

FOREST PRODUCTS COMMISSION

FPC | ANNUAL REPORT  
2007/08

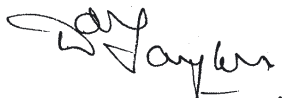
growing a  
sustainable  
future





# HON TERRY REDMAN MLA MINISTER FOR FORESTRY

In accordance with the provisions of the *Financial Management Act 2006* and the *Administration and Audit Act 1985*, we hereby submit for your information and presentation to Parliament, the Annual Report of the Forest Products Commission for the financial year ended 30 June 2008.



**David Taylor**  
*Chairman*

23 September 2008



**Dr Paul Biggs**  
*General Manager*

23 September 2008

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## CHAIRMAN'S REPORT



The 2007/08 financial year was notable for an outstanding result in the production of hardwood. Sandalwood and pine production were also at or near budget levels, notwithstanding the disruption to pine customers whose operations were severely affected by shortage of gas supplies from Varanus island.

Increased overall delivery tonnage saw a rise in sales revenue to \$117million, which is \$6million more than the previous year.

Despite this good production result, net profit after tax of \$6million was below budget and last year's level due to the need to provision for doubtful debts, increased operating costs and the impact of the gas crisis on customer demand.

Higher interest rates and costs of inputs such as fertiliser have led to a decrease in valuation of the plantation forest estate, which has resulted in a net profit of \$6million.

Depending on the passage of legislation and budget appropriations, the Commission should be equipped in the new calendar year to assume the functions associated with the role of lead agency for the WA forest product industry on behalf of the Government.

This was one of the principal recommendations arising from the statutory review of the *Forest Products Act 2000*. It considerably broadens the purview of the Commission in forestry matters in the State. Guidelines reflecting this responsibility were released recently by way of the *Plantations and Farm Forestry Strategy*.

Other recommendations arising from the Statutory Review and subsequently endorsed by Government will, upon implementation, strengthen the business position of the Commission. These recommendations include greater clarity in role definition with other Government agencies, matters relating to land use and ownership and more transparent accounting for non-commercial activities.

Under the Strategic Tree Farming (STF) initiative, the Commission has in recent years delivered on commitments to a significant establishment of tree crops in catchments for control of salinity. A total of 9,573 hectares have been planted under the program in the past three years. The change of Federal Government last year has brought a change in Federal-State funding. As a consequence, the program has entered a period of uncertainty.

Looking forward, the Forest Products Commission has a significant opportunity to assist in addressing climate change within the anticipated emissions trading scheme. With the Commission acknowledged as a world leader in low rainfall plantation forestry, I am confident we will continue to deliver salinity amelioration and regional social benefits envisaged in the STF program while also extending carbon sinks.

The Commission has built a bank of experience in carbon sequestration over a number of years. This year we celebrated the tenth anniversary of a project set up with BP Refinery for this purpose.

The recently announced carbon emissions program with Synergy Energy anticipates that 5,000 hectares of new plantations will be established next year with estimated sequestration of 1.5 million tonnes of CO<sub>2</sub> over 30 years.

The year saw the retirement of three Board members. Deputy Chair Dr Per Christensen and Ms Sandy Breeze were founding members, and along with Ms Kellie Benda, I am pleased to acknowledge their contribution in shaping the Forest Products Commission.

The retiring Commissioners were replaced in November 2007 by Dr Bob Smith, Ms Zelinda Bafile and Mr Michael Gurry. Each brings specialist skills to the boardroom and they have already furnished the Commission with valuable input to the strategic direction of the organisation.

I would like to thank my fellow Commissioners for their contribution during the past year as well as that of the executive and staff. Particular mention is made of the tireless efforts of the Commission's General Manager, Dr Paul Biggs, who has dealt very effectively with a number of difficult issues during the year.

Finally, on behalf of the Board, Management and staff of the Forest Products Commission, I would like to record our appreciation for the support received from Hon Kim Chance MLC. Mr Chance was Minister of Forestry for most of the Commission's existence. We are grateful for his informed, constructive and helpful advice which we have found invaluable in progressing the aims of the Commission and forestry in Western Australia.

A handwritten signature in black ink, appearing to read 'David Taylor'. The signature is written in a cursive, flowing style.

**David Taylor**  
Chairman

## GENERAL MANAGER'S REVIEW



As described by the Chairman, the 2007/08 financial year was one of mixed fortunes.

Significant effort was invested in improving planning and operational procedures and it was pleasing to see 202,900 tonnes of jarrah sawlog delivered. This allowed the Commission to make up much of the shortfall from previous years. Our plantation operations exceeded 1 million tonnes of deliveries for the year – a milestone achievement reflecting full operations from share-farms around Albany on top of the established operations in the South West.

However, on 3 June 2008 an explosion at the Apache Energy plant on Varanus Island cut off one-third of Western Australia's gas supplies from the North-West Shelf, creating a severe disruption which affected the entire community. As a result, the Commission's three largest pine customers were forced to reduce their operations significantly.

The Commission's program of new plantation development continued with the main focus on Strategic Tree Farming (STF). With strong support from natural resource management groups and good response from landowners, STF is delivering multiple benefits in agricultural regions.

We experienced 'teething' problems due to a large increase in demand for eucalypt seedlings this year and have carried over some share-farms to be planted in 2009 with quality seedlings.

Disruption to gas supplies will have the effect of substantially reducing revenue expectations. Consequently, the Commission is revising its profit and dividend expectations for 2008/09 and will recommend deferring a dividend payment from the 2007/08 financial year.

Within the organisation, significant effort has been devoted to improving our operating methods. We have revised the structure and reporting lines of our branches to improve communication links and accountability. These structural changes have been supported by improved budgeting procedures and cascading business plans.

In a new initiative, the Commission appointed a permanent Executive Manager Business Development and Technology to focus on increasing new business for the future forest products industry of Western Australia.

In addition, a statutory review aimed at clarifying the Commission's role as a lead agency for forest industry matters was submitted to the Minister for Forestry. Legislation is currently being prepared to implement the recommendations of the review.

I would like to thank the staff and the Commissioners for their valuable contributions and their strategic direction throughout the year. I also commend our customers for their resilience in the face of the gas supply crisis and I thank our dedicated staff who have worked tirelessly to help them through the challenges.

A handwritten signature in black ink, appearing to read 'Paul Biggs'. The signature is fluid and cursive.

**Dr Paul Biggs**  
*General Manager*





# 1

## BUSINESS PROFILE

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## ABOUT US

The Forest Products Commission Western Australia was established in 2000 as a Statutory Authority to manage Western Australia's commercial forestry activities.

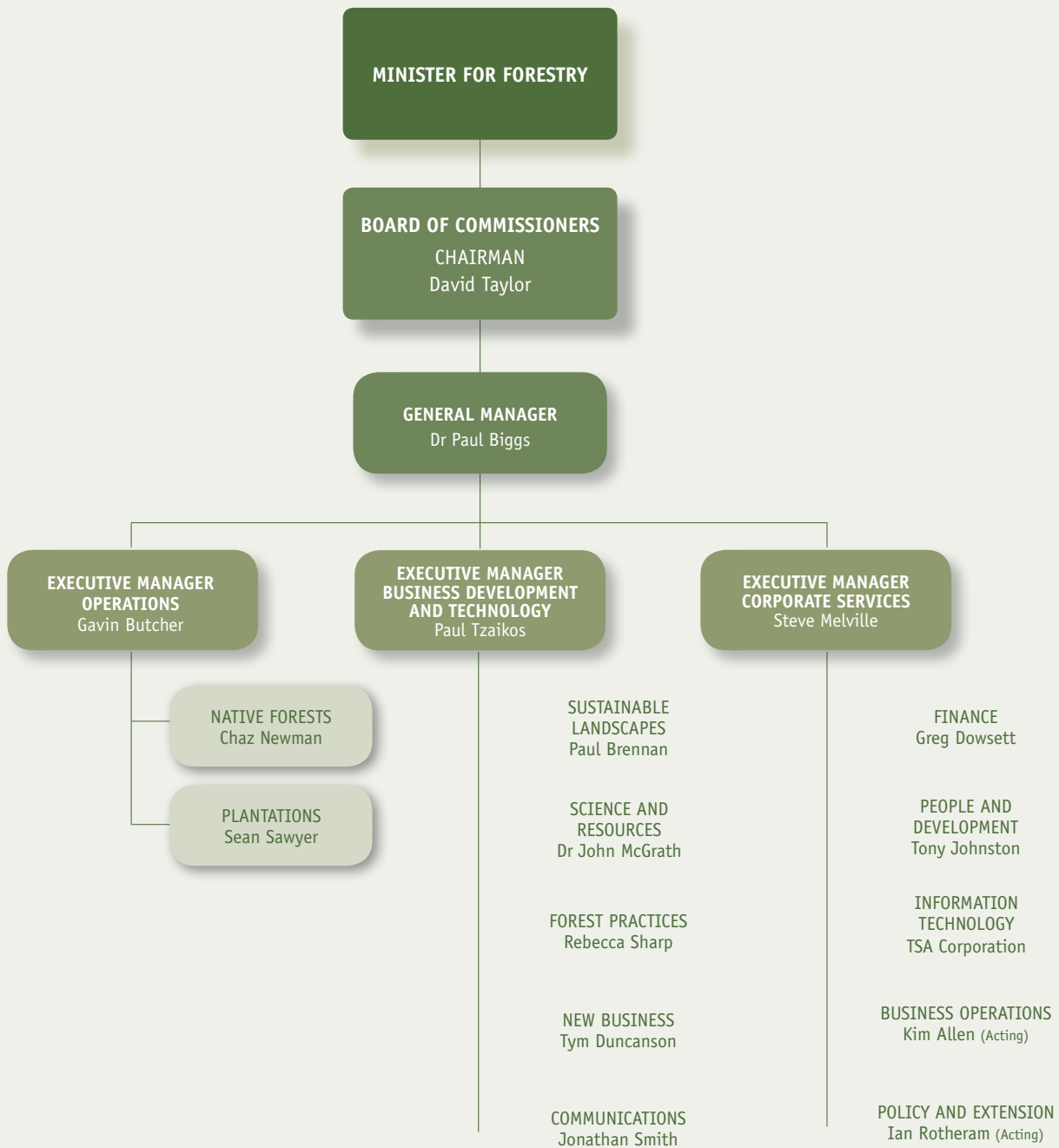
The Commission operates four business segments, South West forests, Arid forests, Mature plantations and new plantations. Each segment has its own operating conditions, markets and financial characteristics.

The Commission performs the following commercial functions:

- Harvests and sells forest products from State-owned native forests and plantations;
- Regenerates (re-plants) State-owned native and plantation forests;
- Manages and harvests trees on farms in partnership with land owners;
- Provides advisory and plantation management services to plantation investors;
- Identifies new ways of funding plantations in low to mid-rainfall areas;
- Identifies and promotes new and better ways to grow and harvest forests and to maximise the value of all forest products;
- Provides strategic advice to Government on the development of the Western Australian forest products industry; and
- Works with industry to find higher-value uses for Western Australian forest products.

Overall, the Commission manages more than 275 contracts (including State Agreements) for works, services and contracts for sale of forest products. These contracts have an approximate life value of \$2.75 billion (excluding contracts with landowners for share-farming and minor contracts under \$20,000).

# ORGANISATIONAL STRUCTURE



# OUR CUSTOMERS

The Commission provides forestry services and products to a diverse group of local and overseas businesses, contractors, farmers, government agencies, regional communities and the public.

In 2007/08, the Commission produced and sold 1,671,329 tonnes of softwood and hardwood forest products, mostly in the form of log timber – an increase of 8.1 per cent on the previous financial year.

The Commission has a total of about 90 log customers. Of these, the largest 10 customers generate revenues of approximately \$80million per annum.

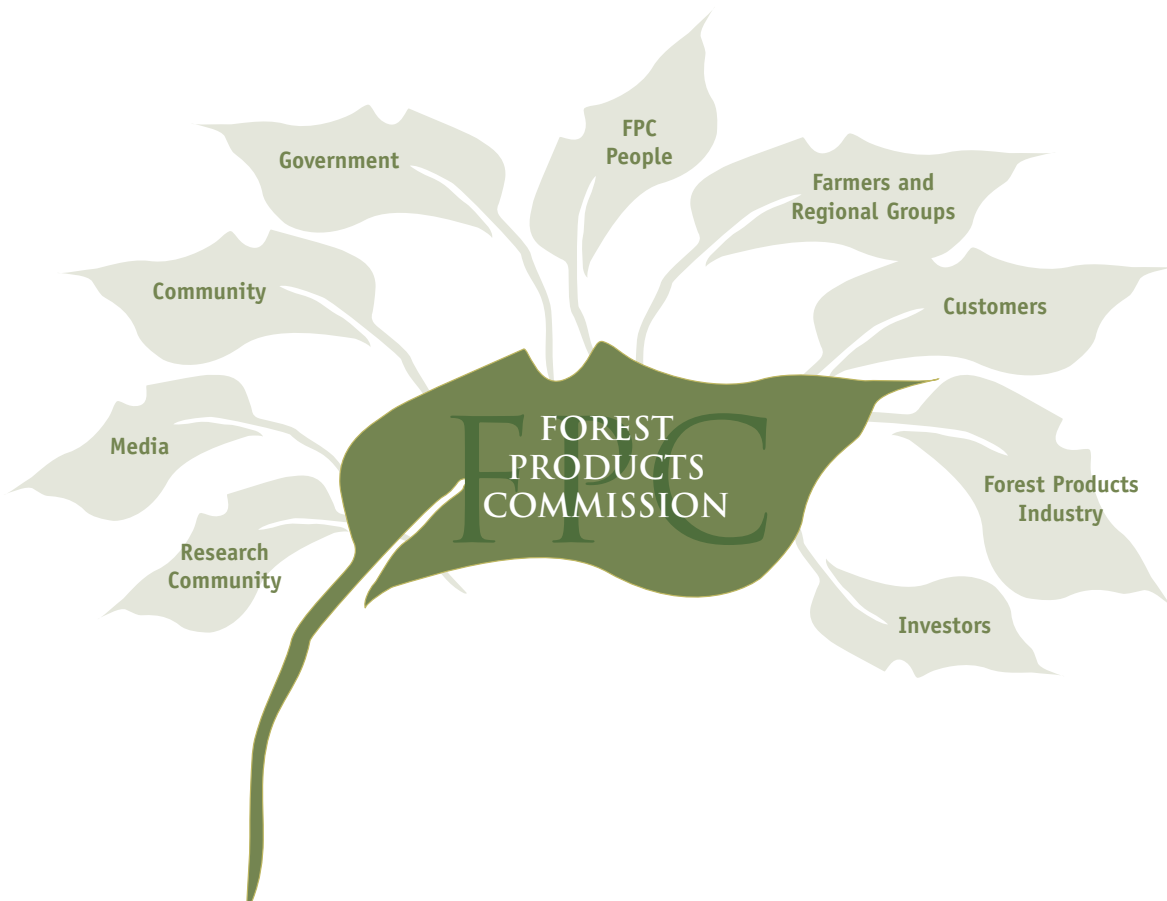
The plantation industry is the Commission's largest customer group and includes Wesbeam's laminated veneer lumber (LVL) plant, the Wespine sawmill, Laminex particleboard and medium density fibreboard (MDF) plants and Pinetec's new sawmill at Muja (near Collie). Output from this industry now provides the bulk of Western Australia's construction timber as well as panels for cabinet and furniture work.

