORPORATE INFORMATION 2011

Hon. Anura Priyadarshana Yapa	-	Minister of Environment
Hon. Abdul Cader	-	Deputy Minister of Environment
Dr. R.H.S. Samarathunga	-	Secretary, Ministry of Environment

BOARD OF DIRECTORS - 2011

S. Amarasinghe	-	Chairman-State Timber Corporation
R.A.M.A. Nishantha Adhikari	-	Working Director- State Timber Corporation
S.L. Hettiarachchi	-	Director (Treasury Representative)
H.M.P. Hitisekara	-	Director (Conservator General of Forest)
G.V. Senadheera	-	Director
R.S. Ariyapperuma	-	Director
B.M.D.B. Bannaheka	-	Director

P.G.Kumarasinghe Sirisena
General Manager-State Timber Corporation

AUDIT & MANAGEMENT COMMITTEE

S.L. Hettiarachchi	-	Chairman-AMC
R.S. Ariyapperuma	-	Member - AMC
H.M.P. Hitisekara	-	Member - AMC

AUDITOR

Auditor General
Auditor General's Department
Torinton Square, Colombo 7

REGISTERED ADDRESS & HEAD OFFICE

82, "Sampathpaya"
Rajamalwatta Road
Battaramulla
Sri Lanka

PRINCIPAL BANKER

Bank of Ceylon

Telephone : #94112866600-5
Facsimile : #94112866623
Website : www.timco.lk

FINANCIAL CALENDAR

January 1st to 31st of December

TEAM OF MANAGEMENT

STATE TIMBER CORPORATION

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

SENIOR MANAGERS

Manager-Mech.Engineering	:	D.S Samarakoon MIE(SL), C.Eng, NDT (Mec.),
Manager-Timber Grading	:	M.C. Devendra Bsc. Msc (Forestry)
Manager-Sleepers & Tra.poles	:	G. Gunawansa BA (Sp)
Manager- Legal & Admin.	:	D. K. Kuruwitabandara MA, Attorney At Law
Manager- Finance	:	R. A. Dayananda BA, Dip.(Acct.) ICASL (L)
Manager- Finance	:	D. Wickramasinghe Dip.(FA)

MANAGERS

Manager- Production	:	Dr. M. G. Mohamed Thariq Bsc, Msc, Ph.D.
Manager-Purch:Ship (Actg.)	:	Aruna De Silva
Manager-Civil (Actg.)	:	L.H.A.M Kumarasinghe
Manager-Investigation	:	E.G. Thilakaratna
Manager-Transport	:	Preethi Nanayakkara
Manager- R.T.	:	C. K. Muthumala Bsc (Agric) Hons.
Manager- Sawmill	:	H.B. Samantha Bsc, Msc (Forestry)

REGIONAL MANAGERS

Senior Regional Manager-Matara	:	T.S.C. Pushpakumara	Bsc, Post Grad. Dip. (Mech. Wood Tech. & Prod. Mgt.) in Finland
Senior Regional Manager-Kurunegala	:	H.P.S. Navaratna	Bsc. Msc. (Forestry)
Regional Manager-Colombo (Actg.)	:	R. Edirisinghe	
Regional Manager-Kandy	:	P.G.R. Samaraweera	Bsc. Msc. (Forestry)
Regional Manager-Bandarawela	:	W. Keerthi Roy	
Regional Manager-Ampara	:	H.B. Rajawatta	BA
Regional Manager-Nuwara Eliya	:	A.S. Wijesundara	
Regional Manager-Anuaradapura	:	J.A.S. Hemachandra	B.Ed. (Sp)
Regional Manager-Ratnapura (Actg.)	:	P.K. Ajith Chandana	Bsc.
Regional Manager-Monaragala	:	A.B.M. Weerasinghe	BA
Regional Manager-Polonnaruwa	:	E.M.S. Ekanayake	
Regional Manager-Jaffna (Actg.)	:	S. Sri Skandaraja	
Deputy Chief Internal Auditor	:	H.M.S. Madhawa	Bcom. (Sp)

DEPUTY REGIONAL MANAGERS

Deputy Regional Manager-Matara	:	R. Wijethunga	Bsc. (Agric. Sp.)
Deputy Regional Manager-Ampara	:	Y.B.M. Ameer	
		A.C. Jinajudeen	
Deputy Regional Manager-Anuaradapura	:	D.G. Siril	
Deputy Regional Manager-Bandarawela	:	U.V. Kithsiri	
Deputy Regional Manager-Boossa	:	G.G.Thisara Gamage	Bsc.
Deputy Regional Manager-Monaragala	:	K. J. Hemaratna	
Deputy Regional Manager-Colombo	:	H.P.S. Disanayake	
Deputy Regional Manager-Kandy	:	A.N.W.A. Ananda	
Deputy Regional Manager-Kurunegala	:	R.M.S.K. Rathnayake	
Deputy Regional Manager-Nuwara Eliya	:	U.S.M. Fernando	BA (Hons.)
		Wasantha Raj	
Deputy Regional Manager-Ratnapura	:	U.Uluwaduge	Bsc.
Deputy Regional Manager-Polonnaruwa	:	A.P. Rathnasooriya	

COMPLEX MANAGERS

Manager-Kaldemulla Complex	:	K. Chandrapala	BA
Deputy Regional Manager-Kaldemulla	:	D.M. Pushpakumara	Bsc.
Deputy Regional Manager-Keppetipola	:	D.H. Rajapaksha	Bsc. (Hons.)
Regional Manager- Keppetipola	:	M.G.R Abeykoon	

CHAIRMAN'S REVIEW

As the Chairman of State Timber Corporation I am happy to present to you on behalf of the Board of Directors of the Corporation the Annual Report and Progress Report of the State Timber Corporation for the year ended 2011. 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 43 years.

We can be pleased that our contribution to the national economy even in a small way assisted Sri Lanka achieved the highest Gross Domestic Product (GDP) of 8.6 % attained in 2011 which was a landmark achievement in the economic history of Sri Lanka.

2011 can be described as a crucial year to State Timber Corporation. This year we faced lot of challenges. The biggest challenge was when the Government with aim of protecting and conserving the natural resources promulgated several rules prohibiting felling of trees in designated areas and this had severe impact on the business activities of the Corporation.

In face of all these challenges the staff and the workforce of the Corporation stood with us as a bulwark helping to continue our work with much vigor and enthusiasm. I and the Board of Directors convey our sincere respect and gratitude to all of you for your determination and resolve.

In spite of these restrictions in 2011 we earned a profit of Rs.603 million before tax. Bulk of our income was by sale of logs and railway sleepers. Our profit included Rs.144 million gained by investment of surplus funds. We allocated Rs.180 million as capital investment. In addition during the said year we paid Rs.278 million as income tax and Rs.75 million as special tax to the Treasury.

For three consecutive years we received the National Business Excellence Award, awarded by the National Chamber of Commerce of Sri Lanka which was a further encourage to all our workers to step forward with courage and determination. A new state of the art Furniture Showroom was opened in Boossa, Galle District with prominence given to traditional furniture. During the year 2011 we computerized the working of timber depots and also developed the existing website.

As a matter of Social Responsibility during the said year under the National Tree Planting Programme we distributed 100,000 commercially



valuable plants throughout the country for planting; under the school 'Thuru Jana Sisu - Bank Scheme' we planted commercially valuable plants in school gardens, issued permits to carpenters to obtain timber on an easy-payment scheme, the Research and Training Division of the Corporation produced several publications on environment sustainability, conservation, bio-diversity etc., to be distributed among schools, universities and public libraries.

Before I conclude, on behalf of the Board of Directors I take this opportunity to place on record my gratitude to the Hon. Minister of Environment, for his continued guidance and assistance given. I also wish to place on record my gratitude to the secretary and staff of the Ministry of Environment and Conservator General of Forests and the staff attached to the Forest Department and all other government officials for extending their co-operation.

In addition to that, I wish to thank the General Manager, the Management, all the staff and the workforce of the Corporation for their contributions, their knowledge, skill and above all their loyalty and dedication to maintain the high standards of the Corporation that we are proud of. Finally I thank our suppliers, customers and all well-wishers for the confidence they have placed on us. If not for their goodwill and cooperation we would not have achieved our goals and objectives.

S.Amarasinghe.
Chairman,
STATE TIMBER CORPORATION.

GENERAL MANAGER'S REVIEW



It is indeed a happy occasion for me presenting the 2011 Annual Report of the State Timber Corporation, marking its 43rd anniversary, and above all I am proud that State Timber Corporation was able to secure the National Business Excellence Award presented by National Chamber of Commerce of Sri Lanka for the 3rd consecutive year in 2011.

The year 2011 dawned with daunting challenges to both domestic and the global economy. Indirectly it affected the business environment of the Corporation as well. In face of several laws passed by the Government to conserve the environment which drastically affected our business, our turnover lessened when compared with the same period previous year, yet with our united effort we were able to earn an income of Rs.2,858 million, a gross profit of Rs.1,225 million and net profit Rs.603 million and we were able to sustain the stability of the Corporation. Further, the Corporation contributed Rs.1,529 million to National economy, and also invested Rs.180 million for development works of the Corporation.

Just as in 2009 and 2010 we received the National Business Excellence Award presented by National Chamber of Commerce of Sri Lanka for the 3rd consecutive year in 2011 which was a reflection of our excellent administration and business strategies. We opened a new showroom in Boossa in Galle District for sale of high quality authentic traditional furniture products. These two occasions I consider are two unforgettable achievements in the annals of the Corporation.

The administrative controls, strategic management and above all the contributions by the loyal, hardworking and experienced workforce of the Corporation can be considered the most valuable asset of our Corporation and is a matter for satisfaction and gratification to me. To strengthen the workforce of the Corporation during 2011 we recruited 43 candidates to our staff externally which included competent professionals, technocrats and administrators. Further the deserving experienced and eligible staffs of the Corporation were promoted internally to higher grades after been interviewed by committees appointed for the purpose.

We have earmarked several development works for 2012. The year saw the culmination of 4th year of our 5 year development programme. We are happy to note with all challenges we faced we were able to accomplish the targets we set for in our 5 year Corporate plan. I wish to thank our Chairman, Mr.S.Amarasinge for his leadership, Mr.Nishantha Adikari the Working Director and all the Board of Directors, the Secretary, Ministry of Environment and his staff, Hon. Minister of Environment and the Deputy Minister of Environment, the staff and the workforce of the Corporation who gave their full support and cooperation to achieve our targets and objectives. Our ultimate aim should be to march forward vigourously and unitedly to sustain and attain greater heights in years to come.

A handwritten signature in green ink, which appears to read 'P.G. Sirisena'.

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

Our Functions

- ↑ Extraction of timber from forests, conversion of such timber into sawn timber and finished products, sale of logs, sawn timber and finished products, construction of forest roads required for the above purpose.
- ↑ Acquisition, construction and operation of logging units, saw mills, impregnation and preservation plants, seasoning and drying kilns and other equipment and installations.
- ↑ Operation of timber and firewood sales depots.
- ↑ Manufacturing and marketing of by-products of timber.
- ↑ Import of timber.
- ↑ Afforestation, reforestation and scientific management of forests and forest plantations.
- ↑ Agricultural productions.
- ↑ Export of timber related finished and semi-finished products.
- ↑ Purchase of timber from private lands.
- ↑ Processing of forest related products.
- ↑ Import of Cane.
- ↑ Identification and certification of local and imported timber species through sample testing.
- ↑ Conduct training programmes related to timber industry on related subjects and issue of certificates to successful candidates and under take environmental awareness programmes to contribution towards transformation in to environmental conscious society.
- ↑ Strategic Planning and investing resources so as to optimize the output from the lands and buildings owned by the Corporation.

Our Business values

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

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

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

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

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

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

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

Board of Directors 2011

State Timber Corporation



H.M.P. Hitisekara
Director
(Conservator
General of Forest)

R.S. Ariyapperuma
Director

S.L. Hettiarachchi
Director
(Treasury Representative)

S. Amarasinghe
Chairman
State Timber
Corporation

R.A.M.A.N. Adhikari
Working Director
State Timber
Corporation

G.V. Senadheera
Director

B.M.D.B. Bannaheka
Director

Senior Management Team 2011

State Timber Corporation



General Manager
P.G. Kumarasinghe Sirisena



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



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



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



Dy. General Manager
(Marketing)
G. Senanayake



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



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



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



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

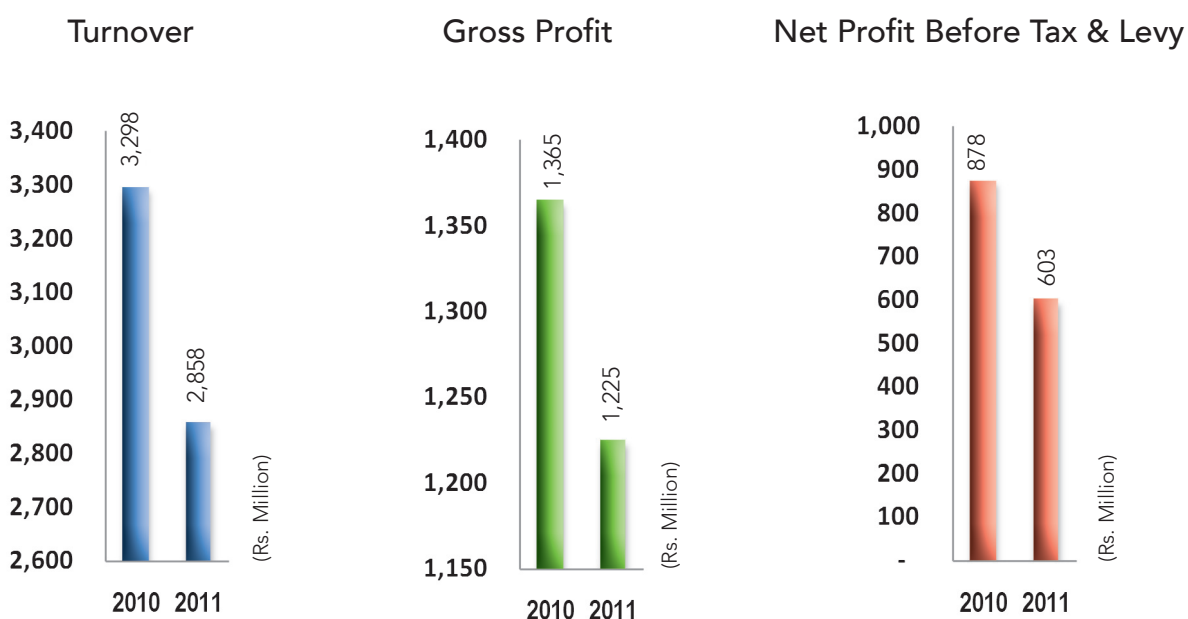
BOARD OF DIRECTORS' REVIEW FOR THE YEAR 2011

BOARD OF DIRECTORS - 2011

S. Amarasinghe	-	Chairman, State Timber Corporation
R.A.M.A. Nishantha Adhikari	-	Working Director, State Timber Corporation
S.L. Hettiarachchi	-	Member and Treasury Representative
H.M.P. Hitisekara	-	Member and Conservator General of Forest
G.V. Senadheera	-	Member
R.S. Ariyapperuma	-	Member
B.M.D.B. Bannaheka	-	Member

State Timber Corporation achieved profit before tax of Rs. 603 Million for the year ending 31st December 2011.