Native forest sawlogs are supplied to 10 medium-to-large sawmills and a number of smaller sawmills. Most logs are processed into high-value timber products for use by local industry in flooring and joinery. With a focus on production for interstate and overseas export, the mills also resource fine furniture manufacturers.

We also supply low-grade logs for domestic firewood and charcoal. Overseas buyers take softwood logs and woodchips for use in pulp and paper-making.

The Commission continually seeks local markets for by-products of sawlog operations.

The Commission manages the State's sandalwood industry and is the largest single producer of sandalwood in the world. Traditional markets such as Taiwan, Hong Kong and China are the primary consumers, importing more than 60 per cent of our annual production for the manufacture of incense and joss sticks. Other significant Asian markets include Malaysia, Singapore, India and Thailand. The largest local sandalwood buyer is Mount Romance Australia, which produces sandalwood oil at its facilities near Albany.



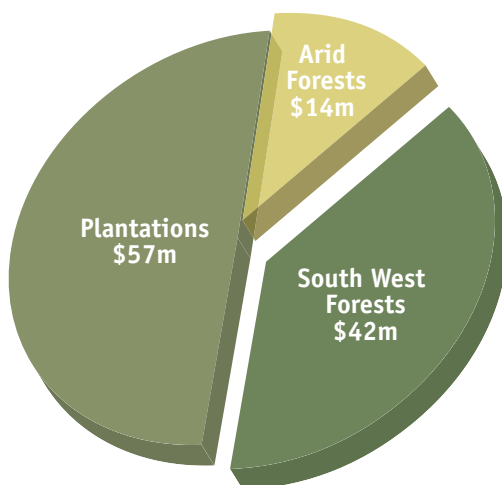
## SEGMENT ANALYSIS

The Commission operates in the following primary business segments:

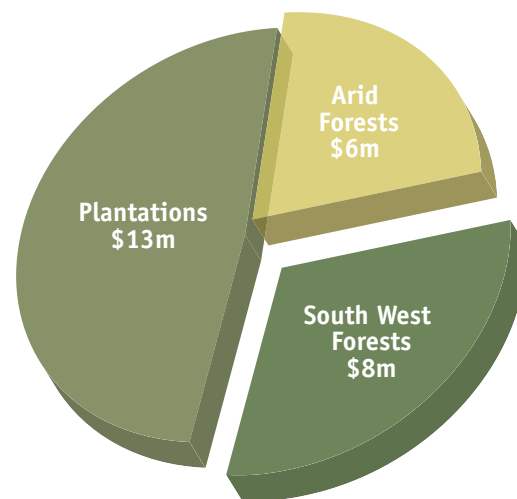
- South West forests (SWF) - jarrah, karri and marri;
- Mature plantations - radiata and pinaster pine;
- New plantations - developing eucalypts, pine and sandalwood in agricultural regions and;
- Arid forests - sandalwood.

The relative revenue and gross profit contribution from these segments to the Commission's business is represented in the following charts.

GROSS REVENUE  
BY BUSINESS SEGMENT (\$M)



GROSS PROFIT BEFORE TAX AND OVERHEADS  
BY BUSINESS SEGMENT (\$M)



## VISION

To be a leader in achieving an environmentally-sustainable and commercially-viable forest products industry, providing economic and social benefits to the people of Western Australia.

## MISSION

To contribute to Western Australia's economic and regional growth by:

- developing the sustainable use of the State's plantation and native forest resources;
- promoting innovation and local value adding for these resources; and
- achieving appropriate returns to the State for the use of publicly-owned and Commission-managed plantation and native forest resources.

## VALUES

### **Achievement**

We are committed to delivering excellent service.

### **Innovation**

We will strive to be creative and innovative in meeting our objectives.

### **Leadership**

We welcome the role of providing leadership in the development and restructure of the timber industry.

### **Customer focus**

We acknowledge the imperative of understanding our customers' needs and meeting their requirements.

### **Environmental responsibility**

We will adhere to sustainable procedures in accordance with the Commission's *Management of the Environment Policy*.

### **Accountability**

We will maintain processes that are transparent and easily measured.

### **Integrity**

In accordance with the Commission's *Code of Conduct*, we will act with honesty and integrity in pursuit of our charter.

# OBJECTIVES

The *Forest Products Act 2000* establishes two principles:

1. The long-term viability of the forest products industry.
2. The application of the principles of ecologically sustainable forest management set out in Section 12(2) of the *Forest Products Act 2000*, in the management of indigenous forest products located on public land.

The Act also defines the principle that the Commission must try to ensure that a profit consistent with planned targets is made from forestry activities, while ensuring that the aforementioned principles are met.

The Commission's *Statement of Corporate Intent (SCI)* further develops these broad objectives and the principle relating to profit to provide clear goals, strategies, objectives and performance targets. The SCI has also been aligned to be consistent with the Government's forest policy. A brief snapshot of the main objectives outlined in the 2007/08 SCI for each of the Commission's relatively distinct business segments is provided below.

## SOUTH WEST FORESTS

This segment covers the jarrah, karri, marri and associated native species in the South West. The Commission harvests these timbers for supply to a number of saw mills located in the region. The strategy focuses on the profitable supply of timber to an industry producing high value end products. There is an emphasis on employment and manufacturing within the State of Western Australia.

**Main Objective:** *To develop a profitable native forest products business to produce timber for the high value manufacturing industry in Western Australia.*

## ARID FORESTS

Sustainable methodology is the foundation upon which the Commission manages this resource while maintaining an ongoing supply to both the domestic and export markets.

**Main Objective:** *To expand Western Australian sandalwood and desert timbers as a high-value business by demonstrating the sustainability of the native harvest and investing in plantation development.*

## MATURE PLANTATIONS

This business segment relates to established plantations from Wanneroo to Manjimup, where both the resource and its processing industry are significantly mature. The Commission employs an ongoing strategy to develop markets for industrial wood and residue products in an effort to improve profitability in this area.

**Main Objective:** *To maximise the commercial return for the Commission's existing products and where viable, expand the resource base supplying the established industry.*

## NEW PLANTATIONS

The Commission aims to facilitate the development of industry-scale plantations delivering environmental, social and economic benefits to the State. The main strategy in this segment is one of integrated investment based on environmental services for issues such as water table control, salinity and carbon sequestration and the provision of forest products including timber, fibre, biomass and oils.

**Main Objective:** *To establish commercially viable tree farm estates within identified cells to enable sustainable development of regional timber processing industries and to deliver significant regional environmental services.*

## PLANT PROPAGATION CENTRE

The Plant Propagation Centre comprises activities that produce high quality seed and seedlings to support the Commission's core business. This includes providing seedlings to the Commission's new plantations, replanting of areas of harvested plantations and regeneration of native forest. The Centre includes the Manjimup nursery, and the Seed Technologies and Tree Breeding Unit.

**Main Objective:** *To maintain throughput at the nursery to achieve financial break-even and to achieve and maintain commercial viability in the areas of seedlings, seed material and genotypes for tree planting programs.*



# MAJOR SUCCESSES 2007/08

The Commission focuses on triple bottom line benefits including positive environmental, financial and social outcomes to the people of Western Australia. Some key achievements include:

- a sound operating performance of \$6.243million net profit after tax (NPAT);
- a dividend to the State of \$2.7million was paid from the Commission's 2006/07 operating profit;
- a \$30million major new South west pine harvesting contract signed with Softwood Logging Services in November 2007 will ensure stability in the supply of pine logs to Pinetec and pine round customers in the South West;
- significantly increased production of jarrah sawlog to catch up most of previous years' contractual shortfalls;
- a sale contract valued at \$12million with Plantation Energy Australia provides for low-grade pine logs from first thinning of the Commission's pine share-farm estate at Albany. The material will be used in the production of fuel pellets for export;
- completion of comprehensive field inventory of natural sandalwood resource on southern rangelands, providing essential data for long term planning;
- completion of tenth year of carbon-offset tree planting on behalf of BP (Kwinana Refinery); and
- achievement of whole-of-agency certification to the Environmental Management System (EMS) ISO14001:2004 standard.

# ACHIEVEMENT GOALS FOR 2008/09

The Commission will continue to develop its business over the coming year through the creation of new business opportunities in the emerging carbon and environmental services markets, while also operating and growing an efficient core business. In addition, the recommendations arising from the review into the *Forest Products Act 2000* will be implemented. The major planned achievements for 2008/09 are:

- obtain Australian Forestry Standard (AFS) certification for both native forest and plantation operations;
- secure significant new sale contracts for low-grade native forest logs, in line with the Forest Management Plan sustainable harvest limits;
- implement changes to the South West native forest industry supply chain to ensure a viable and sustainable industry;
- execute a new sale contract with Wespine;
- execute new pine harvesting contracts for the South West;
- complete tree farming and industry development plans for WA sandalwood (in conjunction with the Australian Sandalwood Network) and mallees (in conjunction with the Oil Mallee Association);
- complete the National Action Plan for Salinity and Water Quality (NAP) funded 18,000 hectare Strategic Tree Farming project;
- secure funding for continuation of Strategic Tree Farming as a high-priority State natural resource management program, to help manage environmental issues in our agricultural landscapes;
- establish trials to test the performance of a range of tree species for the challenging lower rainfall, high evaporation environments of our agricultural landscapes;
- finalise the planning framework and development approvals process associated with tree farming; and
- secure resources to implement the State's 2008 *Strategy for Plantations and Farm Forestry*.

# 2

## CORPORATE GOVERNANCE

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CORPORATE GOVERNANCE

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- 28 Compliance with relevant written laws**

# CORPORATE GOVERNANCE

This section outlines key Corporate Governance practices that were in place throughout 2007/08.

## COMMISSIONERS

The seven-member Board of Commissioners is responsible to the Minister for Forestry and is the governing body of the Commission. Under the *Forest Products Act 2000*, the Commissioners determine the policies and control the affairs of the Commission.

The Commissioners are appointed by the Governor on the nomination of the Minister as having expertise relevant to the functions of the Commission.

The 2007/08 financial year saw three Commissioners step-down on 15 November 2007 - Dr Per Christensen (Deputy Chairman), Ms Kellie Benda and Ms Sandy Breeze. The Commission would like to thank these Commissioners for their dedication and contribution during the term of their appointments.

Three new Commissioners with financial, legal and forestry expertise were appointed on 16 November 2007 - Mr Michael Gurry, Ms Zelinda Bafile and Dr Bob Smith.

Ms Eva Skira, who has a commercial background in banking, stockbroking and the financial markets, was appointed as Deputy Chair on 16 November 2007.



**David Taylor BA (Econ), Dip Pers Man, FAICD**

*Chairman from 1 July 2006. Term expires 30 June 2009*

Mr Taylor has extensive commercial experience with a distinguished marketing and banking background. During the 1990's he was Head of the Principal Operating Divisions of BankWest. He has since progressed a career in corporate governance with appointments to the boards of listed and unlisted public companies and government business enterprises. In addition to his position at the Forest Products Commission, Mr Taylor is currently Chairman of Perth Market Authority and a non-executive director of Empired Limited.



**Per Christensen PhD**

*Deputy Chairman from 16 November 2000 to 15 November 2007*

Dr Christensen is a forester and a consultant ecologist with broad and authoritative experience in forestry and fauna ecology in Western Australia. He has extensive experience at senior management level within State Government and currently sits on a number of committees, including the Shark Bay World Heritage Property Scientific Advisory Committee. Dr Christensen is a member of the management committee of Project Eden which aims to rid Shark Bay's Peron Peninsula of feral cats and foxes. Dr Christensen is also a member of the Blackwood Basin Group and the South West Catchment Council.



**Eva Skira MBA, BA (Hons), FAICD, SF Fin, FAIM**

*Deputy Chair from 16 November 2006. Term expires 15 November 2009*

Ms Skira has experience in banking, stockbroking and financial markets. She has served as a non-executive director for a number of government, business and not-for-profit organisations across a range of industries. Ms Skira is currently a director of Doric Group Holdings Pty Ltd, MDA National Insurance Pty Ltd, RCR Tomlinson Ltd, Deputy Chairman of St John of God Health Care Group Inc. and serves on the Senate of Murdoch University.



**Ray Curo**

*Commissioner from 16 November 2000. Term expires 15 November 2008*

Mr Curo is self-employed as a cabinetmaker. He has extensive knowledge of the Western Australian hardwood timber industry through 25 years of bush work, roading, contract management, training and management of harvesting operations. He has extensive experience in land use conflict resolution. Mr Curo was Chairman of the Forest Industries Training Services between 1995 and 1997 and has been a Manjimup Shire Councillor since 1997.



### **Nick Oaks**

*Commissioner from 16 November 2000. Term expires 15 November 2008*

Mr Oaks is a Board Member of the South West Development Commission. He has a practical industry background previously working in the native forest harvesting and milling sectors and has qualifications in timber technology. He represented workers employed in Forest Industries as an Australian Workers' Union organiser for 12 years. Mr Oaks has been a member and Chair of several training and industry development committees.