Comparison of performance of the year under review with previous year is highlighted below.



Performance	Year -2011	Year -2010
	Rs.Mn	Rs.Mn
Turnover	2,858	3,298
Gross profit	1,225	1,365
Other operating income	87	55
Profit on operation	444	615
Income from surplus fund and house rent	159	262
Levy imposed by treasury	75	413
Net profit before tax and levy	603	878

- Turnover for the year under review has been decreased to Rs. 2,858 million by Rs. 440 million when compared with the previous year turnover of Rs. 3,298 million. Total Expenses decreased to Rs.2,500 million by Rs.238 million against the previous year.
- The Corporation during the year under review had paid Rs.433 million as VAT,NBT & ESC to the Department of Inland Revenue. In addition to that, Corporation has allocated Rs. 244 million for the previous year and Rs. 228 million for this year as the income tax provision.

PRODUCTION

EXTRACTION OF TIMBER FROM STATE FOREST

The Forest Department has released forest plantation according to forest management plan to extract timber such as Teak, Pinus, Eucalyptus etc and forest management areas released for extraction of trees in the year 2011 & 2010 are as follows.

Species	Clear Felling (ha.)		Thinning (ha.)	
	2011	2010	2011	2010
Teak	591.1	659.62	156.8	74
Eucalyptus	55.8	137.5	260.1	546
Pinus	199.4	167.9	-	-
Kaya	-	-	27.9	2.5
Akashiya	5.5	-	-	-

CONVERSION OF LOGS INTO SAWN TIMBER

During the year 2011 - 3,753 M³ Sawn Timber has been produced by the saw mills and 4,481 M³ has been sold out by the STC depots throughout the Island as against the 5,519 M³ productions in the year 2010.

TREATMENT OF TRANSMISSION POLES AND SLEEPERS

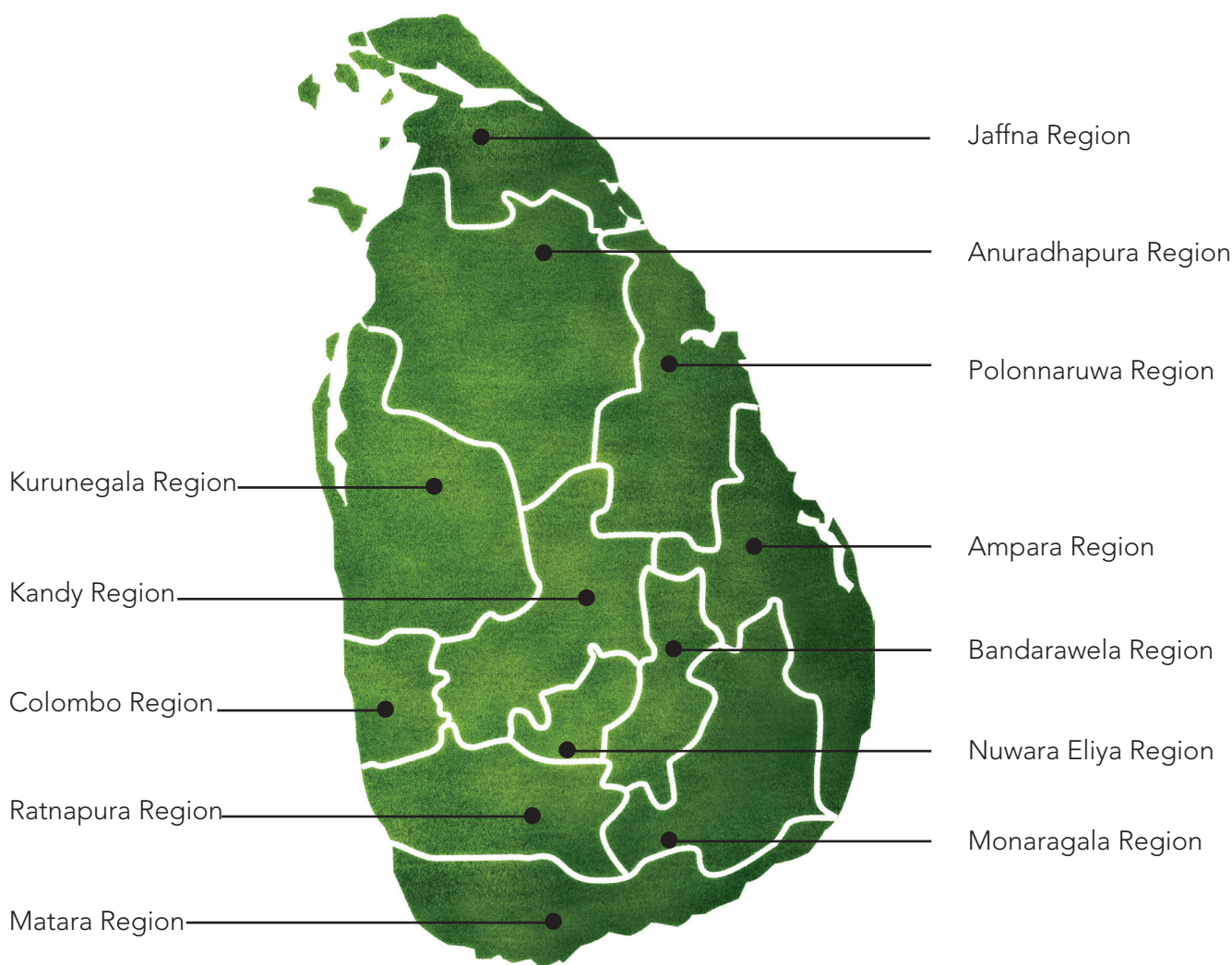
In the year 2011 - 66,505 sleepers, 32,069 transmission poles and 17,607 elephant poles treated in the STC treatment plant at Kaldemulla, Keppetipola and Boossa.

MANUFACTURING OF FURNITURE

During the year under review Rs.106.2 Million worth furniture has been produced by the STC furniture plant at Kaldemulla, Ampara and Boossa. Rs.140.2 Million worth furniture has been sold during the year 2011 by the STC show rooms at Ratmalana, Unawatuna, Bandarawela, Ratnapura, Thalalla, Ampara and Boossa.

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, 07 showrooms at Unawatuna, Kandy, Ratnapura, Talalla, Ampara, Kaldemulla and Boossa, 03 timber treatment plants at Keppetipola, Kaldemulla & Boossa, 6- saw mills at Ampara, Kandy, Boossa, Kaldemulla, Rathmalana, Thalalla, 4 - saw mills at Bandarawela, 2 - saw mills at Rathnapura, 4 - saw mills at Keppetipola, 2 - saw mills at Kurunegala.



Ampara Region



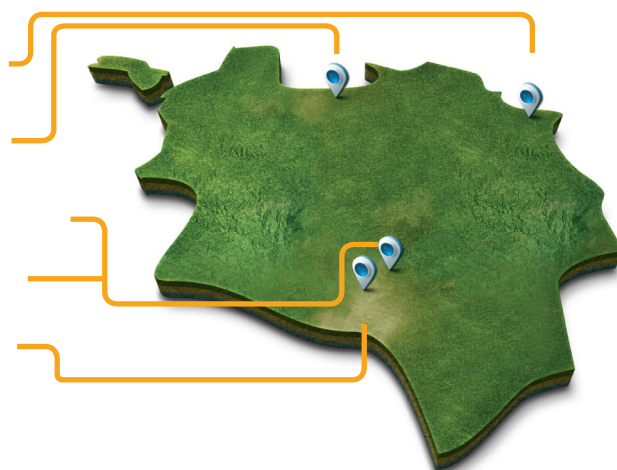
Batticaloa Depot
 Padiyathalava Depot
 Ampara Regional Office
 Ampara Depot
 Ampara Saw Mill
 Ampara Show Room



Anuradapura Region



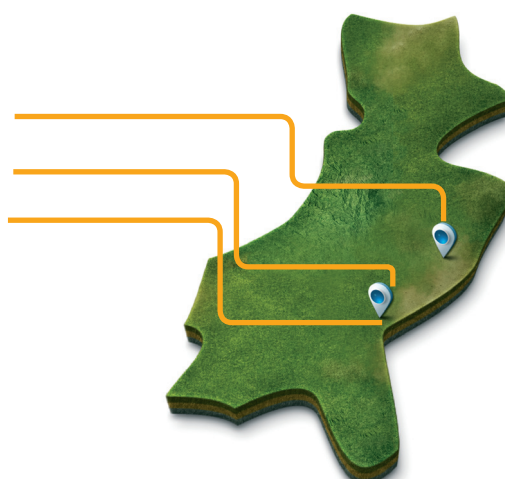
Vavuniya Depot
 Medawachchiya Depot
 Anuradhapura Regional Office
 Anuradhapura Depot
 Thalawa Depot



Bandarawela Region



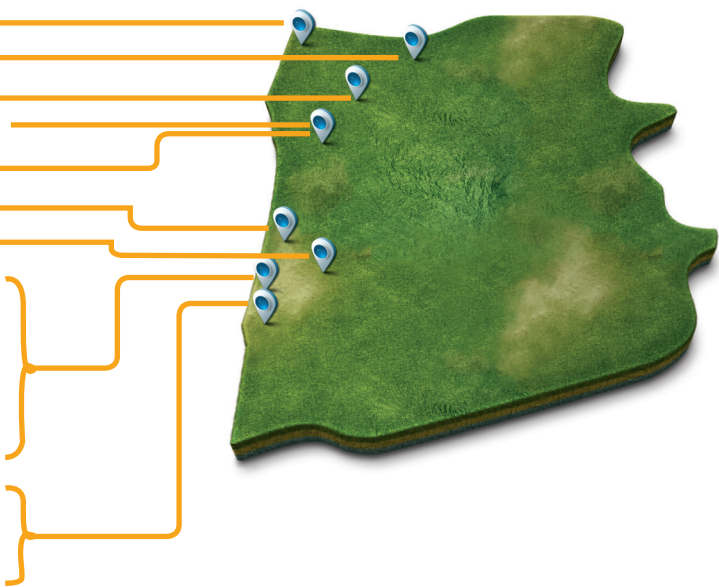
Boralanda Depot
 Bandarawela Regional Office
 Bandarawela Saw Mill