### **Kellie Benda BA, LLB, M.App.Fin, ASIA, FAICD, AFAIM**

*Commissioner from 16 November 2004 to 15 November 2007*

Ms Benda is currently General Manager - Assets and Strategy for the RAC. Ms Benda has 14 years' experience as an investment banker and corporate finance adviser in Sydney and Perth. Prior to her finance career, she practised as a corporate solicitor. Ms Benda is a Councillor of the Methodist Ladies' College School Council and a board member of Youth Focus (a charity working to prevent youth suicide, self-harm and depression) and a board member of the Art Gallery of Western Australia.



### **Sandy Breeze**

*Commissioner from 16 November 2000 to 15 November 2007*

Ms Breeze has a strong background in retail, particularly the retail furniture industry. Her Bed Centre retail shops have been trading for more than 25 years. She is currently the longest serving Councillor for the Furnishing Industry Association of Australia (WA) Inc, where she has occupied many voluntary positions including Committee Chairperson and Vice-President. She is the Chairperson of the Australian Furniture of the Year Awards.



### **Michael Gurry BSc, FAIM, FAICD, SF Fin.**

*Commissioner from 16 November 2007. Term expires 15 November 2010*

Mr Gurry has extensive commercial experience in Australia and internationally. He was Managing Director of HBF until January 2007, prior to which he was President Asia Pacific for an international information technology and consulting firm. Mr Gurry is a past National President of the Australian Institute of Management and Senior Vice President of the Asian Association of Management Organisations. He has considerable experience in corporate governance, having served on numerous boards. Currently, he is Chairman of Reignite Pty Ltd. In addition, he is a non-executive Director of Joyce Corporation Ltd and also a Trustee and Vice Patron of the Activ Foundation.



### **Zelinda Bafile LLB, FAICD, FCIS, SF Fin.**

*Commissioner from 16 November 2007. Term expires 15 November 2010*

Ms Bafile has practised law for nearly 30 years. A former Executive at Home Building Society Ltd, she has more than 20 years commercial and governance expertise in the banking and finance industry. Ms Bafile has served on a number of Boards and her current appointments include the Water Corporation, Corporations and Markets Advisory Committee, and Curtin University.



### **Bob Smith BScFor (Hons), MBA, MSc, PhD**

*Commissioner from 16 November 2007. Term expires 15 November 2009*

Bob Smith is a forester with more than 40 years' experience in sustainable and profitable use of natural resources. Mr Smith has held senior management positions in NSW and Victorian government agencies in forestry, natural resource management and finance, including Managing Director of State Forests (NSW) and Director-General NSW Department of Land and Water Conservation. He has worked at all levels and has been a part of Ministerial Councils for forestry, natural resources and agriculture, as well as a member of the Murray Darling Basin Commission. Bob is currently a Director of VicForests, Victoria; First Superannuation Pty Ltd; and LeafCarbon Pty Ltd.

# COMMITTEES

The Commissioners met 11 times during the year. Three Commissioners resigned in November 2007. Board meetings are scheduled monthly. Comprehensive monthly reports are provided to the Board to enable it to monitor the Commission's performance.

Commissioner	Number of Board Meetings Attended	Term Status
Mr David Taylor	11	Chairman throughout financial year
Dr Per Christensen	5	Resigned as Deputy Chairman on 15 November 2007
Ms Eva Skira	11	Succeeded as Deputy Chairman on 16 November 2007
Mr Ray Curo	10	Commissioner throughout financial year
Mr Nick Oaks	11	Commissioner throughout financial year
Ms Kellie Benda	1	Resigned as a Commissioner on 15 November 2007
Ms Sandy Breeze	4	Resigned as a Commissioner on 15 November 2007
Mr Michael Gurry	6	Commenced as a Commissioner on 16 November 2007
Ms Zelinda Bafile	6	Commenced as a Commissioner on 16 November 2007
Dr Bob Smith	6	Commenced as a Commissioner on 16 November 2007

The Commissioners sit on a number of committees to evaluate and make recommendations on specific aspects of the business. Committees of the Board that operated during 2007/08 were:

## Audit and Risk Management Committee

Ms Eva Skira - Chairperson  
 Mr Nick Oaks  
 Mr David Taylor (Committee Member until November 2007)

The Audit and Risk Management Committee is responsible for making recommendations to the Board on the adequacy of internal and external audit arrangements, financial statements, financial administration policies, internal control systems, business policies and practices, compliance with laws, monitoring business risk and reporting procedures.

## Harvesting and Marketing Committee

Mr Ray Curo - Chairperson  
 Mr Nick Oaks  
 Dr Per Christensen (Committee Member until 15 November 2007)  
 Mr David Taylor (Committee Member from 16 November 2007)

The Harvesting and Marketing Committee provides decision-making support to the Commission by reviewing and assessing strategic submissions from Executive in relation to forest product harvesting and marketing.

## New Business Committee

Ms Kellie Benda, *replaced* by Mr Michael Gurry as Chairperson from 16 November 2007  
 Mr David Taylor (Committee Member until 15 November 2007)  
 Ms Sandy Breeze (Committee Member until 15 November 2007)  
 Ms Zelinda Bafile (Committee Member from 16 November 2007)

The New Business Committee was formed to provide decision-making support to the Commission by reviewing and assessing strategic submissions from Executive in relation to the development of new business opportunities.

## Nominations Committee

Mr David Taylor (Chairperson until 15 November 2007)  
 Dr Per Christensen (Committee Member until 15 November 2007)  
 Ms Eva Skira

The responsibilities include the assessment of Commissioners' competencies, review of Board succession plans, making recommendations for the appointment Commissioners, and screening and probity checks.

### **Board performance measurement**

Commissioners completed a Board Performance Measurement Questionnaire as part of the annual evaluation process.

### **Board of Commissioners' remuneration**

Remuneration, travelling and other allowances of the non-executive Commissioners is determined by the Minister for Forestry on the recommendation of the Minister for Public Sector Management.

The Salaries and Allowances Tribunal determines the remuneration for the General Manager.

### **Codes of conduct and ethical standards**

The Board has approved a Code of Conduct for Commissioners which has its foundation in, and complements, the *Western Australian Public Sector Code of Ethics*. The standards in the Code apply to the behaviour of members of the Board and require all Board members to act with honesty, fairness and integrity and to display the highest ethical standards at all times.

### **Disclosure of interest**

Schedule 1, Section 17 of the *Forest Products Act 2000*, requires Commissioners to disclose any direct and indirect pecuniary interests in a matter being considered, or about to be considered, by the Board. All disclosures are required to be recorded in the Board meeting minutes.

The Commission also has an established *Conflict of Interest* policy for its employees for identifying, preventing, or resolving conflicts of interest. All employees have access to this Policy via the Commission's Intranet website.

In accordance with the policy, employees must declare any personal activities or involvements which may present a conflict of interest relating to their duties within the Commission.

### **Financial administration**

A Financial Management Manual is maintained in accordance with *Treasurer's Instruction 701*. A Delegations of Authority Register, which records the Board's delegation of powers, obligations and duties, is also maintained

### **Independent professional advice**

The *Forest Products Act 2000* empowers the Commission to engage, under contract, professional and technical services to enable it to carry out its functions. Under these powers, any requests by the Board to seek independent professional advice would be a matter for them to consider at the time in light of the specific circumstances.

### **Risk management**

The Board has in place a number of arrangements to identify and manage risks, which include the following:

- a monthly Strategic Risk Overview prepared by Executive for consideration at the Board's monthly meeting;
- a Risk Register maintained and reviewed to identify, analyse, evaluate and formulate treatment plans for all risks; and
- a Risk Management Framework for the systematic identification, assessment and management of every risk which may prevent the Commission from achieving its strategic initiatives.

## EXECUTIVE MANAGEMENT



*From left: Paul Tzaikos, Dr Paul Biggs, Gavin Butcher and Steve Melville.*

Executive meets fortnightly and is comprised of the General Manager, Executive Manager Operations, Executive Manager Business Development and Technology, and Executive Manager Corporate Services.

### **Paul Biggs BScFor (Hons), EMBA, PhD General Manager**

Dr Biggs has led the Commission since its creation in November 2000. His previous background was in measurement and strategic planning for forestry with CALM and greenhouse policy and forest policy within Ministerial offices. He is a member of the Institute of Foresters of Australia, the Australian Institute of Company Directors and the CEO Institute.

### **Gavin Butcher BScFor Executive Manager Operations**

Mr Butcher has a career spanning more than 25 years in plantation and native forest management and has particular strengths in the strategic, analytical and financial fields of forestry management. He holds a Bachelor of Science in Forestry and has also lectured part-time at Edith Cowan University. His previous position was Executive Manager Plantation Operations and prior to this was Plantations Group Manager with CALM.

### **Tym Duncanson BScFor, MScNRM, MEIA, MAARES Executive Manager, Business Development from 1 July 2007 to 9 October 2007**

Mr Duncanson has 20 years' experience in natural resource management and forestry within the public and private sectors. Prior to joining the Commission he was an Executive Director of a public company specialising in forest carbon sinks and bioenergy. He is a director of a medical and biological science research foundation and a member of the Environment Institute of Australia and New Zealand, and Australian Agriculture and Resource Economics Society.

### **Paul Tzaikos BCom, FCPA, MAICD Executive Manager Business Development and Technology from 10 October 2007**

Mr Tzaikos is a CPA with a 27-year career in the WA public sector covering audit; corporate and securities regulation; change management; emerging technologies; science and innovation; policy; and business development. He is a Fellow of the Financial Services Institute of Australia (FINSIA), a member of the Australian Institute of Company Directors (AICD), and is the Honorary Chairman of Wanslea Family Services Inc. He has also been involved in the establishment of a number of emerging companies.

### **Steve Melville BBus, FCPA, MAICD Executive Manager Corporate Services**

Mr Melville occupied financial, marketing and management roles in the government and private energy sector before joining the Commission in 2004. His strengths are in strategic planning, financial management and analysis, and the implementation of major IT systems. He holds a Bachelor of Business degree, is a Fellow of CPA Australia and is also a director of the Police and Nurses Credit Society Ltd.



## LEGISLATIVE REQUIREMENTS

### Enabling legislation

The Forest Products Commission was established on 16 November 2000 under the *Forest Products Act 2000*.

### Administered legislation

The Commission administers the following legislation:

- *Forest Products Act 2000*; and
- parts of *Forest Management Regulations 1993*.

### Legislation impacting the Commission

A full list of acts and regulations within which the Commission operates is available on the website [www.fpc.wa.gov.au](http://www.fpc.wa.gov.au)

## STATEMENT OF CORPORATE INTENT

The *Statement of Corporate Intent* (SCI) sets out the Commission's scope of activities, objectives and performance targets for the financial year ahead and is consistent with the *Strategic Development Plan* (SDP). The SCI is tabled in Parliament after agreement with the Minister and the Treasurer's concurrence. The 2007/08 SCI performance indicators are indicated with the symbol \* and reported in the Annual Report.

## FREEDOM OF INFORMATION ACT

The Commission complies with the requirements of the *Freedom of Information Act* and has its own Information Statement available on request from the public, via its Rivervale office. Documents and publications are available on request through the Governance area.

## STRATEGIC DEVELOPMENT PLAN

The Strategic Development Plan outlines the Commission's five-year economic and financial objectives and is an internal document.

## CORRUPTION PREVENTION

The Forest Products Commission complies with the requirements of the *Corruption and Crime Commission Act 2003*. The Commission provides notification to the Corruption and Crime Commission (CCC) on any matter involving suspected misconduct. Two matters were referred to the CCC for further investigation and advice during the 2007/08 Financial Year. Both have been resolved.

## PUBLIC INTEREST DISCLOSURE

The Forest Products Commission has complied with the *Public Interest Disclosure Act 2003* by nominating the Commission's General Manager, Executive Manager of Operations, Executive Manager of Business Development and Technology, Executive Manager of Corporate Services, People and Development Manager and Senior Auditor and Corporate Governance Coordinator, as being responsible for receiving disclosures of public interest and undertaking subsequent internal investigations.

## INFORMATION MANAGEMENT

In 2007/08, the Commission continued to adhere to the *State Records Act 2000* and its own record keeping plan, with an increasing strategic focus on the needs of information management. In March, the State Records Commission approved the amended record keeping plan, which demonstrated progress towards better record keeping practices and compliance. The Commission is committed to meeting its regulatory and best practice requirements to ensure proper and adequate records are maintained. It is also dedicated to improving record keeping practices to achieve optimum business efficiency.

The continuing focus this year has been on the roll-out of the records management system to regional offices. The Manjimup office was completed in the first half of 2008 and the roll-out to the Collie office is currently underway.

Due to resources and time constraints the Commission has extended the time-frame for the conversion program to the end of 2009.

The following programs ensure the Commission's compliance with its record-keeping plan and reflect the records management audit conducted in 2007:

- the progressive roll-out of the records management system to all offices, including the conversion of existing files into the new standardised system;
- a move towards electronic records within the agency during 2008/09 and the management of those records over the long term;
- an annual review of the records management system for efficiency and effectiveness, which is in addition to the ongoing or necessary improvements to the system conducted as part of the continuing roll-out;
- the establishment of a retention and disposal appraisal program to ensure records are appraised against an approved schedule and not disposed of without the relevant approvals; and
- an upgrade of the Commission's retention and disposal schedule to better meet the current functions, ensuring corporate information is retained for the required period of time.

Staff have been made aware of their record keeping roles and responsibilities through;

- records management induction sessions, which also addresses employees' roles and responsibilities in regard to their compliance with the Commission's Record Keeping Plan;
- an interactive online Record Keeping Awareness training package for all staff commencing with the Commission. More than 95 per cent of the agency has completed this training; and
- training staff in the records management system and making the system available to all employees.

## PUBLICATIONS

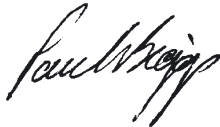
The following Forest Products Commission publications are available on request. Those marked with “#” can be downloaded from the website at [www.fpc.wa.gov.au](http://www.fpc.wa.gov.au)

- 'Action Plan for Tree Farming in Western Australia' #*
- 'Forest Products Commission Annual Report 2007-08' #*
- 'Code of Practice for Timber Plantations in WA'*
- 'Forest Industry Statement' #*
- 'Forest Management Plan 2004-2013' #*
- 'Forest Products Commission – an introduction' #*
- 'Integrated tree farming' #*
- 'Managing Timber Production in Western Australia's south-west forests' #*
- 'Manual of Management Guidelines for Timber Harvesting in Western Australia'*
- 'Sandalwood: The Good Oil' #*
- 'Sandalwood (Santalum spicatum)'*
- 'Guide for Farmers' #*
- 'Seed Technologies catalogue' #*
- 'Statement of Corporate Intent 2007-2008' #*
- 'Strategic Tree Farming' #*
- 'Industry development with tree farming in Western Australia' #*
- 'Trees to Fight Salinity on Farms' #*
- 'WA Furniture Timber' #*
- 'Western Australia's Strategy for Plantations and Farm Forestry: 2008 – 2012' #*

## STATEMENT OF COMPLIANCE WITH PUBLIC SECTOR STANDARDS

The Commission has adopted guidelines and processes supporting *Public Sector Standards in Human Resource Management*. There were no reported breaches against any standard for the reporting period 2007/08.

Policies and supporting procedures are accessible to all staff online via the Commissioner's intranet, as is the *Code of Conduct*.

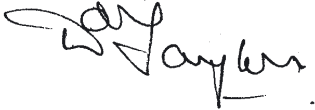


**Dr Paul Biggs**  
*General Manager*

23 September 2008

# CERTIFICATION OF PERFORMANCE INDICATORS

We hereby certify that the performance indicators of the Forest Products Commission marked with the following symbol '☑', are based on proper records, are relevant and appropriate for assisting users to assess the Commission's performance and fairly represent the performance of the Commission for the financial year ended 30 June 2008.



**David Taylor**  
*Chairman*

23 September 2008



**Eva Skira**  
*Commissioner*

23 September 2008

## COMPLIANCE WITH RELEVANT WRITTEN LAWS

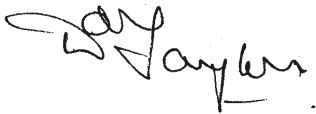
In the performance of its functions, the Commission is required to comply with a number of written laws.

In the financial administration of the Commission, we have complied with the requirements of the *Financial Administration and Audit Act 1985* and other relevant written law.

The Commission has exercised controls which provide reasonable assurance that the receipt and expenditure, and the acquisition and disposal of public property and incurring of liabilities have been in accordance with legislative provisions.

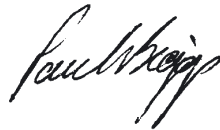
Where non-compliance issues have been identified during the year, action plans have been implemented to address these issues.

At the date of signing, we are not aware of any circumstances which would render the particulars included in this statement misleading or inaccurate.



**David Taylor**  
*Chairman*

30 August 2008



**Dr Paul Biggs**  
*General Manager*

30 August 2008

# 3

## ENVIRONMENTAL REVIEW

3

ENVIRONMENTAL REVIEW

FOREST PRODUCTS COMMISSION ANNUAL REPORT 2007/08

- 30 Environmental policy**
- 31 Environmental services**
  - 31 Groundwater monitoring
  - 32 Carbon sequestration
  - 32 Water table management of the Gngara Mound
- 33 Environmental management**
  - 33 Environmental incidents
  - 34 Compliance with *Forest Management Plan 2004-13*
  - 34 Australian Forestry Standard
  - 34 Sustainability action plan
- 35 Operational sustainability key performance indicators**

The Commission is committed to ensuring that forest products are grown, harvested and managed in an environmentally sustainable manner. In addition to complying with legislative requirements, the potential environmental impacts of all Commission activities are assessed and control measures to mitigate risk implemented.

The Commission also seeks opportunities to support renewable energies, contribute to carbon sequestration and abate environmental problems such as salinity, water quality and soil erosion.

## ENVIRONMENTAL POLICY

In setting objectives and implementing strategies to achieve its vision, the Commission, in conjunction with other relevant authorities and private landowners will;

- apply the principle of sustainable forest management in all native forest operational activities, in accordance with State and national standards;
- apply the principle of sustainable plantation management, including contributing to global carbon cycles, in accordance with State and national standards;
- seek opportunities where plantations can be used as a tool for the enhancement of the environment by abating environmental issues;
- provide opportunities for producing renewable energy sources;
- participate in activities that contribute to regional natural resource management;
- comply with all relevant laws, regulations and other external and internal prescribed requirements in management operations;
- implement and maintain comprehensive environmental management systems, compatible with internationally recognised standards that include a continuous improvement approach, a monitoring and audit system, regular reviews of environmental performance and an effective reporting system;
- identify the environmental impacts of operations. Set objectives and standards to keep potentially significant impacts to acceptable levels, including pollution prevention, waste minimisation and reducing energy consumption;
- clearly define environmental responsibilities and train staff and contractors in appropriate environmental management practices; and
- communicate with internal and external stakeholders on environmental issues and performance.



# ENVIRONMENTAL SERVICES

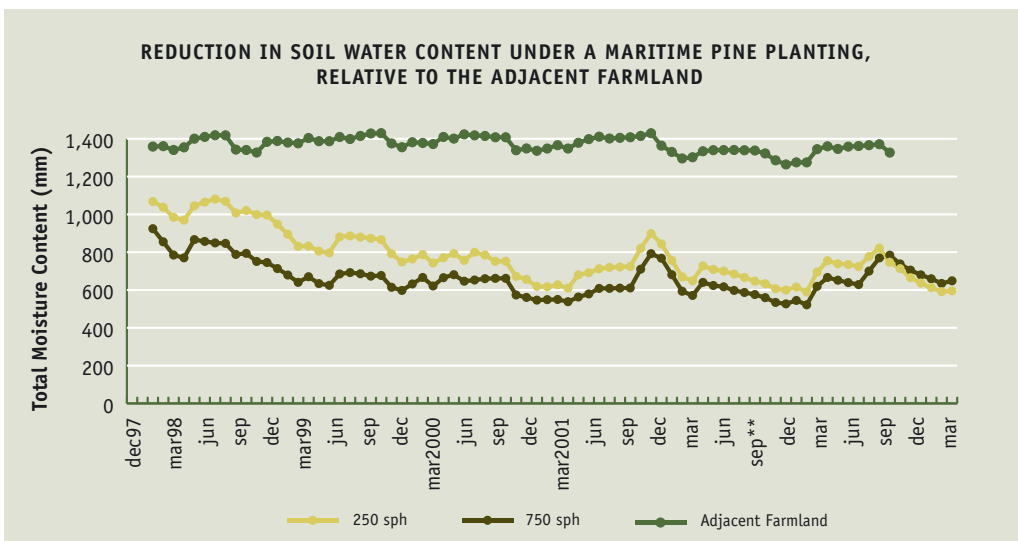
The Commission provides a diverse range of environmental services including salinity amelioration, carbon sequestration and indirectly, biodiversity protection. This is achieved by activities such as research, monitoring, species improvement, seedling production, reforestation and the detection of exotic diseases.

## GROUNDWATER MONITORING

The Commission has commenced monitoring the influence of tree crops in the low-to-medium rainfall zone on soil water stores and groundwater levels. In particular, bore fields were established to measure groundwater levels on three properties purchased by the Commission in 2003/04.

As advised last year, the funding partners for the Strategic Tree Farming Project (STF) project requested that a scientific reference group be formed to provide input to the STF. This group has continued to provide advice on streamlining and improving the targeting of the hydrological monitoring program.

The program tracks the impact of plantations and integrated tree plantings on water tables in these areas to demonstrate the benefits of reforestation in ameliorating dry-land salinity. Over time, these installations will demonstrate the effectiveness of trees in reducing groundwater at the local and sub-catchments level. Monitoring of soil water under maritime pine (*Pinus pinaster*) plantings on a number of farmland plantings show substantial reduction of soil water stores relative to adjacent farmland.



The installation of further bore fields within the Strategic Tree Farming plantings has progressed well. Bores are now installed at 16 of the planned 25 sites. The appointment of qualified staff during the past year will ensure the program is completed within the timeframe of the STF.

As previously noted, the Commission's strong links with the hydrology program within the Cooperative Research Centre for Forestry has led to the development of a research program. It will provide an understanding of the impact of revegetation on water movement in the landscape and thereby optimise the placement of trees.

The partnerships in this area have recently been extended, with substantial project funding from the Cooperative Research Centre for Future Farm Industries, to study the enhancement of the water resources available to trees in the medium-to-low rainfall zone. The work will be undertaken with partners from the Department of Environment and Conservation and the Department of Agriculture and Food at the University of Western Australia.

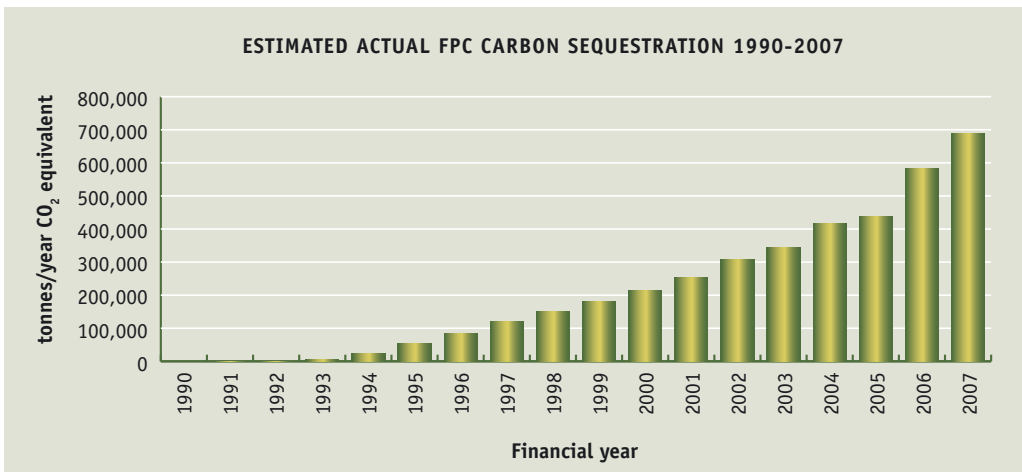
## CARBON SEQUESTRATION

The considerable knowledge and capacity in the area of carbon accounting, developed from 10 years of research and carbon inventory, has been used by the Commission to develop best practice techniques for sampling and estimating carbon sequestration in farm plantations and forecasting future carbon sequestration. The information resource has been utilised in projects which aim to attract investors seeking to develop carbon sink projects. The 10-year-old 'BP project' is a good example.

A Rural Industries Research and Development Corporation (RIRDC) project to assess the impact of land management on carbon sequestration in rangeland systems is continuing and will be completed in late 2008. This project will evaluate whether rangelands are significant as carbon sinks.

The figure below shows annual carbon sequestration (measured as tonnes of carbon dioxide removed from the atmosphere) in the Commission's plantation forests established 1990–2007 on cleared land. Carbon sequestration from areas planted before 1990, or to be planted after 2008, is not included. The results indicate annual carbon sequestration of around 770,000 tonnes carbon dioxide equivalents for the years 2008 – 2012.

### Annual carbon sequestration



### WATER TABLE MANAGEMENT OF THE GNANGARA MOUND

The continued sequence of low rainfall has increased the pressure on the State's surface and ground water resources. As a result, the Gngangara plantation harvesting strategy has been modified to optimise water recharge while meeting the Commission's commitments to supply a new laminated veneer lumber (LVL) plant under the *LVL State Agreement Act*.

The management of these plantations and the future options for the use of the land on which the plantations are located, are being further reviewed as part of the current *Gngangara Sustainability Strategy*. The Commission has received funding through this Strategy to contribute to the development of an integrated land use strategy for the sustainable management of the Gngangara Mound for environmental, water, recreational and productive purposes. It is intended to deliver the strategy in mid-2009.

The impact of the maritime pine plantations on the Mound and the options for mitigating the impact of the plantations on the groundwater will be assessed. In addition, the impact of retaining part of the plantation resource on the Mound will be examined. Key issues to be examined in this part of the strategy are the use of alternative plantation species in areas infested with European House Borer and the management of plantations at very low densities, to enhance recharge of the Gngangara aquifer.

# ENVIRONMENTAL MANAGEMENT

In 2007/08, the Commission achieved whole-of-agency certification to the Environmental Management System (EMS) ISO14001:2004 standard. This EMS is effectively maintained by the Commission through quarterly management reviews and a comprehensive schedule of both internal and external audits.

## ENVIRONMENTAL INCIDENTS

An integral aspect of the EMS is continuous improvement. The corrective and preventative actions arising from identified environmental incidents or audit statistics, play a key role in the Commission's quest for continuous improvement.

The percentage of incident reports (rated as high, medium or low) that were completed within specified time periods are detailed under sub-headings below. In any financial year, the target is 100 per cent closure. A description of all high-level incidents occurring in 2007/08 is also included.

### Plantations

Closure of incident reports within specified timeframes was 86 per cent (89% in 2006/07) for mature plantations, 100 per cent (88% in 2006/07) for new plantations and 100 per cent (33% in 2006/07) for the nursery.

The plantations group within the Commission includes all aspects associated with mature and new plantations and the nursery. The nursery recorded one high-level incident related to low germination and survival rates of *Eucalyptus saligna* seedlings. Further seedlings were sourced from external nurseries; however, the incident still had a significant impact on the Commission's planting program, necessitating a rollover of hectares to be planted in the 2008/09 financial year.

Preventative actions have been implemented because of this incident and as a result where *Eucalyptus saligna* seedlings are slow to germinate, further seed will be sown immediately.

### Native forests

Closure of incident reports within specified timeframes was 87 per cent (75% in 2006/07) for South West forests and 62 per cent (100% in 2006/07) for arid forests.

Native forests incorporates both the South West forests and arid forests sections. The arid forest section had one high-level incident relating to the regeneration success of native sandalwood. The inadequate regeneration in the Jeedamyia area is the result of a combination of persistent drought and grazing. This incident has strengthened the importance of 'Operation Woylie', a research program dedicated to improving regeneration success results in the Arid Forest regions.