Colombo Region



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



Jaffna Region



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



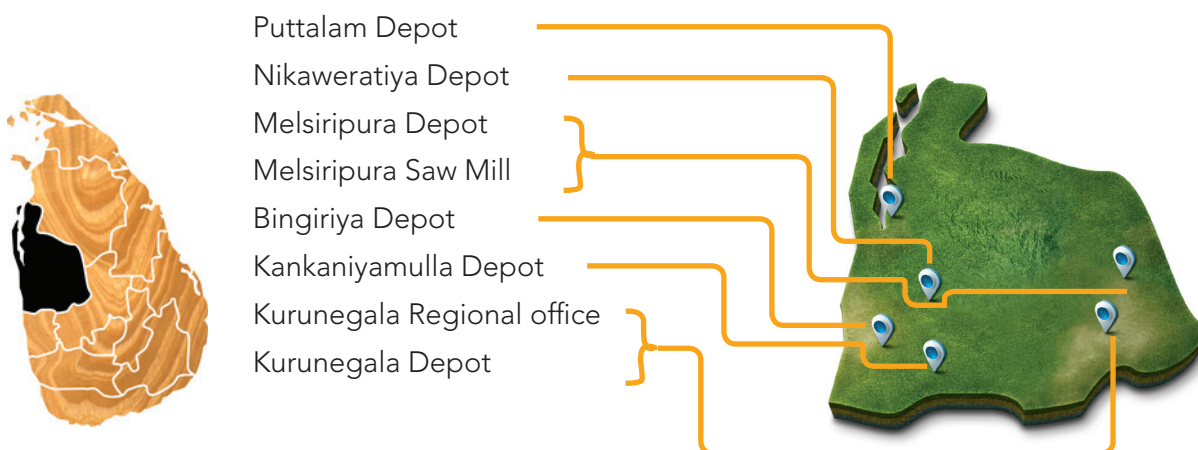
Kandy Region



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



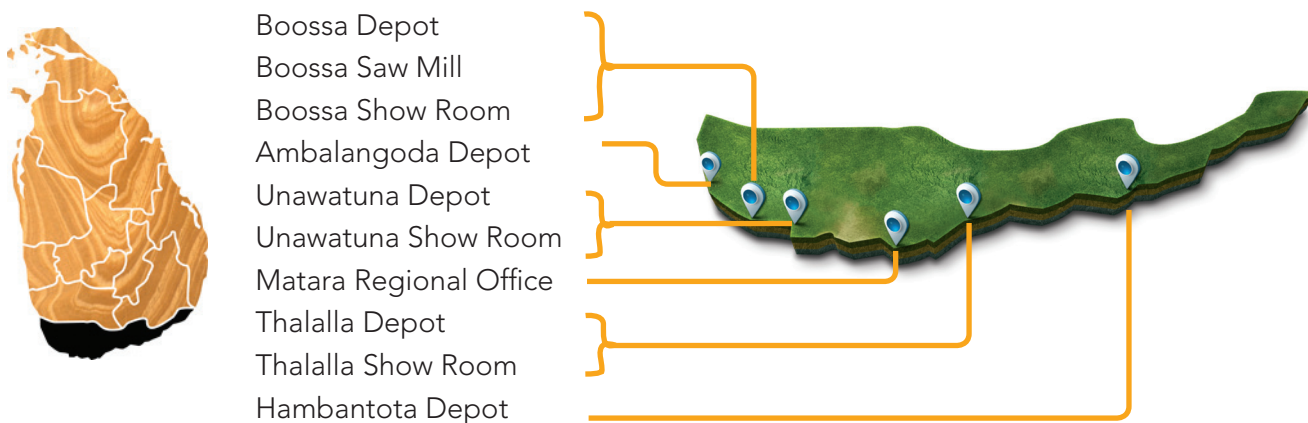
Kurunegala Region



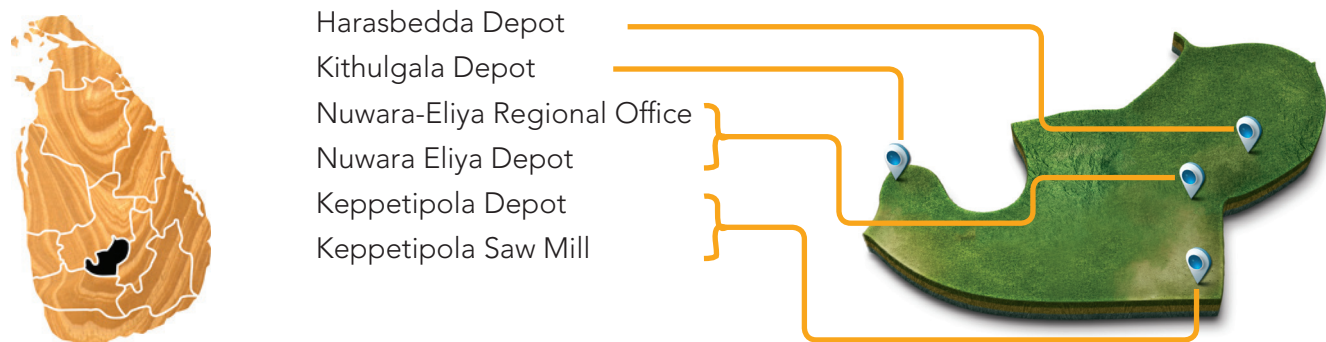
Monaragala Region



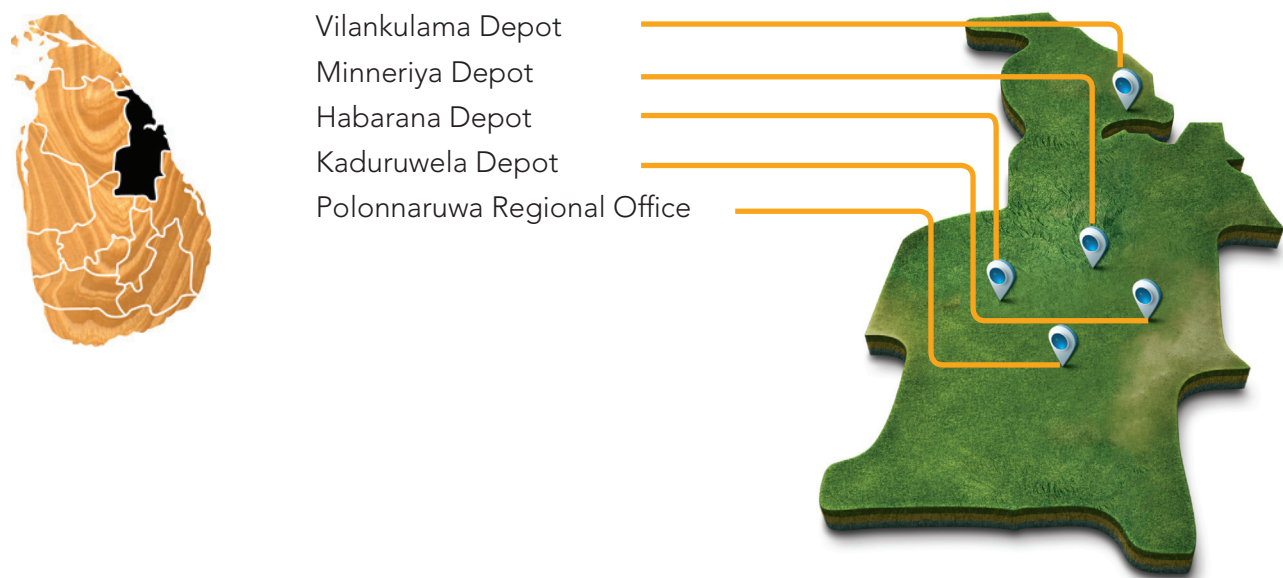
Matara Region



Nuwara Eliya Region



Polonnaruwa Region



Ratnapura Region



PRODUCTION SALES AND REVENUE 2011 - 2010

		Production		Sales Volume		Turnover	
		2011	2010	2011	2010	2011 Rs.M	2010 Rs.M
Logs	M3	138,632	137,317	124,395	139,379	1,542.6	1,634.1
Sawn Timber	M3	3,753	5,519	4,481	5,655	191.4	206.8
Sleepers	No.	66,699	133,822	72,586	152,626	483.8	1,022.9
Trans. Poles	No.	31,863	19,472	40,126	34,556	273.7	232.3
Poles	No.	129,793	126,065	130,363	123,995	1.3	1.2
Fire Wood	M3	97,838	118,544	100,882	121,502	6.9	11.4
Fence post	No.	77,135	79,858	73,434	100,572	3.8	4.6

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 meetings, all bottlenecks and problems identified by the respective Regional Managers are discussed and sorted out, and various decisions and alternatives are proposed which are later evaluated and implemented. Also opportunities and new ideas and changes are discussed and appropriate directives are given in achieving the targets and objectives of the Corporation and to realize the required cash flow with a view to running the Corporation as a financially viable organization.

Signed on behalf of the Board of Directors.



S.Amarasinghe.
Chairman,
STATE TIMBER CORPORATION.

AUDIT & MANAGEMENT COMMITTEE REPORT- 2011

MEMBERS OF THE AUDIT & MANAGEMENT COMMITTEE

S.L. Hettiarachchi	-	Chairman-AMC
R.S. Ariyapperuma	-	Member - AMC
H.M.P. Hitisekara	-	Member - AMC

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

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

(Sgd)

S.L. Hettiarachchi
Chairman AMC.

2011

BUSINESS SUMMARY

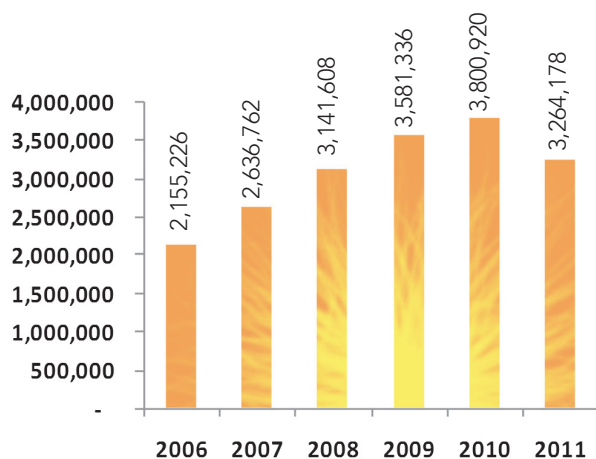
FINANCIAL AND PRODUCTION PERFORMANCES

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

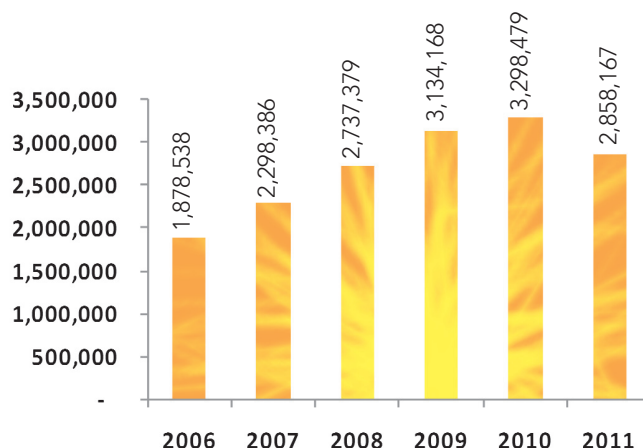
Summary on financial performance during previous six years, consist of cash flows, assets and liabilities, capital expenditures, and profits earned. Progressive indexes on profit gained and expenditure incurred by the Corporation according to investment plans and action plans will testify to high standards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

Income Growth Trend Analysis

Including VAT (Rs. '000)

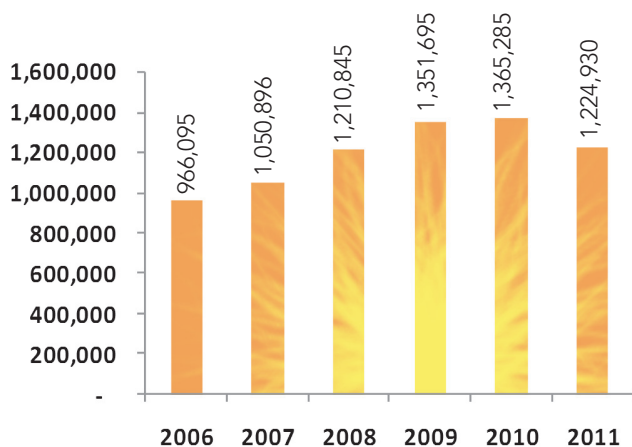


Excluding VAT (Rs. '000)

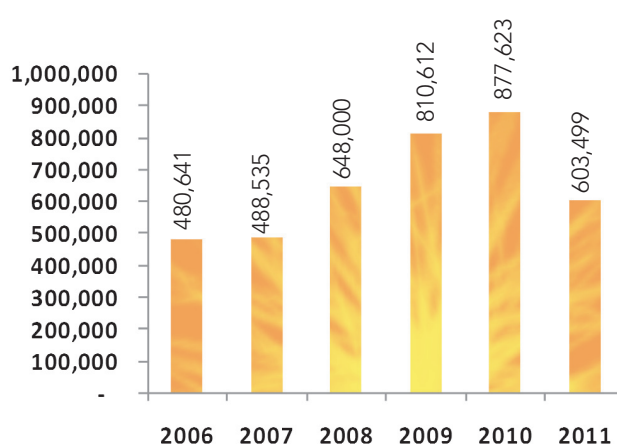


Profit Growth Trend Analysis

Gross Profit (Rs. '000)

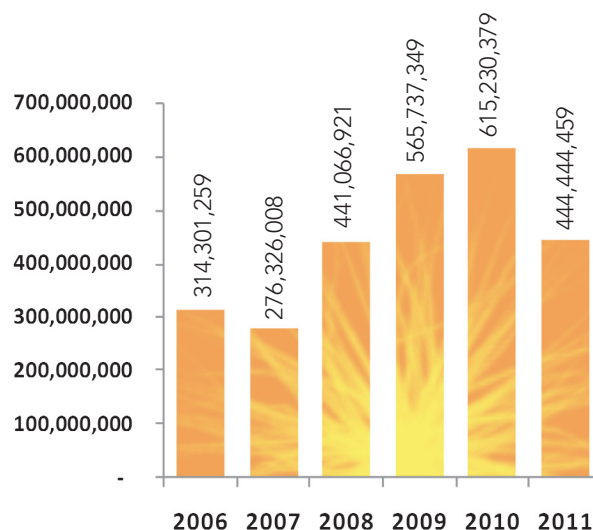


Net Profit Brfore Levy / Tax (Rs. '000)



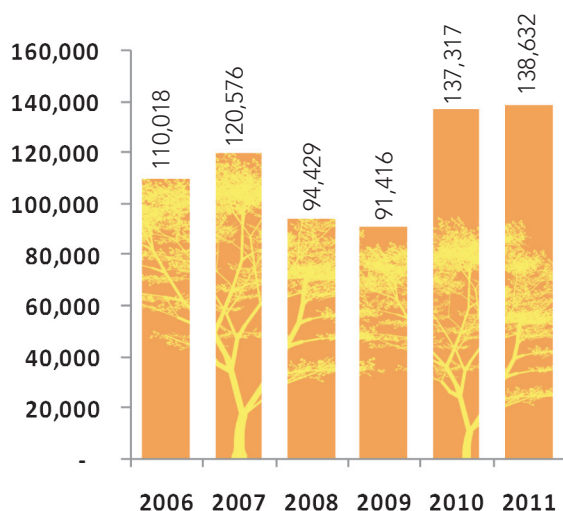
Operational Profit

Year	Profit (Rs.)	% of Turnover
2006	314,301,259	17%
2007	276,326,008	12%
2008	441,066,921	16%
2009	565,737,349	18%
2010	615,230,379	19%
2011	444,444,459	16%

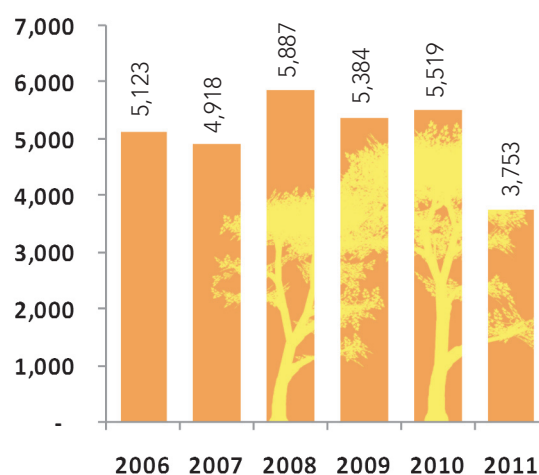


Production Growth Trend Analysis

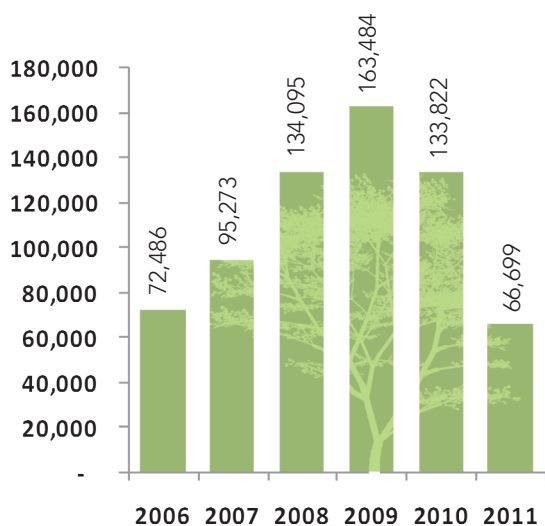
Production of Logs (M³)