### Seed technologies and tree breeding

closure of incident reports within specified timeframes was 100 per cent (Seed technologies 75% in 2006/07. Tree breeding was incorporated into the EMS in July 2007).

There have been no high-level incidents for seed technologies and tree breeding.

### Corporate

Corporate incidents relate to all incidents which arise outside of the operational areas of the Commission. There have been no high-level corporate incidents.

### Science and resources

Closure of incident reports within specified timeframes was 60 per cent. (Science and resources was incorporated into EMS in July 2007).

There have been no high-level incidents for science and resources.

## COMPLIANCE WITH *FOREST MANAGEMENT PLAN 2004-13*

The Commission remains committed to maintaining compliance with the requirements of the *Forest Management Plan 2004-2013* (FMP) and its subsidiary management guideline documents.

The Commission reports annually on the compliance of its staff and contractors as required by Action 32.5 of the FMP.

The full compliance report may be viewed separately on the Commission's website at [www.fpc.wa.gov.au](http://www.fpc.wa.gov.au)

## AUSTRALIAN FORESTRY STANDARD

During the 2007/08 financial year, the Commission has committed to achieving certification to the Australian Forestry Standard (AFS). It is anticipated that certification will be achieved for the karri forest by the end of 2008 and that the Commission will achieve certification for the South West forest and commission plantation sectors by December 2009.

## SUSTAINABILITY ACTION PLAN

The Plan's priority commitments and proposed timeframe for achievements have been incorporated into the Commission's Statement of Corporate Intent (refer Appendix 11).

The sustainability objectives managed by the Commission are to:

- ensure that forest practices are compliant with recognised sustainable practices (see Compliance with FMP on page 34);
- address secondary salinity problems in southern WA by strategic reforestation programs. This will occur through reductions in groundwater and the consequent improvement to groundwater and surface water quality (see Groundwater monitoring on page 31);
- deliver indirect or downstream benefits to biodiversity by reducing the threats from reduced water quality and rising water tables on wetlands or reserves of remnant vegetation (see Water Table Management of the Gnangara Mound page 32);
- provide renewable energy sources (see Bioenergy Development page 51); and
- provide carbon sinks to offset greenhouse emissions; and contribute to the balanced management of public water supplies (see Carbon Sequestration on page 33).

The Commission is committed to providing leadership in the development of sustainable land use systems for the State. In particular, the Commission seeks to provide direction in areas related to adapting and mitigating the impacts of climate change. The Commission will also provide the environmental stewardship for its native forest and plantation operations, undertaken with an accredited EMS which applies to the whole organisation. Progress has been made in gaining Australian Forestry Standard accreditation.

The procurement of goods and services to support the Commission's activities takes into account its commitment to sustainability. The Commission relies heavily on contractors for establishment, maintenance and harvesting operations. All contractors are required to observe and comply with the EMS. Field officers, who are mainly foresters, are responsible for contractors' compliance as part of their contract management activity.

The Commission's generic goods and services requirements are essentially the same as other Government agencies. Procurement is arranged by or through the Department of Treasury and Finance's Government Procurement Office. Government Procurement Office procedures include sustainable procurement factors.

# OPERATIONAL SUSTAINABILITY

## KEY PERFORMANCE INDICATORS

### QUANTITY OF NATIVE FOREST HARDWOOD LOG TIMBER HARVESTED COMPARED TO SUSTAINABLE LEVELS AND TARGETS<sup>1</sup>

The sustainable level is the average quantity of timber available for harvest each year, which can be continued in the long term; known generically as the 'sustainable yield level'.

Areas of forest that are available for timber harvesting are measured using specifically designed inventory plots to determine the quantity of timber available and the rate at which it is growing.

Based on an analysis of this information by the Department of Environment and Conservation (DEC), the estimated sustainable yield level of annual volume for jarrah, karri and marri is determined by the term of the *Forest Management Plan* (FMP).

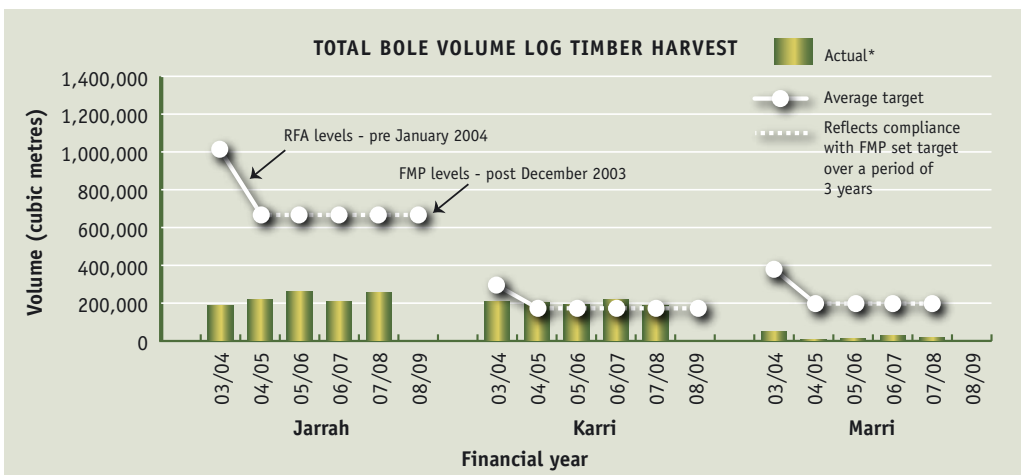
The current 10-year FMP commenced on 1 January 2004. The 2007/08 financial year represents the fourth financial year period under the FMP.

**MEASURE:** The native forest harvesting levels are based on an annual average yield allowable under the FMP as set out below. The performance measures are a comparison of cumulative removals of jarrah and karri first and second grade sawlogs and other log grades compared to the average sustainable yield.

#### Bole volume for jarrah, karri and marri:

For the period 2004–13, the annual sustainable yield level of bole volume (including first and second grade sawlogs) for jarrah and karri is 665,000m<sup>3</sup> and 171,000m<sup>3</sup> respectively. For all marri bole logs the total is 196,000m<sup>3</sup>.

The low total actual harvest levels for jarrah and marri are due to the lack of markets for low-grade logs. Recently, several entities have expressed interest in the purchase of low-grade native forest logs for energy purposes. The results of a competitive sale tender will be known early in the 2008/09 financial year.



**Note:** The 2004 targets are an aggregation of harvest activity of the past six months under the 1999 Regional Forest Agreement (RFA) and the first six months of the FMP 2004-13. The target is the average allowable harvest over the 10 years of the FMP.

<sup>1</sup>  Audited key performance indicator

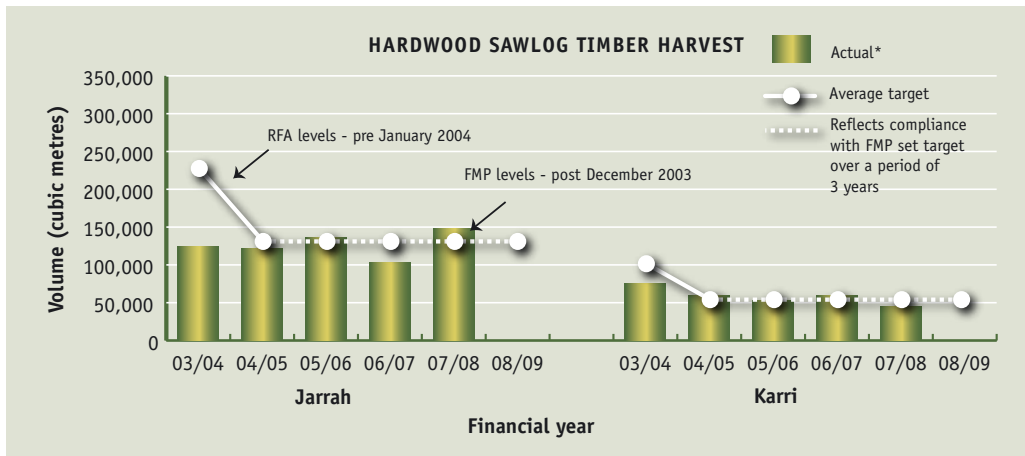
### 2007/08 harvesting activity

Total quantities of native forest bole volume harvested in 2007/08 were: jarrah 258,265m<sup>3</sup>, karri 186,310m<sup>3</sup> and marri 18,339m<sup>3</sup>.

The karri harvest in 2007/08 was higher than the average sustainable yield level of bole volume under the FMP due to the inclusion of non-bole material (crown logs) and an expanded programme of first thinning of karri regrowth stands in accordance with actions under 16.1 in the FMP.

### First and second grade sawlogs 2004–13

The annual sustainable yield level of first and second grade sawlogs for jarrah and karri is 131,000m<sup>3</sup> and 54,000m<sup>3</sup> respectively. (Marri sawlogs are part of the 196,000m<sup>3</sup> identified for marri bole logs).



**Note:** The 2004 targets are an aggregation of harvest activity of the last six months under the 1999 RFA and the first six months of the current FMP. The target is the average allowable harvest over the 10 years of the FMP.

### 2007/08 harvesting activity

Actual quantities for the period July 2007 to June 2008, were 147,758m<sup>3</sup> of jarrah first and second grade sawlogs and 45,563m<sup>3</sup> of karri first and second sawlogs.

*The average annual level of sawlogs harvested is consistent with the allowable quantities in the FMP. The quantity of jarrah sawlogs harvested in 2007/08 was significantly higher than in the previous financial year, reflecting higher yielding harvest areas and a concerted effort to address shortfalls in the previous year.*

### AREA OF NATIVE FOREST HARDWOOD REGENERATED<sup>2</sup>

Regeneration treatments applied in any one year may include parts of areas harvested over a number of preceding years. Annually, the amount of area regenerated may alter and could be above or below the total area harvested. This is due to unsuitable field conditions.

**MEASURE:** The area of jarrah forest regenerated compared with the area harvested for regeneration.

The figures reported cover the 2007 calendar year and are compared to the 2006 calendar year.

The area of native forest harvested for regeneration was 3,445 hectares, excluding 845ha cleared for mining or utilities such as roads and power lines.

Treatments to achieve regeneration were completed for 2,647 hectares.

#### Karri regeneration

In the 12 months to December 2007, 563 hectares of karri forest was clear-felled or partially harvested. A total of 999ha was thinned. Regeneration was completed on 555ha which was harvested in either the current or previous years.

#### Wandoo regeneration

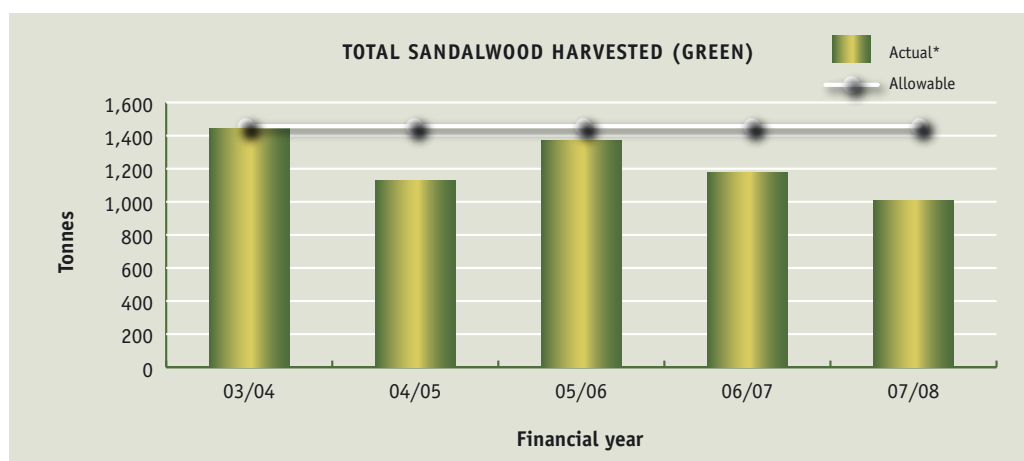
In the 12 months to December 2007, a total of 17 hectares of wandoo forest was harvested for regeneration, with 41ha being thinned.

### THE HARVEST OF 'GREENWOOD' SANDALWOOD WILL BE MAINTAINED AT A SUSTAINABLE LEVEL<sup>3</sup>

#### Quantity of 'greenwood' sandalwood harvested.

The annual sustainable level of harvest for green sandalwood is set in accordance with relevant legislation and ISO 14001. (In addition to the sustainable green sandalwood harvest, dead wood is also harvested)

**MEASURE:** Green sandalwood quantities harvested comply with permissible green harvest level of 1,500 tonnes per annum.



The graph shows the actual harvested green sandalwood based on harvesting practices at the time the sustainable limit was set. Improved harvesting techniques in recent times have resulted in greater utilisation of the whole sandalwood tree and are outside the standard specifications.

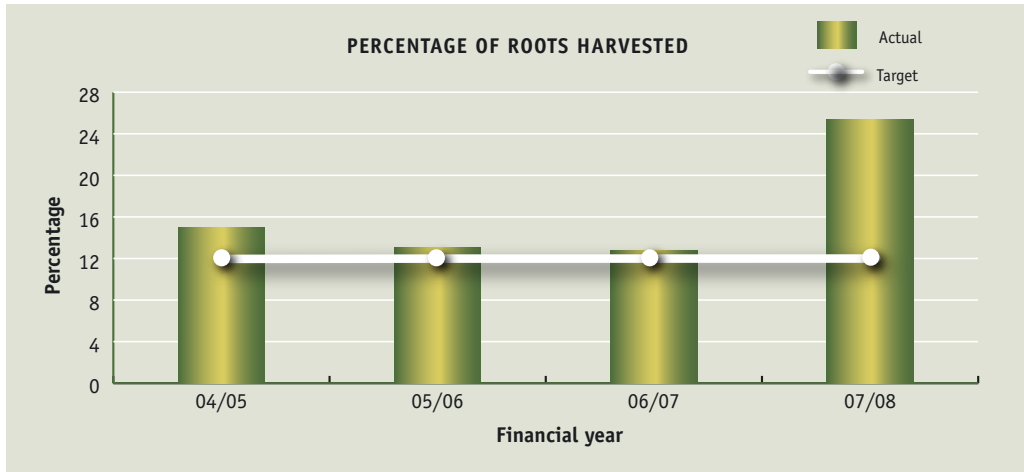
The total green harvested volume for 2007/08 was 1,008 tonnes. In addition, harvested volumes included dead wood 656 tonnes, roots 343 tonnes, and 3<sup>rd</sup>-grade green wood 185 tonnes.

2  Audited key performance indicator

3  Audited key performance indicator

### PERCENTAGE OF SANDALWOOD ROOTS AS A PERCENTAGE OF GREEN SANDALWOOD HARVESTED<sup>4</sup> \*

The Statement of Corporate Intent target to maintain utilisation of roots at least at 7 per cent and above was exceeded. The Commission achieved an actual proportion of 25 per cent utilisation of roots. The result is due to continued improvement in sandalwood harvesting techniques.



4 \* SCI indicator





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The Commission continues to establish new tree farming opportunities offering regional communities options for increased farm diversification, employment opportunities, industry development and improved infrastructure facilities.

The Commission consults closely with rural communities and endeavours to integrate social advancement and economic prosperity to meet the needs of current and future generations.

## REGIONAL DEVELOPMENT AND EMPLOYMENT

The \$64million Strategic Tree Farming project (STF), jointly funded by the State and Australian governments through the National Action Plan (NAP) for Salinity and Water Quality, is progressing well.

The project is a partnership with rural landowners and four regional Natural Resource Management (NRM) groups; Northern Agricultural; Avon; South-West Catchment Councils; and South Coast NRM Inc. The initiative helps to create new tree farm resources, diversify rural incomes and economies and contribute to the achievement of regional natural resource condition targets.

The trees are integrated into farming operations. Locations are selected to target environmental assets and priorities identified in regional NRM strategies. The locations are within industry development cells outlined in the Government's *Action Plan for Tree Farming in Western Australia* and the Commission's associated *Tree Farming and Industry Development Plan*.

The nation's largest single initiative within the NAP program, the STF project, commenced with tree plantings in winter 2005. By winter 2009, nearly 18,000 hectares of new tree farms will have been established. To date, 9,573 hectares have been established across more than 100 properties in the four participating NRM regions.

In winter 2007, a total of 5,263 hectares was planted. An area of approximately 6,000ha is included in the planting schedule for winter 2008, the balance will be planted in winter 2009.

Initially the STF project was scheduled for completion in June 2008. However, a request to carry-over some of the planting to winter 2009 was necessary to address the following issues facing 2008 planting schedules;

- shortfall in land acquisition due to landholders deciding to take full advantage of high commodity prices by planting maximum areas to annual crop in winter 2008;
- shortfall in *Eucalyptus* seedling supply;
- delays in local government planning and approval processes; and
- poor rainfall in the eastern part of the South Coast NRM region during the 2008 planting season.

The Commission sought approval from the NRM partners, the Western Australian and Australian Governments to carry-over up to 3,500 hectares of STF plantings to winter 2009. Approval for the carry-over was received and the completion date for the project extended to 30 June 2009.

### Area of plantation established against target<sup>5</sup>

Plantation establishment straddles the financial year, therefore areas of establishment reported in this annual report are those established during winter 2007.

5  Audited key performance indicator

	Second and third rotation pine species (ha)	First rotation pine species (ha)	Eucalypt species (ha)	Sandalwood (ha)
Target	1,500	2,525	1,970	2,020
Total Area established	1,515	2,746	1,154	1,580
Note:	(1)	(2)	(3)	(4)
Purpose				
Sustain existing industry*	1,515	1,130	-	1,580
Regional development*	-	1,616	1,154	-

**Note:** The total target area for first rotation pine, eucalypt species and sandalwood was 6,515 hectares. The requirement for Strategic Tree Farming was 6,315 hectares. The remaining 200 hectares is managed under fee-for-service arrangements.

\* Salinity, water quality and landcare purposes are delivered concurrently with timber production.

### Areas established against targets:

#### Notes:

#### (1) Second and third rotation pines

**Target:** 1,500 hectares

- Re-established 1,515 hectares that were clear-felled and ready for replanting.

#### (2) First rotation pines

**Target:** 2,525 hectares

- In order to sustain softwood resources in Perth and Mid-West region, plantations are being established on farmland to replace areas to be clear-felled at Gngara (approx. 1,108 hectares). Since 1995, a total of approximately 12,212 hectares has been established.
- Regional development includes establishing 250 hectares of *Pinus pinaster* plantations for BP Australia.
- The recently-completed *Tree Farming and Industry Development Plan* for the Esperance region identified a desired annual planting target of 2,000 hectares per year. Funding to support this level of planting has not yet been identified however, 1,240ha was established against a target of 950ha in 2007.

#### (3) Eucalypt species

**Target:** 1,970 hectares

- 1,154 hectares of eucalypt sawlogs were planted under the STF program. This program is developing well. Agricultural product values still compete strongly with tree planting options therefore, land availability for tree plantings is at a premium.
- Target shortfalls were due to reduced seedling availability.

#### (4) Sandalwood

**Target:** 2,020 hectares.

- The area planted was 1,580 hectares. This is a developing project with good prospects and strong support from landholders.
- Target shortfalls were due to limited availability of seedlings of the sandalwood host.

## PROMOTION AND CONSULTATION

The Commission actively promotes finished timber products and supports many industry events and activities. The Commission is serious in its commitment to educating the public about the virtues of Western Australia's native forest and plantation timbers.

Promotion of value-adding opportunities through the sale of Western Australia's native forest, plantation timbers and finished products is of paramount importance to the Commission.

Throughout 2007/08, the Commission was involved with the following events and projects.

### **Furnitex Exhibition July 2007**

Several Western Australian furniture manufacturers exhibited their products in Melbourne at Australasia's largest annual furniture and furnishings Trade Fair – *Furnitex 2007*. Using mainly jarrah and marri timbers, representatives showcased their latest designs in a range of dining suites, lounges and bedroom furniture.

Western Australia's Aaron Thredgold, who won the student honour at the 2006 Furniture of the Year Awards, was able to display his award-winning creations and gain advantageous insights into the Australian furniture industry. Malaga's Estillo Furniture won the Furnitex award for best New Bedroom Furniture for his new jarrah design.

### **Advanced Timber Concepts Research Centre (ATCRC) launch**

The Advanced Timber Concepts Research Centre, launched in July 2007, is a joint-venture between the Commission and the University of Western Australia (UWA). The ATCRC's prime focus is on market research, design and product development to expand the technical, commercial and aesthetic possibilities for Western Australia's unique timber species.

### **Australian Furniture of the Year Awards 2007**

For the seventh consecutive year, the Commission was the platinum sponsor of the Furnishing Industries Association of Australia Awards, held at the Perth Convention Centre. International Cabinets received the prestigious 'Best of the Best' award for a stunning eight-seater table created predominately from jarrah, but with accents and boarders in marri and sheoak.

### **Australian School of Fine Wood (ASFW) – Final Year Students Awards and Exhibition 2007**

The Commission again sponsored the ASFW's final year student awards and annual exhibition, this year titled '*Reveal*', which was held at Fremantle during December 2007.

### **State Natural Resource Management Conference**

More than 400 Western Australian delegates attended the bi-ennial State Natural Resource Management Conference in Bridgetown in April. The Commission sponsored the 'FPC Point of Compass Field Tours' and contributed through representation on the organising committee, charring sessions, leading field tours and presenting papers.

### **Launch of WA's *Strategy for Plantations and Farm Forestry***

WA's *Strategy for Plantations and Farm Forestry* was launched by former Minister Kim Chance MLC in May 2008. The five-year strategy focuses on the expansion of the forest industry in Western Australia's medium-to-lower rainfall areas, helping farmers to diversify their practices. It outlines five critical success factors and 10 key actions, with the Commission designated as lead agency.

### **FIFWA Timber Industry Awards 2008**

The Commission sponsored two categories in the Forestry Industry Federation of WA (FIFWA) Timber Industry Awards, including *Excellence in Plantation or Native Forest Management* and *Excellence in High Volume Processing, Production and Processing Initiatives*.

The prestigious Premier's Award was presented to Appadene Forest Products. The Commission's own Tree Breeding Manager, Trevor Butcher, was recognised for his outstanding career contribution to genetic improvement programs for commercial tree species.

### **The 10-Year Anniversary of the Carbon Off-setting Project with BP Kwinana**

On Arbor Day 2008, Minister Chance visited Katanning to mark the 10-year anniversary of the carbon off-setting agreement between BP Kwinana Refinery and the Commission. As a result of the project, nearly 4million trees have been planted around the Katanning area to offset greenhouse gas emissions, while at the same time addressing land degradation.

### **Farm Forestry Development Officers**

The Commission has continued to support the activities of four regional Farm Forestry Development Officers. The positions are funded by the regional NRM Groups and in most cases are hosted by the Commission. Their role is to build landowner confidence and understanding about using commercial trees as part of farming.

The Officers promote a range of tree cropping options available to landowners in their region, including the STF Project and oil mallees. Their work reflects an important partnership between the Commission and the regional NRM Groups. The Officers also work closely with the Private Forestry Development Committees.

### **Private Forestry Development Committees**

In recognition of the important community engagement role they play in the development of the tree farming industry, the Commission has maintained its financial support for the five Private Forestry Development Committees (PFDC's). The committees are a forum for communication between stakeholders and a point of contact for independent information. Their role also includes assisting with funding proposals, supporting the Farm Forestry Education Project and promoting industry and the benefits of the Natural Resource Management scheme.

The five committees are Trees Midwest (Moora), Avongro (Northam), Trees South West (Bunbury), Timber 2020 (Albany) and the South East Forestry Foundation (Esperance).

## COMMUNITY AND EDUCATION

The Commission has participated in a number of events to further educate the broader community about its objectives, integrated tree farming and farm forestry goals, the State's timbers and the many value-adding uses of our timber products.

The events included regional field days and agricultural shows as well as a range of initiatives under the Farm Forestry Education Project. The Commission also provided educational material to the Department of Education and Training for inclusion in the curriculum for Years 11 and 12 Geography.

### FARM FORESTRY EDUCATION PROJECT

The WA Farm Forestry Education Project (WAFPEP) is a partnership between the Commission, Private Forestry Development Committees, the Australian Master Tree Grower program and the four regional NRM groups.

These NRM groups include the Avon Catchment Council, South West Catchments Council, South Coast Natural Resource Management and Northern Agricultural Catchments Council.

Educating stakeholders and the public through information, on-the-ground assistance and community learning, is a key strategy for increasing the awareness of farm forestry as a path to more productive and sustainable farming systems.

The WAFPEP has been involved in a variety of workshops, field days, industry forums, peer mentoring trials, introductory farm forestry courses, regional shows and conferences throughout the year including;

- a total of 11 catchment-specific workshops with a focus on the Strategic Tree Farming Project;
- five industry forums – the latest being held on the South Coast involving primary producers, natural resource managers, contractors, local and State government officers and industry representatives;
- presentations or participation at seven field days;
- an introductory farm forestry course conducted in the South West; and
- two community fundraising tree planting days in West Arthur and Dardadine (25km north east of Darkan).

In addition, two peer mentoring programs are being trialled in Avon and the south-west in partnership with the Australian Master Tree Grower program. The aim is to inspire confidence to grow either sandalwood plantations or eucalypts for sawlogs, by using the leadership and experiences of existing growers to encourage landowners who are weighing the advantages of entering the business.

The WAFPEP also produced a DVD, *Changing Landscapes*, in which four farmers share their experiences of tree farming to address the many land management issues being experienced across WA's agricultural regions.

## OUR PEOPLE

The Commission continues to explore and implement initiatives aimed at enhancing the quality of our workplace environment. We have 60 employees working from corporate headquarters in metropolitan Rivervale and 178 employees in 16 regional centres throughout the State. This represents a decrease of six staff on the previous year.

Our people continue to work closely with industry, local communities and other stakeholders to explore and develop enterprising initiatives with the potential to contribute significantly to the sustainable management of our environment and our forest resources.

As at 30 June 2008, the Commission's staff numbers and locations were:

Location	Full-Time Salaried Staff	Part-Time Salaried Staff	Wages Employees	Total	Male	Female
<b>Albany</b>	19	1	-	20	14	6
<b>Bunbury</b>	29	5	-	34	24	10
<b>Carnarvon</b>	1	-	-	1	1	-
<b>Collie</b>	6	3	-	9	5	4
<b>Esperance</b>	5	-	-	5	5	-
<b>Gnangara</b>	14	2	-	16	10	6
<b>Harvey</b>	26	2	-	28	20	8
<b>Kalgoorlie</b>	2	-	-	2	2	-
<b>Katanning</b>	4	1	-	5	4	1
<b>Kununurra</b>	1	-	-	1	1	-
<b>Mandurah</b>	1	-	-	1	1	-
<b>Manjimup</b>	17	1	-	18	13	5
<b>West Manjimup Plant Propagation</b>	20	2	-	22	11	11
<b>Moora</b>	1	-	-	1	1	-
<b>Nannup</b>	12	-	-	12	9	3
<b>Northam</b>	1	-	-	1	1	-
<b>Rivervale</b>	52	8	-	60	35	25
<b>UWA/Shenton Park</b>	2	-	-	2	1	1
<b>Totals</b>	213	25	0	238	158	80

### RECRUITMENT

Like most employers, the Commission has experienced the impact of a tight labour market during 2007/08 however, pool recruitment for entry level forestry staff has again proved to be a successful strategy resulting in 14 new field recruits being appointed in April 2008. Widespread advertising of vacancies has also attracted interest from overseas applicants.

### TRAINING

The prime focus for training in 2007/08, has been in the operations area. The New Recruits entry level training program is an ongoing success, with 12 existing field recruits graduating with a Certificate III in Forest Growth and Management awarded by Great Southern TAFE in November 2007. Fourteen new field recruits commenced the program following their appointment in April 2008.

An operational training framework has been developed. The program aligns the job-related competencies required for each operational position to the national training package in the forest products industry at Certificate III, IV and Diploma levels.