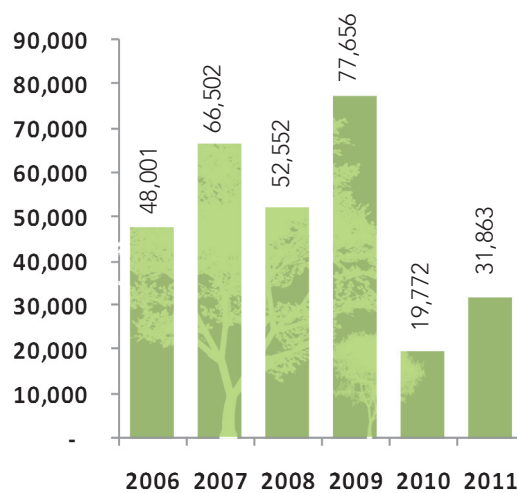
Production of Sawn Timber (M³)



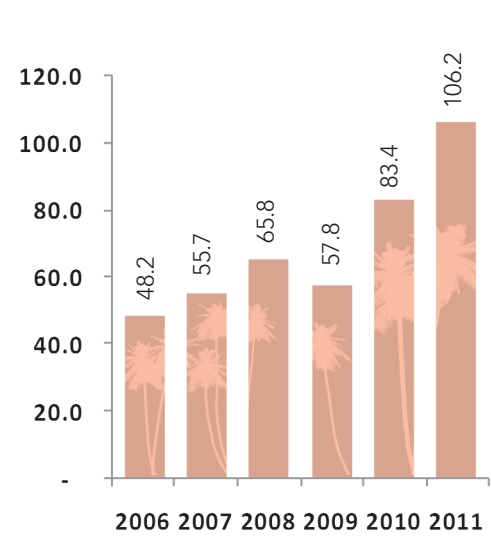
Production of Sleepers (Units)



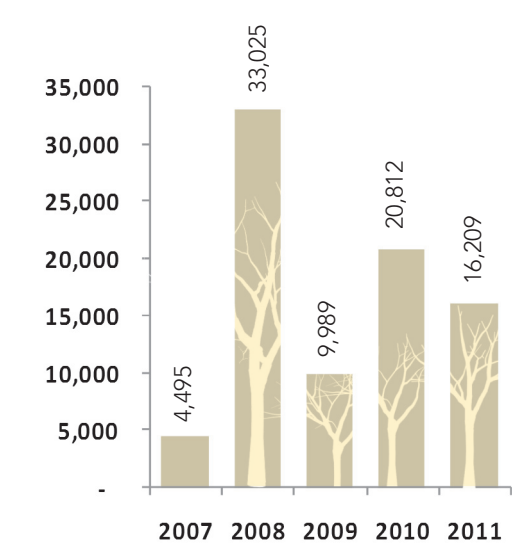
Production of Transmission Poles (Units)



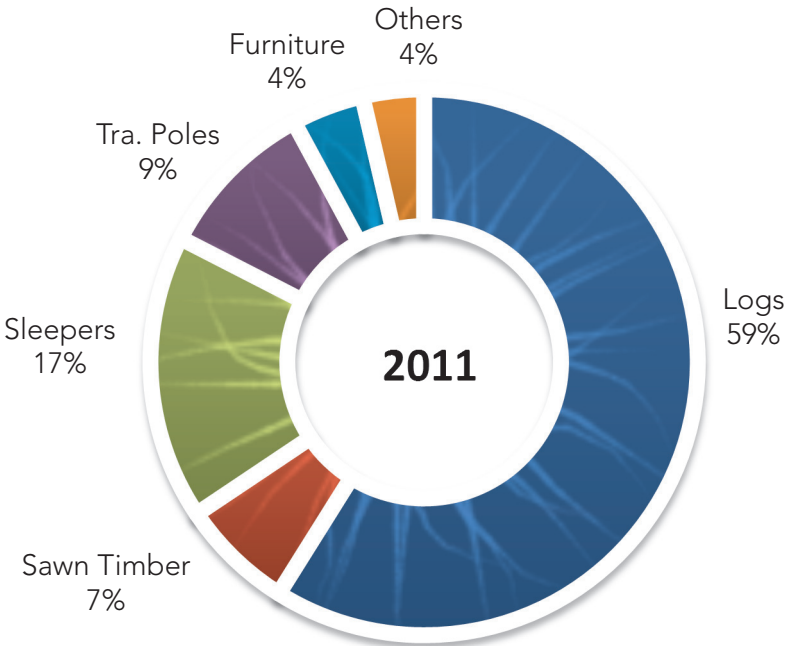
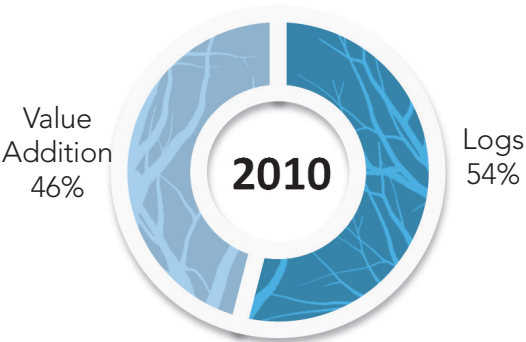
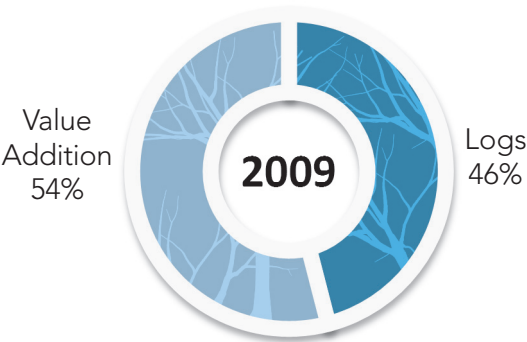
Production of Furniture (Rs. Mn.)



Production of Elephant Poles (Units)



VALUE ADDITION



CAPITAL EXPENDITURE 2011

Description	Rs.
Boundry wall - Boossa	2,921,378
Land development - Colombo	2,592,518
Building - Bandarawela	1,184,062
Circuit bungalow - Pannipitiya	14,867,777
Staking shed - Kurunegala	13,357,351
Staking shed - Talalla Deport	3,872,923
Show room building - Boossa	29,473,680
Staking shed - Kubukkana	4,211,173
Steel staking shed - Thibolkatiya	4,221,451
Steel staking shed - Dela	4,288,681
Steel staking shed - Jaffna	4,329,642
Staking shed - Keppetipola	4,283,468
Staking shed - Kaldemulla furniture factory	16,017,803
Staking shed - Minneriya	4,373,933
Roads - Kaldemulla	7,201,031
Purchased Vehicles	29,968,287

INVESTMENTS

Investments	31-12-2010	31-12-2011
	Rs.	Rs.
Government ins. temporary surplus trust fund	605,235,136	764,328,293
People's bank	499,840,722	703,707,683
Land reclamation and development board	500,000	500,000
Bank of Ceylon	-	169,021,593
State mortgage and investment bank	60,374,064	66,841,376
Lanka timber plantation Ltd	30,000,000	30,000,000
Total	1,195,949,922	1,734,398,945

Decade at a Glance

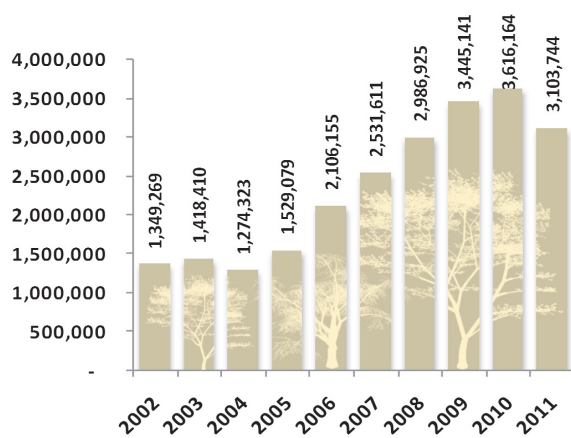
[Absolute values]

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	
Total revenue for the year	(Rs. '000)	1,349,269	1,418,410	1,274,323	1,529,079	2,106,155	2,531,611	2,986,925	3,445,141	3,616,164	3,103,744
Gross profit for the year	(Rs. '000)	518,563	658,049	574,859	899,729	966,095	1,050,896	1,210,845	1,351,695	1,365,285	1,224,930
Net profit before interest and tax	(Rs. '000)	168,494	261,042	124,836	457,750	480,641	488,535	647,039	810,612	877,623	603,499
Total cost of employment	(Rs. '000)	450,988	440,231	488,212	596,684	774,751	841,831	852,879	898,652	901,910	953,498
Capital expenditure for the year	(Rs. '000)	26,518	2,243	5,013	2,051	13,523	95,745	141,327	112,909	237,332	180,546
Non current assets as at end of the year	(Rs. '000)	704,618	969,909	953,611	1,372,833	1,579,613	1,338,570	1,523,553	1,793,467	1,801,988	2,460,160
Current assets as at end of the year	(Rs. '000)	1,178,180	1,127,329	911,048	852,622	962,569	1,545,428	1,407,022	2,079,543	2,341,020	1,457,625
Current liabilities as at end of the year	(Rs. '000)	530,616	565,357	162,762	285,475	528,005	690,558	455,460	1,028,979	1,034,258	497,229
Non current liabilities as at end of the year	(Rs. '000)	150,230	153,887	271,066	285,339	341,581	370,816	362,399	364,553	399,057	399,953
Equity as at end of the year	(Rs. '000)	1,201,952	1,377,995	1,430,831	1,654,641	1,672,595	1,822,624	2,112,716	2,479,478	2,709,693	3,020,602
Contribution to the consolidated fund	(Rs. '000)	20,000	36,592	37,000	50,000	75,000	150,000	75,000	50,000	413,490	75,000
No. of employees as at end of the year	Nos.	3,418	3,113	2,995	2,846	2,751	2,634	2,499	2,457	2,346	2,267
Investment of surplus fund as at end of the year	(Rs. '000)	-	-	-	1,047,004	1,267,102	834,037	777,101	858,717	605,235	764,328

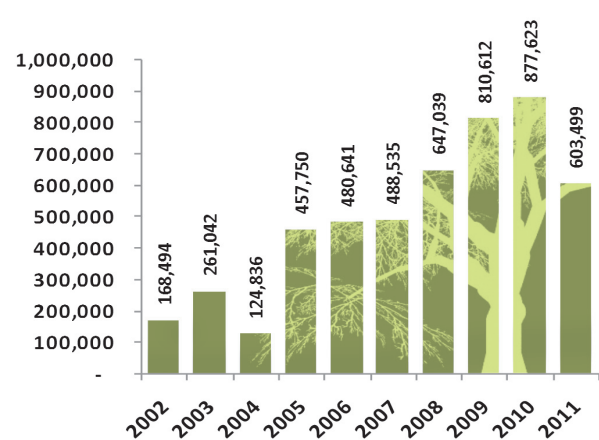
Key Performance Indicators

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	
Net Profit before Tax to Equity	%	14.02	18.94	9.07	27.66	28.74	26.8	30.63	32.69	32.39	19.98
Net Profit before Fin.Charges & Tax to Total Assets	%	8.95	12.45	6.96	20.57	18.91	16.94	22.08	20.93	21.18	15.40
Current Ratio	Times	2.22	1.99	5.60	2.99	1.82	2.24	3.09	2.02	2.26	2.93
Total Cost of Employment per employee	(Rs.'000)	132	141	163	210	282	320	341	366	384	421
Equity : Asset Ratio	Times	1.57	1.52	1.3	1.34	1.52	1.58	1.39	1.56	1.53	1.30
Return On Asset	%	8.95	12.45	6.69	20.57	18.91	16.94	22.08	20.93	21.18	15.40
Total Revenue Growth	%	17.08	5.12	(10.16)	19.99	37.74	20.20	17.98	15.34	4.96	(14.17)

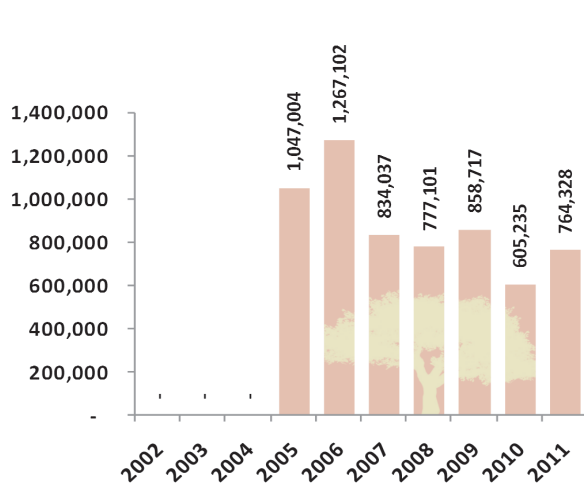
Total Revenue [Rs. '000]



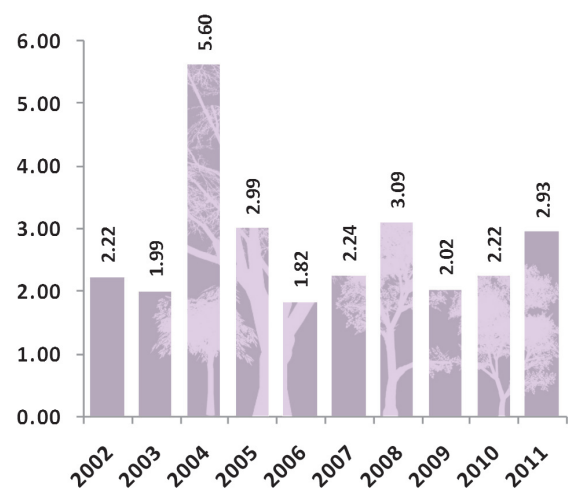
Net profit before interest and tax [Rs. '000]