An associated skills recognition program identifies training needs to be addressed in 2008/09. The Framework provides a structured career, learning and development pathway for staff and it is a template for those wishing to fast-track their operational careers.

In 2007, the Commission and Great Southern TAFE were awarded a Government grant to develop an e-learning training module in safety, health and environment. The module is being piloted in the New Recruits program. It is also offered to the forestry industry.

## LEADERSHIP DEVELOPMENT

During 2007, the Commission reviewed the Growth Development Leadership Program and redirected its focus to leadership competence and capability.

Forty-one staff at Level 6 or above participated in the Program, which is aligned with the Public Sector's key competencies in Leadership such as;

- how to shape and manage strategy;
- achieving results;
- building productive relationships;
- exemplifying personal integrity and self-awareness; and
- successful communication and influence in the workplace.

Commission staff completed a 360-Degree feedback assessment followed by a debriefing via a series of individual coaching sessions.

Participants were also invited to attend the Department of the Premier and Cabinet's Leadership Skills Workshops complementing the Leadership Capabilities.

The Commission provides leadership development opportunities through a Cultural Values Project, which has a focus on leadership behaviour and builds on the current Leadership Capability program.

## ORGANISATIONAL RESTRUCTURE AND CULTURAL CHANGE

In 2007, a meeting of the General Manager and approximately 40 staff members took place in Dardanup to discuss a new organisational structure and establish agreement on positive directions for organisational improvement.

The new structure was successfully phased in between December 2007 and January 2008 with no loss of positions to existing staff members.

Agreement on the need for cultural change was reached on five main areas. Subsequent workshopping refined these into three core initiatives;

- each branch was required to develop a one-page business plan;
- a review of the Commission's cultural values and;
- implementation of a formal structure to guide staff toward greater teamwork.

The Cultural Values Project is a component of the reGrowth Strategy and involved a survey of all staff from whom data was gathered on individual values, current organisational values and desired organisational values.

The *one-page business plan* initiative has been implemented and a Change Manager appointed to manage a Cultural Values Project.

In addition, a Leadership Development Program will emphasise the behaviours that staff will need in the future to assist the Commission in reaching its business objectives.



## OCCUPATIONAL SAFETY AND HEALTH

The Forest Products Commission's Occupational Safety and Health Policy requires employees to be cognisant of and practise sound safety and health management that is thorough and systematic.

Covering all areas of the Commission's activities, the policy encourages employees to operate in a responsible manner, thus ensuring the workplace is safe, healthy and harassment free.

Since the Commission's inception, injury management services have been provided by the Department of Environment and Conservation via a service level agreement.

This service focuses primarily on liaison with Riskcover, workers' compensation management and the provision of statistical information to the Commission. It is necessary to meet the requirements of the new Occupational Safety and Health Code of Practice, introduced in August 2007.

The Commission has therefore developed its own injury management system, appointed an Injury Management Coordinator and established a return to work template/program. As a procedural instrument, this system complies with the *Workers Compensation and Injury Management Act*.

Safety and health policy guidelines and standards are available to staff through the Commission's intranet.

### Occupational Safety and Health Performance

Measure	2007/08 Result
Number Lost Time Injuries (LTIs)	8
Frequency rate (number LTIs per 1 million hours worked)	14

### Consultation

Each work centre has an elected Safety and Health Representative and Occupational Safety and Health Committee. Committee membership includes the local Safety and Health Representative, staff and management. Committees meet at least every three months and minutes are posted on notice boards in each work centre and made available to all staff through the Occupational Safety and Health homepage on the Commission's intranet.

The names of in-house Health and Safety representatives who have received accredited training within 12 months of appointment are accessible via the intranet. Occupational Safety and Health committees have standard agenda items which include an in-depth review of incidents and hazard reports.

### Management Framework

During 2007/08, a new Occupational Safety and Health Management Framework was developed by the People and Development Branch, in consultation with Safety and Health Representatives. The Framework is based on Australian Standard AS/NZOSHS 4801 (Occupational Health and Safety Management Systems) and comprises six key elements:

- management commitment;
- planning;
- consultation;
- training;
- hazard management; and
- injury management.

The Framework is currently being implemented and is expected to be operational by January 2009. It will be integrated with other standards and systems governing the Commission's operations.

The new Framework includes the following key initiatives;

- forming a Commission Safety Council, chaired by the General Manager;
- appointment of Workcentre Safety Managers (responsible for buildings and parking);
- establishing a Safety Systems Management Manual;
- strengthening our safety incident reporting system by integrating it with the Commission's current Environmental Management System reporting framework;
- shifting the focus of the Commission's safety awards program from outputs to inputs; and
- developing annual safety plans proposed by Safety and Health Representatives and endorsed by the Safety Council.

#### Awards

The Commission's Safety and Training Consultant, Bill Towie, won the '*Best Individual Contribution to Health and Safety*' category at Worksafe's annual safety award presentations. The award automatically included him as a finalist in the '*Safe Work Australia Awards*' at Parliament House, Canberra in April 2008.

#### CODE OF CONDUCT

The Commission complies with the Public Sector Code of Ethics and through its own revised Code of Conduct for employees, addresses issues such as conflict of interest, corruption, confidentiality, record keeping and equal opportunity and diversity.

Opportunities for feedback are always available through internal and external mechanisms and members of staff are regularly surveyed.

During 2007/08, there were two complaints of misconduct reported to the Corruption and Crime Commission. One complaint was substantiated, the other is currently under investigation.

One breach of the Commission's Code of Conduct was substantiated and disciplinary and remedial action followed.

There were no breaches of Public Sector Standards during 2007/08.

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## ECONOMIC ACHIEVEMENTS

The Commission operates in a dynamic environment, one which is influenced by domestic and global market forces. Timber availability and quality, delivery price, production costs, end user demands and a progressive shift to plantation-based industries are all factors significant to our operations and ultimately to the Commission's success as a commercial entity.

As a Statutory Authority, the Commission works with industry, the community and other government agencies to help ensure a robust, long-term future for forest products. Major economic drivers for the State are seeded through the Commission's leadership and services.

The Commission's core business is to deliver forest products under existing timber supply contracts to local industries. The Commission has also established new markets for native forest and plantation residue products.

### NEW CONTRACTS

A major sale contract was signed in May 2008 with Simcoa Operations Pty Ltd for the supply of residue timbers extracted from Alcoa bauxite mine sites in the northern jarrah forest.

The residue timber, comprising branches, stumps and otherwise unsaleable logs, is processed on-site into small consignments and transported for manufacture into charcoal at Simcoa's Kemerton silicon smelter. Each year Alcoa mines approximately 650 hectares of jarrah forest.

Until recently, all residue timber remaining after the harvesting of saleable log products was windrowed and burnt, or buried, by Alcoa prior to mining. The approximate annual quantity of residue timber involved each year is 160,000 tonnes.

This new sale contract represents a major step forward in the use of residue timber as a renewable resource. It is expected to provide the Commission with a net revenue return of up to \$3million over five years.

A five-year sale contract with Plantation Energy Australia Pty Ltd, valued at approximately \$12million, was signed in October 2007. The company is in the process of constructing a fuel pellet manufacturing plant at the Mirambeena timber precinct north of Albany.

This plant is expected to be the first industrial-scale fuel pellet plant in Australia. The Commission will supply approximately 75,000 tonnes of low-grade pine logs sourced from thinning operations at the Commission's radiata pine share-farm estate near Albany.

A major South West pine harvesting contract with a value of approximately \$30million was signed with Softwood Logging Services in November 2007. The contract is similar to the one signed with Pine Hauliers earlier in the year. It provides for the harvesting of approximately 210,000m<sup>3</sup> per year of pine logs over a five-year term.

Harvesting under this contract is fully integrated, producing not only particle board logs for The Laminex Group's Dardanup factory but also small sawlogs for Pinetec at Muja, pine rounds for Timber Treaters at Hester and sawlogs for Wespine at Dardanup.

### BIOENERGY DEVELOPMENT

The Commission is actively working with a number of parties to develop and promote the sale of biomass for use in renewable energy opportunities.

#### WA Biomass Pty Ltd

Is planning to build a 35-megawatt Bioenergy plant near Manjimup which will utilise approximately 380,000 tonnes of plantation residue per annum. The Commission has signed a supply contract and will contribute approximately one-third of the required quantity if the proposed \$100million facility receives all necessary approvals. It is expected to be the largest dedicated plantation residue bioenergy plant in Australia.

### **SpiritWest Bioenergy Pty Ltd**

The Commission is finalising a draft contract which will be subject to SpiritWest meeting certain pre-conditions.

### **Tender process for low grade native forest logs**

The Commission has called tenders for the sale of low-grade logs from native forests. The successful bid will be announced in the second half of 2008.

### **Other emerging projects**

The Commission continues to work on several other emerging opportunities in the bio-energy, bio-fuel and environmental services industries.

## **INDUSTRY DEVELOPMENT**

The Commission's key industry development initiatives have involved maintaining the viability of the hardwood saw milling industry and developing new industry outcomes for the lower rainfall areas of the State.

The Commission has partnered hardwood saw millers in a major review of the viability of the industry. Foremost among the review initiatives was the imperative to explore opportunities to lay the foundations for a viable customer base for hardwood residue logs.

A separate focus has been to prepare industry development plans for new plantation-based industries in regional areas, as has research and monitoring of impacts and implementation through Strategic Tree Farming (STF) plantings.

## SCIENCE AND RESOURCES

Underpinning the Commission's operations is a strong concentration on research and development, including improving the genetic quality of major species, advancing silvicultural systems for plantations and defining the environmental benefits of plantation forestry.

The Commission has invested \$5.65million in research and development and technical support for the four main areas of its activity – new plantation development, mature plantations, native forests and arid forests. Approximately 60 per cent of this investment was directed towards projects that support the development of the important new plantations area.

The Commission's target, to source 25 per cent of the research program funding externally, was again exceeded (32%).<sup>6\*</sup> The majority of external funding is directed toward new plantations.

### RESOURCES AND PLANNING

The Resources and Planning section was established in September 2007. Its purpose is to provide a greater internal capacity to assess plantation performance, as well as document plantation information to facilitate long-term and short-term planning outcomes.

In particular, the section focuses on providing the knowledge of resources that underpin improvements in value recovery from the plantations and the expansion of the share-farms estate.

A number of software packages were introduced to record information for planners and operations staff. The software is used for resource inventory recording, mapping, record keeping and resource scheduling.

Major achievements for the resources group include:

- establishing a network of permanent growth sample plots for the purposes of monitoring carbon sequestration and growth model development in all major plantations;
- developing models and functions required to run ATLAS programs such as 'Cruiser' and 'Forecaster';
- completing a resource inventory of Gngangara mound pinaster;
- continuing to provide a significant contribution to options for carbon sequestration and accountability; and
- sampling of mallees to develop biomass and carbon prediction tools required for carbon inventory of mallee plantings.

Major achievements of the Planning and Geographic Information Systems (GIS) group have been:

- plantation area capture and mapping, which included significant expansion of the share-farms estate in 2008;
- a major contribution to resource planning reviews for Wesbeam and Wespine; and
- utilising 'Geomaster' to create area statements for annual reporting.

### TREE BREEDING AND SEED TECHNOLOGIES

This section focuses on genetic quality and improvement of the Commission's plantation species.

#### Sandalwood

The native sandalwood (*Santalum spicatum*) breeding program initiated last year was the stimulus to establish an orchard which only included high santalol producing trees. Seed production from this orchard will occur in 2011.

To meet demand for native sandalwood seed, the Commission is procuring additional quantities from its sandalwood plantation estate. These collections provide annual revenue to native sandalwood partnerships with the Commission.

6 \* SCI indicator

The Commission sponsored a study into the oil composition and genetic diversity of Australian tropical sandalwood. Important intellectual property resulting from this project has been successfully commercialised by the Commission.

The Rural Industries Research and Development Council (RIRDC) received the final report for a project entitled, "Analysis of plant-host relationships in tropical sandalwood (*Santalum album*)". A joint project between UWA and the Commission, the results will be published in 2009. This report quantified sandalwood wood production after nine years of growth and with six different long-term hosts.

Further RIRDC funding will enable the Commission to measure 16 more sandalwood and long-term host trials over the next three years. The application was successful with academic support of UWA and industrial support from Integrated Tree Cropping. This study will include oil production data through the destructive harvest of a sample of trees from a number of trials.

New trials were established in the Ord River Irrigation Area (ORIA) to demonstrate clonal propagation of tropical sandalwood (*Santalum album*), as part of a joint project stimulus between Nippon Paper Industries and the Commission. A second trial was established to investigate biodiesel production potential from the seed of *Moringia olifera* and *Pongamia* (renamed *Millettia*) *pinnata* with different silviculture systems.

### Radiata pine

A review of the *Pinus radiata* breeding program highlighted the need to ensure that the gains made through the breeding program were implemented. This has led to the development of a new radiata pine seed orchard at Manjimup.

The Commission is studying *Pinus radiata* to determine its suitability in low-to-medium rainfall areas. Affirmative results should enable an expansion of the low-to-medium rainfall radiata commission estate. Assessments this year have shown that in medium-to-low rainfall areas the performance of the Cambria, Cedros and Guadalupe Island populations were as good as Monterey.

Over the past three years, control-pollination systems have been continuously improved to meet the genetic and seed requirements for the initiation of a radiata pine (*Pinus radiata*) family-rooted cuttings program. The aim is to add 10 per cent wood volume gains to the Commission's plantation estate. Considerable effort has been directed toward increasing the availability of radiata seed for ramping up the plantation program that has been foreshadowed in the next few years.

### Maritime and Brutia pine

Seed requirements for the maritime pine program are being met. A series of *Pinus pinaster* trials were planted to broaden the population base and to provide a greater diversity for future plantings. Outstanding performance in the Esperance cell suggests there is huge potential for maritime pine in this area.

The lack of male cones for the first two years in the Brutia seed orchards hampered seed deployment. Early information from within the new selections of *Pinus brutia* has shown promise. As plantings and plots age and with quarantine restrictions making it increasingly difficult to import *Pinus* material into Western Australia, there is the potential for lost genetics. Selections were made, grafted and put into clonal archives to ensure the future integrity of the genetic resource.