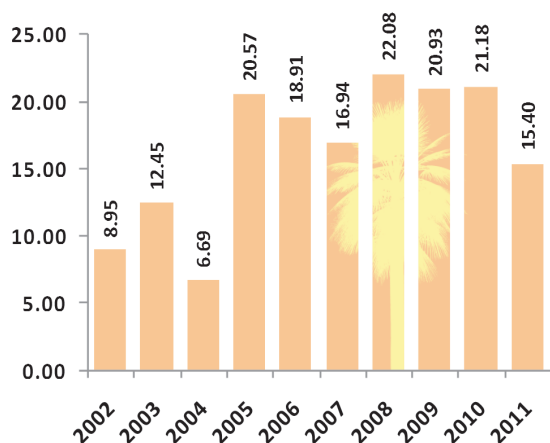
Investment of surplus fund [Rs. '000]



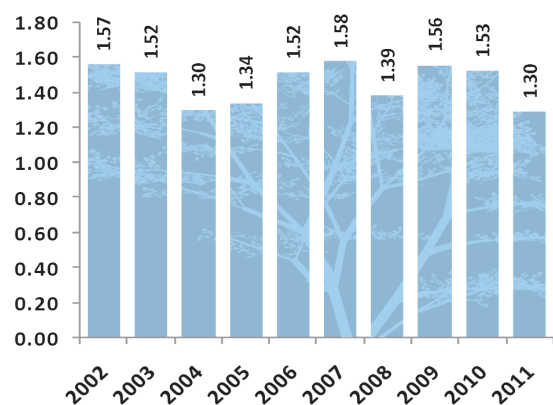
Current ratio [Times]



Return on assets [%]

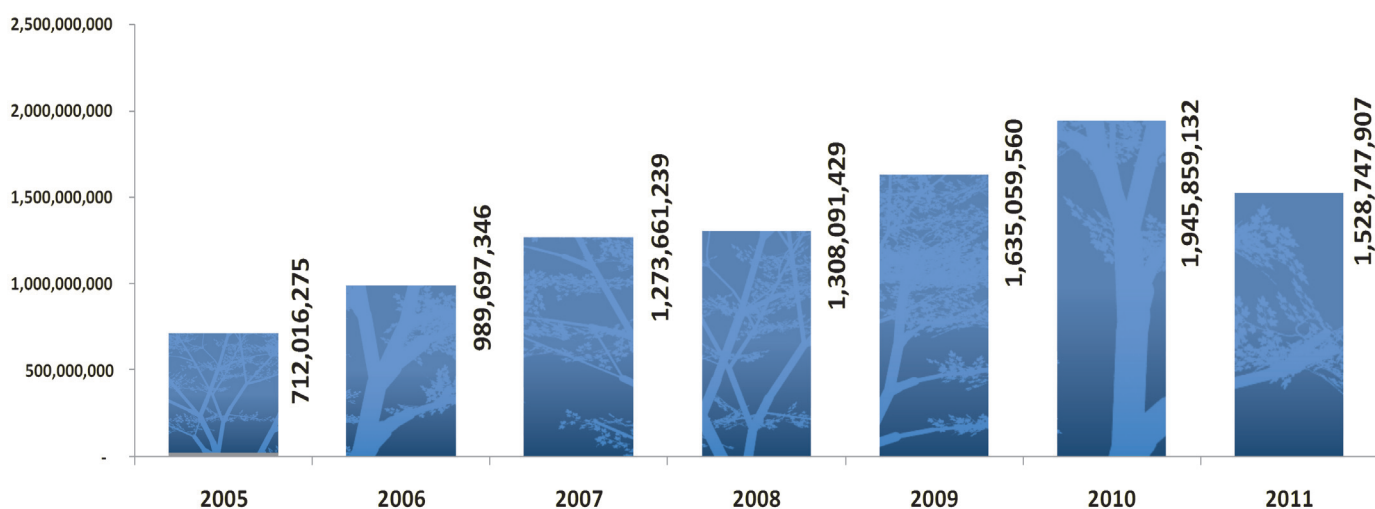


Equity : Asset ratio [Times]

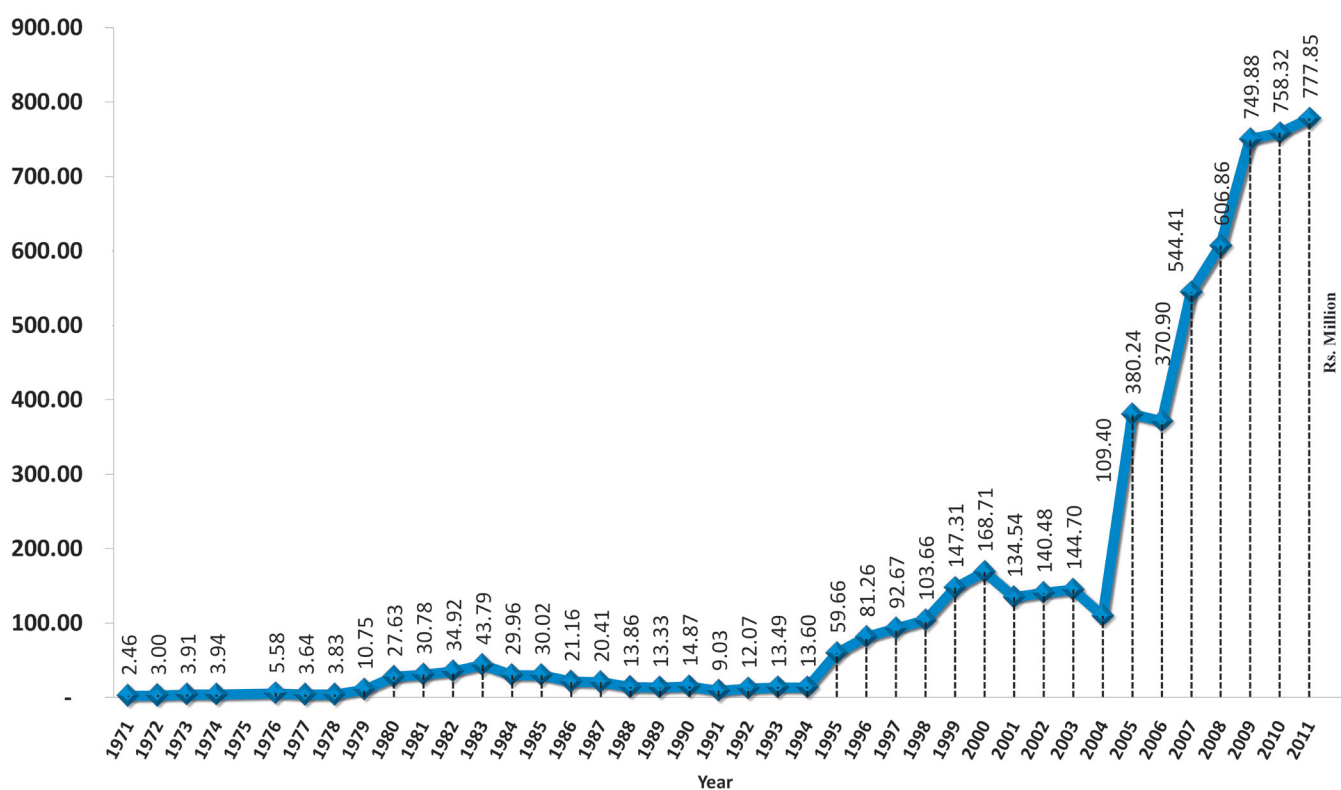


Contribution to the National Economy

	2006	2007	2008	2009	2010	2011
STUMPAGE	370,903,055	544,406,014	606,864,432	749,879,136	758,318,131	777,852,620
BTT/VAT/NBT	276,688,893	388,376,092	404,229,410	447,167,561	520,464,311	433,254,605
INCOME TAX	267,105,398	190,879,133	221,997,587	388,012,863	253,586,600	242,640,682
SPECIAL LEVY	75,000,000	150,000,000	75,000,000	50,000,000	413,490,090	75,000,000
TOTAL	989,697,346	1,273,661,239	1,308,091,429	1,635,059,560	1,945,859,132	1,528,747,907



Value of Stumpage And Royalty





State Timber Corporation received the "GOLD AWARD" for excellence in the state sector manufacturing at the National Business Excellence Awards 2011 presented by the National Chamber of Commerce



State Timber Corporation
has retained the
National Business Excellence
GOLD Award for the
3rd consecutive year...!



2009



2010



2011



Activities carried out during the year 2011

- Constructed an exhibition stall of an educational value in Deyata Kirula Exhibition held in Buttala.
- Constructed an exhibition stall of an educational value for the Pinnawala National School. (Renovated the school infirmary building and provided necessary medical equipment. Attended to minor repairs of class rooms.)
- Consequent to the Deyata Kirula Exhibition in order to encourage conservation among school children organized school "Thuru Jana Sisu- Bank Scheme" planted commercially valuable plants in school gardens, a new concept for school children in 10 selected schools in the Monaragala District.
- Corresponding to the 'Deyata Sevana' Program initiated by the Ministry of Environment joined in planting trees in the urban park adjoining the Japan Friendship Bridge, distributed tree protect fences and erected billboards along this road for publicity purpose.
- Bio-diversity is our life' an educational book published by State Timber Corporation was distributed to school-libraries, public libraries, and to relevant universities, institutions and organizations. About 2000 books were distributed free of charge.
- To commemorate the "Deyata Sevana Ruk Ropana week" supplied and planted 100,000 trees of commercial value throughout the country.
- Printed and distributed a diary on theme '2011 Bio-diversity'.
- Contributed a weekly article to "Vidusara educational magazine" to create awareness regarding various flora and foliage available in the country.
- Workshops were organized for University students at Timber Research and Training Institute, Kaldemulla with lectures delivered on issues such as conservation and protection of environment.
- Distributed 100 nos. plant protection fences during the Pinnawala Tree Planting events and donated a timber podium and wooden stage cover to Pinnawala National School.



Human Capital

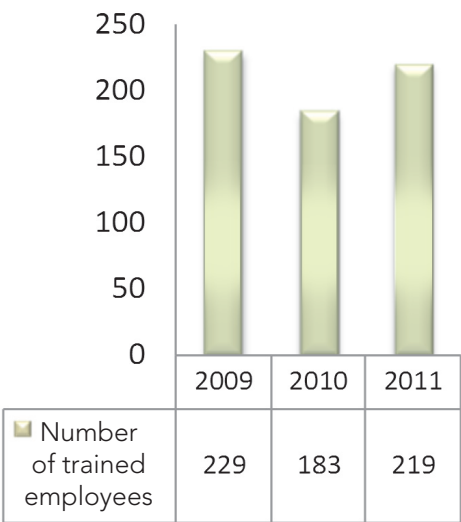
The basic resource in any organization is the people. The most successful organizations will be those that manage human capital in the most effective and efficient manner. We at State Timber Corporation strongly believe in this and committed at all times to ensuring that Corporation’s staff develop to their potential.

In addition to that, Corporation has taken a strategic approach to recruiting, developing and retaining our human capital. We believe that our employees are the backbone of State Timber Corporation and they can make a significant difference and this has proven itself in the Corporation’s performance in last 43 years.

Training and Development

Having identified the importance of the training and development opportunities, Corporation allocates certain portion from the annual budget for Training and Development Program. And also Corporation concerns such allocation not as cost but as valuable investment on human capital.

Such HR policy generates opportunities for employees to be developed spontaneously and it stimulates not only unskilled employees to be skilled but also enhance the competencies of the skilled employees. Corporation has been providing the variety of training programs for a long time for their employees. Following table shows statistics of 3 years of employee training programs.



According to the HR policy, State Timber Corporation provides training opportunity to not only managerial level employees but also unskilled employees such as Carpenters, polishers, heavy machine operators with the view of grabbing maximum contribution for the Corporation in routings and enhancing their skills, attitudes and knowledge through number of educational institutions.

Corporation provides diversified training opportunity for employees through our own Timber Technology Training Institution at Kalldemulla, and outside institutions. When it is necessary, Corporation directs employees to take training on saw milling and saw doctoring, fire jam member course, training for heavy machine operators, training for maintain of machinery, heavy vehicle training...etc,

Recruitment Procedure - External

State Timber Corporation recruits and promotes employees according to the recruitment scheme of the Corporation. It is very important to mention here that State Timber Corporation recruited employees externally after a lapse of ten years under the new recruitment scheme, which was approved on 01st February 2011 by Management Services Department of the Ministry of Finance. To ensure the transparency of the recruitment process, vacancies were advertised in public news paper and interviews were conducted by panels that included senior managers of the corporation which helped us to select appropriate candidates That process reduces the favoritism and nepotism in selection of appropriate candidates.

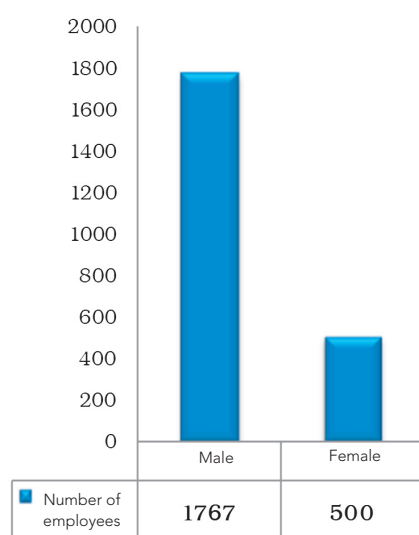
Line managers who have broader knowledge as well as experiences under specific tasks are primarily involved in the recruitment of the new employees to the Corporation. And also they are responsible to directly engaging in following tasks.

- Providing Training
- Performance Appraisal
- Work as mentors, coaches and counselors

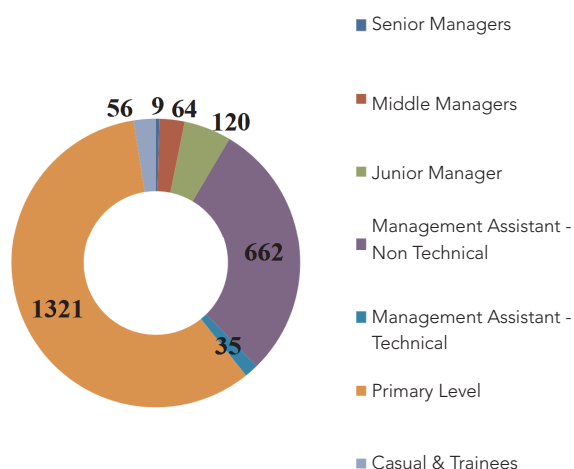
As HR Policy allows to performing so, the possibility to grab the cream of talented people from new candidates for the relevant job has enlarged, and also it has paved the way for Corporation to enhance the knowledge, skills and competencies of the existing employees of the entire Corporation.

The effectiveness of the above policy has further confirmed by avoiding favoritism when recruiting people for the organization such talented workforce ultimately helpful to enhance the performance of the entire Corporation.

Gender-wise analysis of Employees



Category-wise analysis of Employees



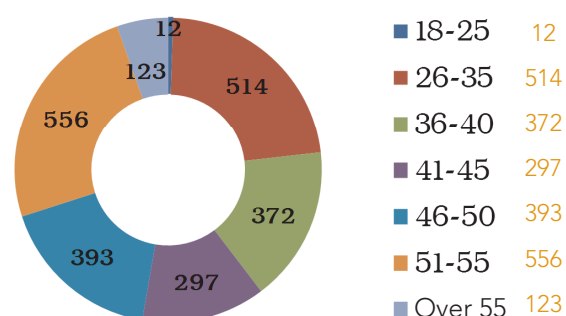
HR Indicator

	2011	2010	2009
Staff Strength	2267	2346	2457
Staff Growth	-3%	-5%	-2%

HR Investment Ratio

	2011	2010	2009
Total HR cost (Rs. Mn)	953.5	901.91	898.65
HR cost per employee (Rs. Mn)	0.42	0.38	0.37

Age-wise analysis of Employees



Career Development

HR Policy directs employees to earn diversified job experiences through the job rotation practices and also HR managers responsible to consider the career development of the employees allow relevant facilities for such activities. Such activities eliminate the job boredom as well as maintain the job stress at moderate level which is job related factors which are highly supported to increase the job satisfaction and job performance of employees.

HR is one of input for any Private or Public Organization. Accordingly when such input becomes more quality, ultimately it directly contributes to increase the productivity of the entire Corporation.

Friendly Working Environment

Corporate practices the open door policy for career discussion and also it allows unions to maintain discipline and identifying welfare needs and management is advised to have join actions with union. Such kinds of practices are promoting the friendly working environment which allows smooth functioning. Ultimately above Human Resource practices make feeling that employees are a worthy asset to the Corporation.

2011

REPORT OF THE AUDITOR GENERAL



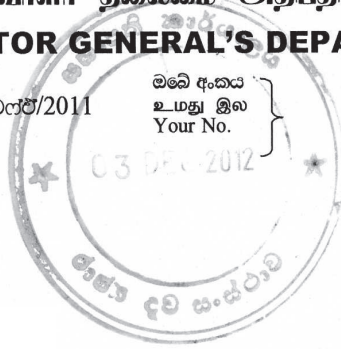
විගණකාධිපති දෙපාර්තමේන්තුව
கணக்காய்வாளர் தலைமை அறிபதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය
எனது இல
My No

විවෘත/අයි/වසරයි/වසර/2011

ඔබේ අංකය
உமது இல
Your No.



දිනය
Jpfr
Date

2012 නොවැම්බර් 30 දින



සභාපති

රාජ්‍ය දැව සංස්ථාව

රාජ්‍ය දැව සංස්ථාවේ 2011 දෙසැම්බර් 31 දිනෙන් අවසන් වර්ෂය සඳහා වූ මූල්‍ය ප්‍රකාශන පිළිබඳව
 1971 අංක 38 දරන මුදල් පනතේ 14 (2) (සී) වගන්තිය ප්‍රකාර විගණකාධිපති වාර්තාව

සමාංක හා 2011 සැප්තැම්බර් 21 දිනැති මාගේ ලිපියට යොමුවේ.

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

එච්. ඒ. එස්. සමරවීර
 වැඩබලන විගණකාධිපති



- පිටපත:- 1. ලේකම් - පරිසර අමාත්‍යාංශය
 2. ලේකම් - මුදල් හා ක්‍රම සම්පාදන අමාත්‍යාංශය

306/72, පොල්දූව පාර,
 බත්තරමුල්ල, ශ්‍රී ලංකාව
 දුරකථනය } 2887028 - 34
 தொலைபேசி }
 Telephone.

306/72, பொல்துவ வீதி,
 பத்தரமுல்ல, இலங்கை
 ෆැක්ස් අංකය } 2887223
 பக்ஸ் இல }
 Fax No.

306/72, POLDUWA ROAD,
 BATTARAMULLA, SRI LANKA.
 ඉලෙක්ට්‍රොනික් තැපෑල } oaggov@sltnet.lk
 #- மெயில் }
 E-mail.



විගණකාධිපති දෙපාර්තමේන්තුව
கணக்காய்வாளர் தலைமை அபிபதிதினைக்களம்
AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය }
 எனது இல } TM/1/STC/FA/2011
 My No }

ඔබේ අංකය }
 உமது இல }
 Your No. }

දිනය }
 திகதி } 21 September 2012

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 2011 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 2011 comprising the balance sheet as at 31 December 2011 and the income statement and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act, No. 38 of 1971 and Section 29 of the State Industrial Corporations Act, No. 49 of 1957. My comments and observations which I consider should be published with the Annual Report of the Corporation in terms of Section 14(2)(c) of the Finance Act appear in this report. A detailed Report in terms of Section 13(7)(a) of the Finance Act was furnished to the Chairman of the Corporation on 07 June 2012.

1:2 Management's 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 Auditing Standards. 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 judgements, including the assessment of the 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 the 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 Section 13 of the Finance Act, No. 38 of 1971 give discretionary power to the Auditor General to determine the scope and the extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified 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 2011 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

According to the provisions of the Sri Lanka Accounting Standard No. 21, the net difference of the foreign exchange difference in the Non-resident Foreign Currency Account amounting to Rs.492,868 should be shown separately in the Income Statement. Instead, it had been shown under the other income in the Income Statement.

2:2:2 Accounting Policies

The total expenditure of the Mechanical Workshop which supplies services to all the Divisions of the Corporation had been shown as cost of sales instead of allocating among the respective Divisions which obtained the services.

2:2:3 Accounting Deficiencies

The following observations are made.

- (a) The opening and the closing stock of raw material and stock of finished goods of the Furniture Division had not been shown separately and as such the cost of production of the furniture produced could not be separately identified.

- (b) The Economic Service Charge paid for October to December 2010 had been considered as the Economic Service Charge for the year 2011 in accounting for Economic Service Charges Tax and the non-disclosure of the Economic Service Charge amounting to Rs.8,110,676 for October to December 2011 as a payable for the year 2011 in the accounts had resulted in the understatement of the Economic Service Charge by a sum of Rs.178,846.
- (c) The sum of Rs.205,594 received from the disposal of motor cycles in the year under review had been credited to the Sundry Income Account instead of being credited to the Assets Disposal Account.
- (d) Fines amounting to Rs.286,934 recovered from the officers of the Corporation had been shown in the accounts as an amount payable.
- (e) The advances amounting to Rs.17,724,680 received from external institutions in the year under review had been shown as a deduction from the debtors balance and as such the current assets and current liabilities had been understated by that amount.

2:2:4 Accounts Receivable and Payable

The following observations are made.

(a) Debtors

- (i) Even though the Chairman had informed that action will be taken to obtain the Treasury approval for the write off of the sum of Rs.11,873,865 remaining receivable from a private company from the year 1983, that approval had not been received up to the end of the year under review.
- (ii) The debtors balance older than 05 years relating to the year under review amounted to Rs.13,871,024.

- (iii) The advances paid to external institutions in the years 2008, 2009 and 2010 amounting to Rs.705,458, Rs.77,138 and Rs.15,895 respectively had not been settled even p to 31 December 2011.

(b) Creditors

Action had not been taken either to settle or write back to income creditors balances amounting to Rs.107,750 old between 02 to 05 years shown under the refundable tender deposits.

2:2:5 Lack of Evidence for Audit

The schedules relating to the balance of Rs.12,832,130 in the Work-in-progress Account had not been furnished to audit and that balance could not be satisfactorily vouched.

2:2:6 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following instances of non compliance were observed.

Reference to Laws, Rules, Regulations etc.	Non-compliance
(a) Financial Act, No. 38 of 1971 Section 8(2)	Even though the approval of the appropriate Minister given with the concurrence of the Minister of Finance and the Minister of Planning should be obtained for capital expenditure exceeding Rs. 500,000, an agreement had been entered into with a private company for the construction of a two storeyed steel building valued at Rs. 12,724,917 at the Kaldemulla Complex, without obtaining such approval.

- (b) Public Enterprises Circular No.PED/12 of 02 June 2003
Section 4.2.5
- Even though the following statements should be reviewed monthly by the Board of Directors for the efficient management of the working capital, it had not been so done.
- (a) Debtors and Creditors Age Analysis
 - (b) Age Analysis of Stocks
 - (c) Statement of old, obsolete and slow moving stocks and other items.

2:2:7 Irregular Transactions

The General Manager had entered into an agreement with the supplier on the bid of Rs.570,914 on 21 June 2011 for the printing of the Annual Report for the year 2009 before the grant of the approval by the Procurement Committee. The approval of the Procurement Committee had been received only on 23 June 2011.

3. Financial Review

3:1 Financial Results

The operating result of the Corporation for the year under review before income tax amounted to a net profit of Rs.603,498,864 as compared with the pre-tax net profit of Rs.877,623,257 for the preceding year, thus indicating a decrease of Rs.274,124,393 in the net profit. A profit of Rs.444,444,459 had been earned from the preliminary operations of the Corporation and that as compared with the preliminary operating result of Rs.615,230,379 for a preceding year indicated a decrease of Rs.170,785,920. The major reason for the decrease in the profit had been the decrease of the sales for the year by a sum of Rs.440,312,420 and the increase of the selling and distribution expenses by a sum of Rs.61,662,903.

3:2 Analytical Financial Review

The gross profit percentage of the Corporation for the year under review amounted to 42.86 per cent and the pre-tax net profit percentage amounted to 18.49 per cent, and the corresponding gross profit percentage and the pre-tax net profit percentage for the preceding year amounted to 41.39 per cent and 14.07 per cent respectively. Thus a decrease of 1.47 per cent in the gross profit percentage and a decrease of 4.42 per cent in the net profit percentage were observed. The major reasons for the decrease of the net profit had been the decrease of sales by 13.35 per cent and the increase of as establishment, sales and distribution expenses by 7.65 per cent.

3:3 Working Capital Management

Liquidity Ratio	Standard Ratio	2011	2010	2009
-----	-----	-----	-----	-----
Current Rates	2:1	2.93:1	2.26:1	20.2:1
Quick Assets Ration	1:1	1.8:1	1.71:1	1.35:1

The current and quick assets ratios of the Corporation had gradually increased resulting in the existence of all excess working capital status.

4. Operating Review

4:1 Performance

(a) Import of Sawn Timber

Even though the Corporation had planned the import of 5,000 cubic metres of sawn timber and earn an income of Rs.487.5 million therefrom, timber had not been imported in the year 2011.

(b) Household Furniture Unit

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- (i) According to the financial statements, the actual sale of household furniture in the year under review amounted to Rs.121.74 million and that indicated a decrease of Rs.81.38 million from the budgeted sales amounting to Rs.203.12 million. The loss of the Household Furniture Division of the Corporation for the year under review amounted to Rs.34.22 million. This Division had incurred a loss due to the increases of the cost of production by 46.53 per cent and the increase of the establishment and administrative expenditure by 30 per cent as compared with the preceding year.
 - (ii) According to the Corporate Plan of the State Timber Corporation, plans had been made for the increase of the sales income of the Household Furniture Division by Rs.180 million in the year 2010, Rs.190 million in the year 2011 and Rs.200 million in the year 2012. Nevertheless, the actual household furniture sales in the year under review amounted Rs.121.74 million and as compared with the preceding year indicated an improvement of 83.35 per cent. Nevertheless, it had not been possible to reach the expected targets of the Corporate Plan.
 - (iii) A successful arrangement had not been launched in 2011 for the promotion of the sale of the household furniture of the Corporation.

- (c) No action whatsoever had been taken in the year in connection with the activities such as agricultural products, processing forest related produce, import of cane, by-products from timber and sale and export of finished and semi-furnished goods included in the objectives of the Corporation. The Chairman informed that the Corporation had not ventured into those products as those were not favourable profit-wise.

(d) Timber and Timber related Products

A reconciliation of the actual production of the year under review with the budgeted production for the year under review revealed that the actual production of sawn timber, sleepers, wall panels and the household furniture had been at 64.5 per cent, 48.45 per cent, 92.36 per cent and 29.85 per cent levels respectively.

4:2 Management Inefficiencies

The following observations are made.

- (a) The sales value of rejected sleepers of the Oil Impregnation and Seasoning Division amounted to Rs.8,957,819 and as compared with sales of the year 2010 amounting to Rs.3,970,334 represented an increase of 225.6 per cent. As such a stock of sleepers with a considerable value had been rejected.
- (b) The Accpac Accounting Information System used by the Corporation for the preparation of the accounting and financial statements is being used from the year 1992 up to the year under review. The existence of deficiencies from the date of introduction of the system up to 31 December 2011 was observed and it was further observed that there were delays in the preparation of final account due to the absence of a proper accounting information system.
- (c) Even though the Handbook on Sustainable Forest Management should have been supplied in 30 days, it had taken more than 07 months. As such the Handbook could not be released on the Green Month that fell on 15 October as expected.
- (d) A sum of Rs.300,000 had been paid to a lawyer for handling the legal matters in connection with the summon issued on the Chairman in connection with action taken contrary to a Court Order.

- (e) In addition, a sum of Rs.275,000 had been paid as lawyers' fees in connection with the case No. SC/FR/567/2010 filed in the Supreme Court by a Non-Governmental Organization in connection with the failure of the officers of the State Timber Corporation to follow the relevant laws and rules. A sum of Rs.52,030 had been paid to a lawyer to appear for a case filed by the Commissioner General of Labour for the failure to take action in accordance with the decisions of an Arbitrator.

4:3 Uneconomic Transactions

The following observations are made.

- (a) A loss of Rs.6,266,409 had been caused due to the import and use of sub-standard creosote from an Indian Company in the year 2007. A sum of Rs.4,256,977 (US\$37,497.49) had been paid to that company without reaching a final agreement in that connection. No action whatsoever had been taken up to date on the Letter of Credit obtained on the payment of a further sum of US\$54,490.
- (b) Even though 40 carpenters, 30 polishers and 03 painters are in service, a sum of Rs.194,450 had been paid at Rs.3,150 per chair for spraying 63 conference hall chairs of the Head Office of the State Timber Corporation. The Chairman informed that the work had to be done from an outside source due to the lack of employees with experience in polyurethane in the Corporation.

4:4 Weaknesses in the Control of Motor Vehicles

The following observations are made.

- (a) A double cab motor vehicle had met with accidents in 04 instances and the loss not covered by insurance cover amounted to Rs.162,323. The Corporations had not conducted inquiries against the employees responsible for the accidents. No follow up action had been taken on the action taken by the Police on the accidents.

- (b) An accident had been caused to a motor vehicle resulting in a loss of Rs.1,258,557 to the motor vehicle while being driven by the Working Director who is not an officer of the Corporation and the Corporation had not held an inquiry into it in that connection. The Chairman informed that a Committee in terms of Financial Regulation 104 had been appointed and the necessary steps will be taken after the receipt of the report.
- (c) A double cab motor vehicle valued at Rs.7,684,456 had become a total loss due to an accident caused on 24 August 2010 and the Corporation had not held an inquiry in this connection. In addition, disciplinary action had not been taken against the driver for the failure to prevent the accident to the motor vehicle.
- (d) The National Insurance Trust Fund had decided on 11 August 2011 to condemn the double cab motor vehicle which met with an accident on 30 April 2010 and the cost of repairs would exceed 50 per cent of the insured value or Rs.800,000. An inquiry in that connection had not been held up to date.

4:5 Resources of the Corporation Supplied to External Parties

The expenditure on insurance for a motor vehicle used by an external party from periods commencing prior to the year 2008 amounting to Rs.83,517 had been incurred by the State Timber Corporation.

5. Accountability and Good Governance

5:1 Corporate Plan

The following observations are made.

- (a) A Corporate Plan had been prepared for the period 2008-2012.
- (b) Copies of the Corporate Plan for the period 2008-2012 approved by the Board of Directors should be furnished at least 15 days before the commencement of the financial year to the line Ministry, the Department

of Public Enterprises of the General Treasury and the Auditor General. Nevertheless, an updated Corporate Plan for the period 2010-2014 had not been furnished to audit.

- (b) The particulars of the progress of the expected products and the imports for the year under review according to the Strategic Plan are given below.

Objective and Programme		Expected Quantity according to the Strategic Plan	Actual Quantity according to the Quarterly Reports	Difference	Percentage
-----		-----	-----	-----	-----
4.1	Production of Sawn Timber	6,000 Cubic Meters	3,753 Cubic Metres	2,247	(37.45)
4.2	Import of Sawn Timber	5,000 Cubic Metres	--	5,000 Cubic Metres	(100.00)
5.1	Production of Sleepers	120,000 Units	66,699	53,301	(44.4)
5.1	Import of Sleepers	30,000 Units	--	30,000	(100.00)
5.2	Production of Transmission poles	60,000 Units	31,863	28,137	(46.90)
01.1	Production of Traditional Household Furniture	Rs.36 million	140	198	(58.5)
1.3	Increase of Production of Complexes at Kaldemulla, Ampara and Boossa.	Rs.120 million			
3.1	Production of Parts of Household Furniture	Rs.7 million			
7.2	Increase the Turnover by the establishment of Household Furniture Showrooms	Rs.175 million			

5.2 Action Plan

Even though an Annual Action Plan for the year 2011 had been prepared, the following deficiencies therein were observed.

- (a) The Action Plan had been prepared with the sole objectives of the production and sale of timber and attention had not been paid for its preparation covering all the Divisions of the Corporation.
- (b) Even though the officers assigned with the responsibility for the achievement of the objectives and targets during the relevant year should be specifically indicated, it had not been so identified in the Action Plan for the year 2011.

5:3 Internal Audit

The following matters were observed.

- (a) In terms of Financial Regulation 134(3), copies of Internal Audit Reports should be furnished to the Auditor General. But none of the Internal Audit Reports had been furnished to the Auditor General.
- (b) Even though staff of the Internal Audit comprised 54 Internal Audit Officers including the professionally qualified Chief Internal Auditor recommendations for the improvement of the internal control system had not been made by reviewing them. Instead, officers had been attached to the Regional Offices and deployed non-audit duties.
- (c) The half yearly reports had not been furnished to the Auditor General in terms of Section 13(5)(d) of the Finance Act, No. 38 of 1976.

5:4 Procurement Plan

A Procurement Plan for the year 2011 had not been prepared.

5:5 Budgetary Control

A reconciliation of the budgeted income and expenditure for the year under review with the actual income and expenditure revealed income variances ranging from negative 100 per cent to negative 39.98 per cent and expenditure variances ranging from 0.12 per cent to 686.55 per cent, thus indicating that the budget had not been made use of as an effective instrument of management control.

6. Systems and Controls

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

- (a) Presentation of Financial Statements
- (b) Debtors Control
- (c) Creditors Control
- (d) Budget
- (e) Fixed Assets
- (f) Contract Files
- (g) Corporate Plan
- (h) Purchases

H.A.S. Samaraweera
Auditor General

-/dk.

2011

ANNUAL
ACCOUNTS

INCOME STATEMENT

For the year ended 31 st December		2011	2010
	Notes	Rs	Rs
Turnover	2	2,858,167,383	3,298,479,803
Turnover tax		-	(741,589)
Net turnover		2,858,167,383	3,297,738,214
Cost of sales	3	(1,633,237,050)	(1,932,452,951)
Gross profit on operation		1,224,930,333	1,365,285,263
Other operating income	6.2	86,522,600	55,290,687
		1,311,452,933	1,420,575,950
Selling and distribution expenses	4	(380,804,323)	(348,327,312)
Administration expenses	5	(486,204,151)	(457,018,259)
Profit on operation		444,444,459	615,230,379
Other income	6.1	159,054,405	262,392,878
Net profit before levy		603,498,864	877,623,257
Levy paid to treasury		(75,000,000)	(413,490,091)
Net profit after levy		528,498,864	464,133,166
Taxation for the year	7	(227,541,832)	(243,576,898)
Net profit for the year		300,957,032	220,556,268

BALANCE SHEET

As at 31 st December		2011	2010
	Notes	Rs.	Rs.
ASSETS			
Non-Current Assets			
Property plant and equipment	8	627,424,947	519,596,804
Deposits with treasury		2,966,000	2,966,000
Security deposit - staff		36,759,353	34,637,984
Investment	9	1,734,398,945	1,195,949,922
Capital Work In Progress		58,610,339	48,837,569
Total non-current assets		2,460,159,584	1,801,988,279
Current Assets			
Inventories	10	564,817,856	572,843,210
Trade and other receivables	11	761,145,534	1,495,794,420
Cash and Bank balance	12	131,662,069	272,382,199
Total current assets		1,457,625,459	2,341,019,829
TOTAL ASSETS		3,917,785,043	4,143,008,108
EQUITY AND LIABILITIES			
Capital and reserves			
Authorised		75,000,000	75,000,000
Contributed capital	13	41,503,668	41,503,668
Revenue reserve		2,770,993,214	2,470,036,182
		2,812,496,882	2,511,539,850
Staff loan revolving fund	14	208,105,464	198,153,659
Total equity		3,020,602,346	2,709,693,509
Non Current Liabilities			
Retirement benefit	15	363,194,017	364,418,782
Security deposit - staff		36,759,353	34,637,984
Total non current liabilities		399,953,370	399,056,766
Current Liabilities			
Taxation	16	97,864,518	148,077,614
Creditors and accruals	17	399,364,809	886,180,219
Total current liabilities		497,229,327	1,034,257,833
TOTAL EQUITY AND LIABILITIES		3,917,785,043	4,143,008,108

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



Chairman
State Timber Corporation
On behalf of the Board of Directors



General Manager
State Timber Corporation
Date 29-03-2012

STATEMENT OF CHANGES IN EQUITY

	Contributed capital	Staff loan revolving fund	Retained profit	Total
	Rs	Rs.	Rs	Rs
Balance as at 1 st January 2010	41,503,668	188,494,677	2,249,479,914	2,479,478,259
Staff loan interest for the year	-	9,658,982	-	9,658,982
Profit for the year	-	-	220,556,268	220,556,268
Balance as at 31 st December 2010	41,503,668	198,153,659	2,470,036,182	2,709,693,509
Staff loan interest for the year	-	9,951,805	-	9,951,805
Profit for the year	-	-	300,957,032	300,957,032
Balance as at 31st December 2011	41,503,668	208,105,464	2,770,993,214	3,020,602,346

CASH FLOW STATEMENT

For the year ended 31 st December		2011	2010
		Rs.	Rs.
<u>Cash flows from operating activities</u>			
Cash receipts from customers		3,974,757,715	3,096,155,770
Cash paid to suppliers and employees		(3,227,526,640)	(2,486,057,130)
Cash generated from operation		747,231,075	610,098,640
Income tax paid		(277,754,928)	(308,941,390)
Special levy paid to the treasury		(75,000,000)	(413,490,091)
Net cash flow from operating activities		394,476,147	(112,332,841)
<u>Cash flows from investing activities</u>			
Acquisition of fixed assets		(180,545,907)	(237,332,210)
Investments		(538,449,023)	140,738,490
Income from investments		177,980,837	218,216,471
Proceeds from sale of fixed assets		5,638,780	5,000,000
Staff loan revolving fund		9,951,805	9,658,982
Work In Progress		(9,772,769)	26,163,306
Net cash flow from investing activities		(535,196,277)	162,445,039
<u>Cash flows from financial activities</u>			
Net increase in cash and equivalents		(140,720,130)	50,112,198
Cash & cash equivalents at the beginning of the year	Note 12	272,382,199	222,270,001
Cash & cash equivalents at the end of the year	Note 12	131,662,069	272,382,199

Notes to the accounts for the year ended 31st December 2011

01. Accounting Policies

1.1 Reporting Entity

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

1.1.1 Date of authorisation for issue

The Financial Statements of the Corporation for the year ended 31st December 2011 were authorized for issue in accordance with a resolution of the Board of Directors on 29th March 2012.

1.1.2. Responsibility for financial statements

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

1.1.3 Number of employees

The employees strength of the company as at 31st December 2011 is 2,267 (2010-2,346).

1.2 Basis of Presentation

1.2.1 Statement of compliance

The Balance Sheet, Income Statement, Statement of Changes in Equity and Cash Flow Statements together with notes has been prepared in accordance with the Sri Lanka Accounting Standards (SLAS) laid down by the Institute of Chartered Accountants of Sri Lanka (ICASL).

1.2.2 Basis of measurement

The Financial Statements have been prepared on the historical cost basis.

1.2.3 Functional and presentation currency

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

1.2.4 Use of estimates and judgements

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 Cash flow statement

Cash flow statement has been prepared by using the direct method in accordance with Sri Lankan Accounting Standard No.09 on cash flow statement.

1.2.7 Taxation

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

1.3 Assets and Basis of the Valuation**1.3.1 Property, plant and equipment**

Items of property, plant and equipment are measured at cost (or at a fair value in the case of land and buildings), less accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes expenditure that is directly attributable to the acquisition of the asset. 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. All items of property, plant and equipment are initially recognized at cost. A revaluation is carried out when there is a substantial difference between the fair value and the carrying amount of the land and buildings and is undertaken by professionally qualified valuers. When items of property, plant and equipment are revalued, the entire class of such assets is revalued.

Increases in the carrying amount on revaluation are credited to the revaluation reserve in equity. Decrease on the carrying amount on revaluation that offset previous increases of the same individual assets are charged against revaluation reserves directly in equity. All other decreases are recognized in profit and loss.

1.3.2 Derecognition

The carrying amount of an item of property, plant and equipment is derecognized on disposal, or when no future economic benefits are expected from its use or disposal. Gains or losses on derecognition are recognized in profit and loss and gains are not classified as revenue.

1.3.3 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%

Notes to the financial statements

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

1.3.4 Investments

1.3.4.1 Long term investments stated at cost.

1.3.4.2 Investment at State Mortgage and Investment Bank

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

1.3.4.3 Investment at Lanka Timber Plantation Industries Ltd

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

1.3.5 Current assets

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

1.3.6 Inventories

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

1.3.7 Debtors and receivables

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

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

General provision - 5% in respect of the balance debtors as at 31.12.2011

1.3.8 Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances, call deposits and savings account balance.

1.4 Liabilities and Provisions

Liabilities classified as current liabilities on the Balance Sheets are those which fall due for payment on demand or within one year from Balance Sheet date. Non-current liabilities are those balances that fall due for payment later than one year from the Balance Sheet date.

All known liabilities have been accounted for in preparing the Financial Statements.

Notes to the financial statements

1.4.1 Retirement benefit

Employees who have completed 5 years of continued service with the Corporation are eligible for retirement benefit in accordance with the payment of Gratuities Act No.12 of 1983. However provision has been made in the accounts for the retirement benefit for all employees of the corporation taking into consideration their last drawn salary and the years of services as at 31st December 2011. The Corporation has invested in fixed deposit account, in People's Bank in order to meet future liabilities.

1.4.2 Trade and other payables

Trade and other payables are stated at their cost.

1.4.3 Contingencies

Provision has been made for all quantifiable liabilities and others have been declared. Corporation has a dispute with a trade supplier regarding import of creosote from previous year. LC margin amounting to US \$ 54,490.51 is not released and withheld at the bank due to this dispute.

1.5 Income Statement

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

1.5.1 Revenue recognition

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

1.5.2 Expenditure recognition

All expenditure incurred in the running of the business has been charged to income in arriving at the profit for the year. Repairs and renewals are charged to profit and loss in the year in which the expenditure is incurred.

1.5.2.1 Stumpage payment

The stumpage payment for the year 2011 has been calculated on actual felled timber volume basis.

1.5.3 Events occurring after the Balance Sheet date

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

1.6 Cash Flow Statement

The cash flow statement has been prepared using the direct method in accordance with the Sri Lanka Accounting Standards (SLAS) 09, cash flow statements. cash and cash equivalent 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	2011	2010
	Rs.	Rs.
Logs - crown lands	1,527,572,729	1,495,053,041
Logs - private lands	15,015,471	15,270,267
Sawn timber	191,399,579	220,993,788
Sleepers - private lands	39,083,000	371,394,660
Sleepers - crown lands	444,797,318	651,556,246
Transmission poles - crown lands	265,929,399	171,633,813
Transmission poles - private lands	7,874,581	60,721,252
Elephant poles	28,754,679	25,116,533
Others	74,881,445	96,908,665
Forest offence timber	19,212,600	23,672,487
State land donated timber	121,905,326	100,125,190
Furniture	121,741,256	66,396,405
	2,858,167,383	3,298,842,347
Commission on sales	-	(362,544)
Total	2,858,167,383	3,298,479,803

03. Cost of sales	2011	2010
	Rs.	Rs.
Depots and wayside depots	659,900,875	865,391,702
Impregnation plants	634,563,051	776,316,528
Mechanical workshop	27,362,375	31,486,914
Furniture plants	132,633,276	90,514,699
Wayside sales	178,777,473	168,743,108
Total	1,633,237,050	1,932,452,951

04. Selling and distribution expenses	2011	2010
	Rs.	Rs.
Depots	364,844,266	330,898,470
Impregnation plants	70,609	1,942,230
Furniture plants	9,801,578	9,957,762
Regional manager office and head office	6,087,870	5,528,850
Total	380,804,323	348,327,312

Notes to the financial statements

05. Administration expenses		2011	2010
		Rs.	Rs.
Impregnation plants		15,807,661	29,849,819
Furniture plants		16,743,326	12,880,873
Regional manager office and head office		449,210,526	407,998,591
Circuit banglows		4,442,638	6,288,976
Total		486,204,151	457,018,259

06. Other income		2011	2010
		Rs.	Rs.
6.1 Non-operating income	Note 6.3		
Interest income		144,036,518	247,250,199
House rent		15,017,887	15,142,679
		159,054,405	262,392,878
6.2 Operating income	Note 6.3		
Miscellaneous income		27,925,102	23,073,605
Fines-contractors and suppliers		985,644	690,407
Over provision of stock		20,669,480	29,842,826
Debtors over provision		33,910,279	-
Recovery on shortages and losses		1,562,464	501,496
Non refundable tender deposits		1,469,631	1,182,353
		86,522,600	55,290,687
Total		245,577,005	317,683,565

6.3 Analysis of other income of year 2011

Income source	Unit					
	Depots	Impregna- tion plants	Furniture plants	Regional of- fices & head office	Circuit bunga- lows	Total
Non-operating income						
Interest income - investments	-	-	-	144,036,518	-	144,036,518
House rent	-	-	-	15,017,887	-	15,017,887
	-	-	-	159,054,405	-	159,054,405
Operating income						
Miscellaneous income	120	152	64,899	27,195,904	664,027	27,925,102
Fines-contractors and suppliers	-	-	-	985,644	-	985,644
Over provision on stock deterioration	10,584,865	8,090,611	1,994,004	-	-	20,669,480
Over provision on doubtful debtors	12,777,419	20,323,669	809,191	-	-	33,910,279
Recovery on shortages and losses	-	-	-	1,562,464	-	1,562,464
Non refundable tender deposits	-	-	-	1,469,631	-	1,469,631
	23,362,404	28,414,432	2,868,094	31,213,643	664,027	86,522,600
Total	23,362,404	28,414,432	2,868,094	190,268,048	664,027	245,577,005

07. Taxation expenses

	2011	2010
	Rs.	Rs.
Income tax on profit for the year Note 7.1	232,978,765	243,576,898
Over provision of previous year	(5,436,933)	-
Total	227,541,832	243,576,898

7.1 Income tax on profit for the year

	2011	2010
	Rs.	Rs.
Profit before taxation	528,498,864	464,133,166
Aggregate disallowable expenses	108,905,852	134,372,230
Aggregate allowable expenses	316,201,736	365,113,841
Profit from business	323,240,320	233,385,072
Non business income	159,054,406	262,392,877
Taxable income	480,257,381	495,777,949
Income tax at 28%	134,472,067	165,259,316
Deem dividend tax	98,506,698	74,716,641
Social responsible levy	-	3,599,642
Total	232,978,765	243,576,898

Notes to the financial statements

08. Property, Plant & Equipment

Description	Cost				Depreciation				Carrying Amount as at 31. 12. 2011
	Balance as at 01.01.11	Additions	Disposals	Balance as at 31.12.11	Balance as at 01.01.11	Disposals	Charge for the year	Balance as at 31.12.11	
Lands	62,667,227	6,611,104	-	69,278,331	-	-	-	-	69,278,331
Buildings	328,114,173	105,728,400	453,935	433,388,638	117,799,982	119,505	6,841,510	124,521,988	308,866,651
Stacking shed & other building	16,243,146	6,128,068	60,430	22,310,785	15,727,153	60,430	418,665	16,085,389	6,225,396
Roadways & railway lines	9,397,345	7,201,031	-	16,598,376	2,835,896	-	561,654	3,397,550	13,200,826
Plant & machinery	521,526,905	8,564,566	4,918,358	525,173,114	412,750,885	4,918,358	17,024,329	424,856,855	100,316,259
Leasehold land & building	148,311	-	-	148,311	148,311	-	-	148,311	-
Road construction mach. & equ.	60,450	-	-	60,450	60,450	-	-	60,450	-
Tools & implements	4,633,792	98,100	-	4,731,892	4,261,049	-	180,473	4,441,522	290,370
Electrical equipment	8,043,357	1,113,297	5,500	9,151,154	5,762,940	5,500	360,446	6,117,886	3,033,268
Vehicles	362,574,382	33,338,762	9,475,721	386,437,423	253,826,982	8,769,297	38,967,892	284,025,576	102,411,847
Furniture & fittings	15,712,224	2,934,692	35,472	18,611,444	10,440,754	35,472	1,527,686	11,932,967	6,678,477
Office equipments	23,767,888	1,447,820	621,305	24,594,403	19,098,473	621,305	1,634,573	20,111,741	4,482,662
Computers & accessories	30,101,187	6,634,841	-	36,736,028	23,240,865	-	3,270,127	26,510,992	10,225,036
Miscellaneous assets	13,093,978	745,224	-	13,839,202	10,537,382	-	885,997	11,423,378	2,415,824
Pre fabricated structure	4,938,333	-	-	4,938,333	4,938,333	-	-	4,938,333	-
Leasehold land-Rathnapura	680,300	-	-	680,300	676,741	-	3,559	680,300	-
Total	1,401,702,999	180,545,907	15,570,721	1,566,678,184	882,106,195	14,529,867	71,676,911	939,253,238	627,424,947

Notes to the financial statements

09. Investments	2011	2010
	Rs.	Rs.
<u>Investments in fixed deposits</u>		
People's bank	703,707,683	499,840,722
Government ins. temporary surplus trust fund	764,328,293	605,235,136
Bank of Ceylon	169,021,593	-
State mortgage and investment bank	66,841,376	60,374,064
	<u>1,703,898,945</u>	<u>1,165,449,922</u>
<u>Investment in shares</u>		
Land reclamation and development board	500,000	500,000
Lanka timber plantation ltd.	30,000,000	30,000,000
	<u>30,500,000</u>	<u>30,500,000</u>
Total	1,734,398,945	1,195,949,922
10. Inventories	2011	2010
	Rs.	Rs.
Stock-in-trade Note 10.1	475,096,168	475,958,178
Stocks deteriorations	(62,597,133)	(66,996,737)
	<u>412,499,035</u>	<u>408,961,441</u>
Work In Progress	12,382,130	9,143,818
Consumables & spare parts	96,862,950	101,144,787
Preservatives	25,241,700	37,845,776
Fuel and oil	2,129,386	1,508,207
Stationary stock	15,702,655	14,239,181
Total	564,817,856	572,843,210
10.1 Analysis of inventories	2011	2010
	Rs.	Rs.
Crown land logs	252,938,428	228,296,863
Crown land sawn timber	96,323,529	127,792,648
Private land logs	23,406	1,307,367
Crown land sleepers	22,722,316	5,281,862
Private land sleepers	915,039	1,395,905
Crown land transmission poles	39,456,886	64,093,623
Private land transmission poles	5,193,270	2,605,655
Others	1,981,678	1,056,266
Furniture	55,541,616	44,127,989
Total	475,096,168	475,958,178

Notes to the financial statements

11. Trade and other receivables		2011	2010
		Rs.	Rs.
Trade debtors		490,702,329	1,206,853,940
Provision for doubtful debts		(37,712,589)	(71,622,868)
		452,989,740	1,135,231,072
Staff debtors	Note 11. 1	174,965,505	172,400,666
Other debtors	Note 11. 2	9,109,441	9,606,371
<u>Deposits and prepayments</u>			
Advances local purchases		3,712,512	30,033,256
Advances pre -payment		1,452,653	2,412,356
Advances timber supplies		9,379,490	8,965,299
Interest receivable -deposits		99,506,368	133,450,687
Returned cheques		8,947	9,538
Kataragama Astapala funds		1,115,000	1,170,000
Deposit courts		7,413,482	131,100
Ministry of Environment		409,959	1,537,392
Forest Department		286,350	226,301
Ports authority		796,087	620,382
Total		761,145,534	1,495,794,420

11.1 Staff debtors		2011	2010
		Rs.	Rs.
Water pump loan		2,668	2,668
Salaries and wages advance		83,830	56,500
Travelling advance		270,978	102,915
Vehicle loan		7,291,972	1,370,067
Distress loan		156,534,452	155,892,042
Refrigerator loan		6,396	6,396
Festival advance		2,304,734	2,400,105
Internal debit notes		4,109,755	4,426,387
Staff recoveries		-	11,172
Salusala textile loan		196,633	196,348
Electrical equipment loan		2,104,129	6,103,308
Bicycle loan		1,167,468	841,408
Furniture loan		892,490	991,350
Total		174,965,505	172,400,666

Notes to the financial statements

11.2 Other debtors	2011	2010
	Rs.	Rs.
Miscellaneous debtors	1,474,437	674,925
Deposit general	7,298,787	8,458,877
Provision	(366,620)	(366,620)
Refundable tender deposits	139,241	99,241
Advance welfare	275,582	540,934
Advance death donation	288,014	199,014
Total	9,109,441	9,606,371

12. Cash and cash equivalents	2011	2010
	Rs.	Rs.
Cash in hand	891,593	1,317,428
Cash in transit	15,160,078	19,217,573
Bank of Ceylon	43,434,588	52,557,790
Bank of Ceylon - call deposits	72,175,810	199,289,408
Total	131,662,069	272,382,199

13. Contributed capital	2011	2010
	Rs.	Rs.
Sri Lanka Government Fund	25,584,808	25,584,808
Assets taken-over from Forest Department	10,714,815	10,714,815
World Bank - grant	708,202	708,202
C.A.D. British Aid Fund	4,495,843	4,495,843
Total	41,503,668	41,503,668

14. Staff loan revolving fund	2011	2010
	Rs.	Rs.
Balance as at 1st January 2011	198,153,659	188,494,677
Staff loan interest received	9,951,805	9,658,982
Total fund as at 31st December 2011	208,105,464	198,153,659
Staff loans	(165,446,893)	(166,606,930)
Unutilized balance as at 31 st December 2011	42,658,571	31,546,729

Notes to the financial statements

15. Retirement benefit	2011	2010
	Rs.	Rs.
Balance as at 01 st January 2011	364,418,782	364,552,998
Provision for the year	29,487,551	24,926,076
Payment during the year	(30,712,316)	(25,060,292)
Balance as at 31 st December 2011	363,194,017	364,418,782

16. Taxation	2011	2010
	Rs.	Rs.
Balance as at 01 st January 2011	148,077,614	213,442,106
With Holding Tax on deposits	(6,849,415)	(32,835,452)
Payment during the year	(242,640,682)	(243,443,204)
Economic service charges	(28,264,831)	(32,662,734)
Provision for the year	227,541,832	243,576,898
Balance as at 31 st December 2011	97,864,518	148,077,614

17. Creditors and accruals	2011	2010
	Rs.	Rs.
Employees' Provident Fund	10,760,650	10,101,049
Employees' Trust Fund	1,304,875	1,226,096
Business Turnover Tax	1,836,325	1,836,325
Accrued expenses	115,758,057	108,345,605
Refundable tender deposits	10,664,417	10,483,487
Security deposits - except Staff	48,619,587	37,965,688
Audit fees payable	823,028	1,752,259
Deposits by customers	153,608	164,050
Retention money	13,794,334	10,144,309
Other creditors	11,369,817	15,073,290
Stumpage - Conservator of Forests	142,217,074	654,695,396
Stumpage - Wild Life Department	12,261,199	12,261,199
Value Added Tax	29,801,838	22,131,466
Total	399,364,809	886,180,219

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. Accrual Basis

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

3. Cash and Cash Equivalents

Liquid investments with original maturities of three months or less.

4. Revenue Reserves

Reserves available for investments.

5. Value Addition

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

6. Current Ratio

Current assets divided by current liabilities.

7. Depreciation

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

8. Gearing

Proportion of borrowings to capital employed.

9. 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.

10. Return on Assets (ROA)

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