### Eucalypts

The Flat top yate (*E. occidentalis*) study proved tank screening a reliable system for selecting superior genotypes for saline waterlogged sites. The study has also shown the value of the use of DNA technologies in tree breeding and how these genotypes can be deployed.

The first Sydney blue gum (*E. saligna*) seed orchard seed to be harvested from the clonal seed orchard is predicted to provide a 44 per cent genetic improvement from the base population. This gain is clearly demonstrated over five years in the genetic gain trials.

Sugar gum (*E. cladocalyx*) seed orchard seed was used by the Commission this season. Additional seed sources are being investigated to meet demand.

Four companies in Brazil are testing the Western bluegum (*E.globulus*) for the development of hybrids to improve wood density.

To meet demand for oil mallee seed, collections from plantations are being undertaken. These collections provide revenue to oil mallee partnerships with the Commission.

Contracts for native seed harvesting are increasing as the new quality control system, now in operation, allows the Commission to provide the detailed information that customers require.

In October 2007, the Commission was represented in Durban at a conference of the International Union of Forest Research Organisations. The conference looked at balancing productivity and sustainability of eucalypts.

### Taxa Trials

A series of species (taxa) trials were planted during winter 2007 and designed to include species such as *Corymbia maculata*, *C. variegata*, *Eucalyptus camaldulensis*, and *E. cladocalyx* with improved seed from the Commission's seed orchards. Local provenances of *E. camaldulensis*, *E. loxophleba*, *E. salmonophloia*, *E. wandoo*, *Corymbia calophylla*, and *Casuarina obesa* are also being tested. Families of *Pinus pinaster* with improved drought tolerance are included, along with *P. brutia* representatives from Turkey and Cyprus, *Pinus eldarica* and Eucalypt hybrids. This series of trials will be expanded next year to include more individuals from the *P. brutia* and *P. eldarica* complex.

## NURSERY

The nursery is located within the Plant Propagation Centre at West Manjimup.

The objective of the nursery is to produce a reliable supply of competitively priced, high quality and genetically superior seedlings to meet the needs of the Commission and the requirements of external markets.

The key achievements for this year are:

- The nursery won the "Best Large Production Nursery" category at the 2008 Nursery and Garden Industry Awards.
- A new despatch system was installed to enable seedlings to be shipped on racks, allowing faster throughput. The initiative has reduced safety issues associated with handling.
- The cool room at Manjimup has been upgraded to a dual-purpose cool room/seed germination room.
- As an addition to the nursery's quality control system, a stock and sales data-base was developed to help manage distribution of orders and record financial information.
- The Commission's recycling regimen included reuse of 17.7 tonnes of plastic seedling trays.

## PARTNERS IN RESEARCH

### Cooperative Research Centre for Wood Innovations (CRCWI)

This was the final year of the Cooperative Research Centre for Wood Innovations. The Commission continued to support the CRCWI work, based on microwave technology and design. The Commission will share in the overall intellectual property generated.

The drying behaviour of conventionally dried Western Australian-grown jarrah and Sydney bluegum timber after microwave pre-treatment is being compared with untreated controls. The research is in progress at the Australian Centre for Advanced Wood Processing (CAWP) in Creswick, Victoria.

Western Australian-grown Tasmanian blue gum was assessed for potential use as power poles with microwave pre-treatment providing significantly improved penetration and retention of a preservative coating.



Karri resource now supplied to Western Australian saw millers from regrowth forest is sometimes referred to locally as 'whitewood' because of the low extractives content and a very pale colouration. Improved gluing trials on the timber will determine its marketing potential.

Samples of Western Australian-grown timbers were sent to the University of Melbourne to assess their suitability for bending into furniture components after microwave treatment.

### **Timber Technology**

The relocation of the Commission's timber technology research to UWA's Nedlands campus is complete, following the finalisation of the building refurbishment and the extensions to UWA workshops at McGilvray Oval.

The UWA/Commission joint-venture known as the Advanced Timber Concepts Research Centre, was officially launched in July 2007. Key research projects have continued to focus on better utilisation of short-length jarrah and uses for regrowth karri, both of which incorporate a number of design aspects.

During the year the Commission participated in two sawmilling projects funded by the Forest and Wood Products Research and Development Corporation (FWPRDC), in collaboration with Ensis and local sawmills.

The first trial, which examined the sawmilling and drying of regrowth karri and compared properties between thinned and unthinned regrowth has been completed. The second trial, which was designed to investigate the sawmilling and drying performances of wide-spaced plantation-grown eucalypts, is nearing completion.

### **Cooperative Research Centre for Forestry (CRC Forestry)**

The Commission has a significant role in a number of projects within the CRC Forestry. The Commission has combined its broad hydrological monitoring and evaluation activities under the Strategic Tree Farming Project with the CRC's hydrology program to develop and understand the processes involved in the water used by tree plantings in the medium rainfall zone.

A key project, it will provide information to further develop sustainable tree crops and plantations systems in the medium rainfall zone. This is particularly important under conditions where climate remains drier than the long-term patterns.

The Commission has continued its involvement in projects examining the impact of silviculture on inherent wood properties and harvesting efficiencies and in the Integrated Pest Management Program that has been incorporated into the CRC's activities.

### **Cooperative Research Centre for Future Farm Industries**

The Commission is a partner in the CRC for Future Farm Industries, a venture headquartered in Perth which commenced in 2007. The Commission's main role is to lead a project investigating the improvement of tree yield and carbon sequestration in low rainfall plantings through the capture and diversion of surface waters. The project commenced in mid-2008 and will run for three years.

### **Seed Technologies Research Nursery**

The Commission relocated the Seed Technologies research nursery from the Department of Environment and Conservation site at Wanneroo to UWA Shenton Park. The site includes a small nursery, office and tissue culture laboratory. UWA has acknowledged the close genetic research relationship developing between our two organisations.

### **Australasian Forest Genetics Conference**

The Commission was selected to organise the Second Australasian Forest Genetics Conference. This is an international conference to be held in Perth in April 2009, ([www.forestgenetics.com.au](http://www.forestgenetics.com.au)). The conference will host a pre-conference tour to Kununurra and a post-conference tour of the South West.

## FINANCIAL PERFORMANCE

The Commission reported a Net Profit after Tax (NPAT) of \$6.243million. The result is driven by improved production performance in the Commission's South West Forests and Plantations businesses.

Revenue from the sandalwood business was reduced primarily from the impact of the strong Australian dollar on sales of export sandalwood.

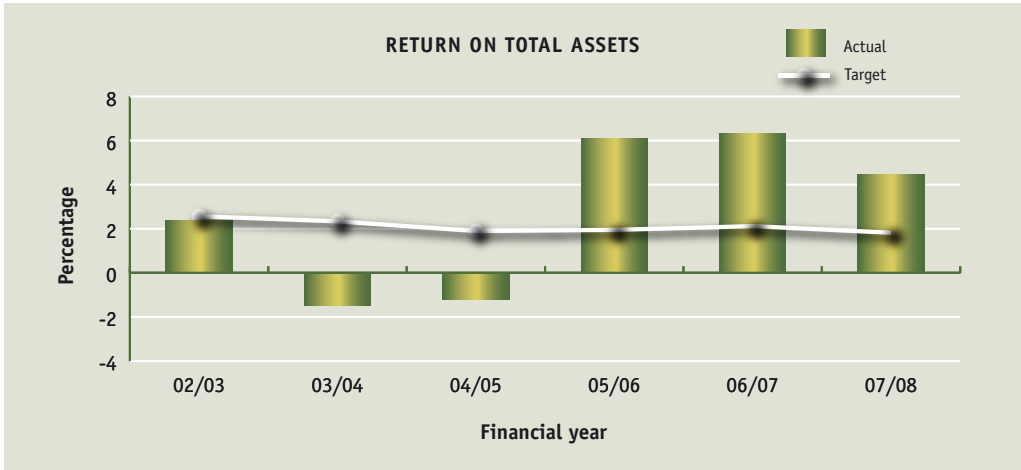
While production performance was up for the full year, it was impacted in June 2008 when a gas supply crisis arising from the Varanus Island incident reduced customer ability to receive logs. Costs were also up significantly over the year in areas such as log haulage, road construction and maintenance, remediation work in plantations impacted by the recent drought, and increased provisions for doubtful debts.

The year-end valuation of the Commission's natural resource assets declined slightly as a result of movements in a number of assumptions underpinning the valuation model. These include assessments of future harvest volumes, costs of growing the resource and the discount rate.

Payments to government in the 2007/08 financial year in both dividends and tax was almost \$6million, compared to the previous year of \$3.7million.

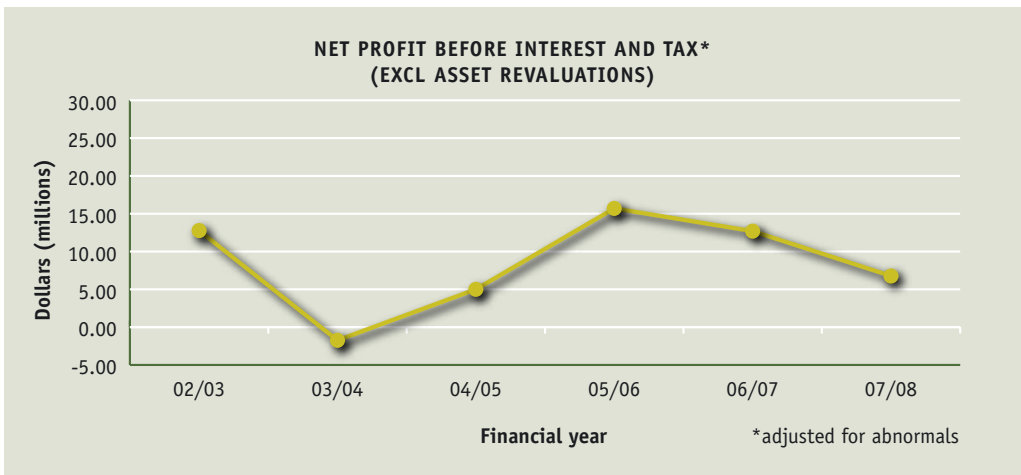
# KEY PERFORMANCE INDICATORS 2007/08

## 1. RATIO OF EARNINGS BEFORE INTEREST AND TAX TO TOTAL ASSETS (RETURN ON TOTAL ASSETS)



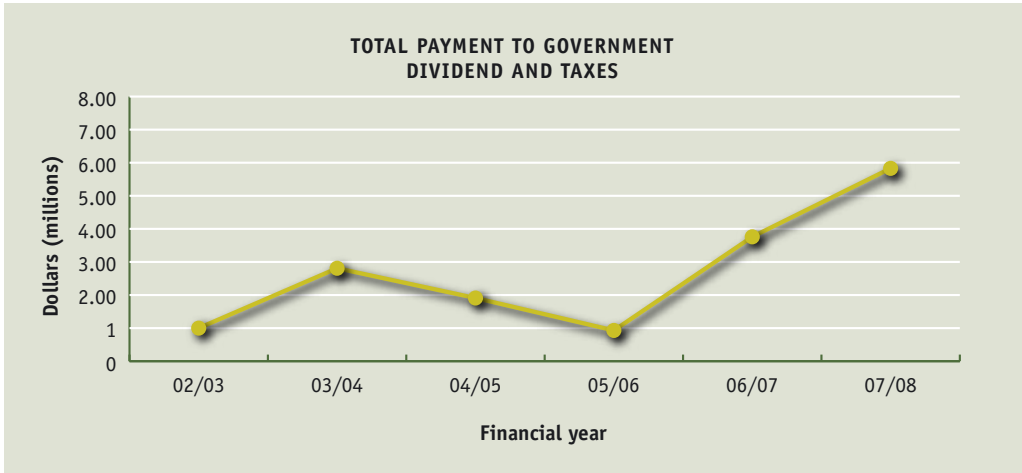
This ratio, which excludes the impact of natural resource asset valuation, is below that of 2006/07. This reflects the reduced operating result for the 2007/08 year.

## 2. NET PROFIT BEFORE INTEREST AND TAX (NORMALISED)



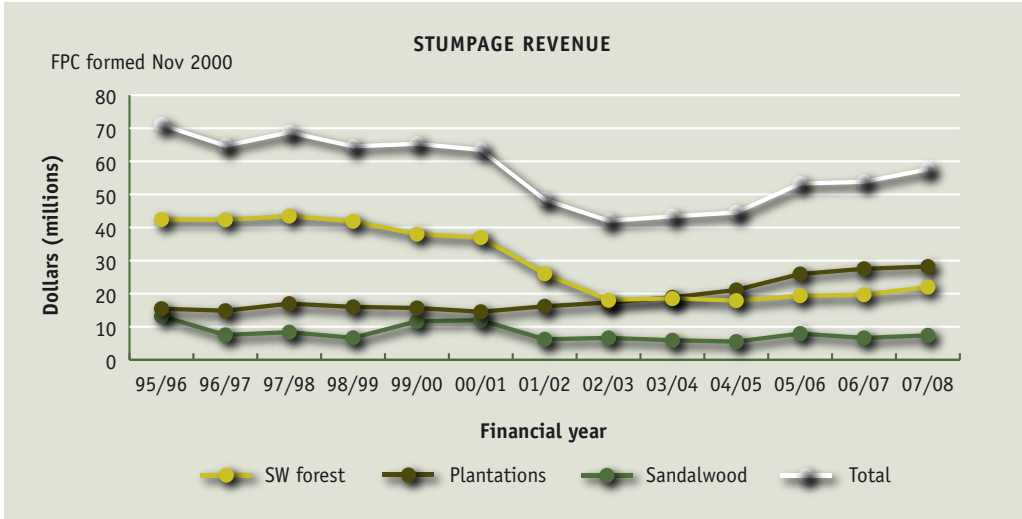
Net Profit before Interest and Tax (NPAT) for 2007/08 is below that of 2006/07. The loss of sales revenue in June 2008, as a result of the Varanus Island gas crisis, reduced log sales to customers in that month and thus impacted NPAT for the year.

**3. TOTAL PAYMENTS TO GOVERNMENT – DIVIDEND AND TAXES.**



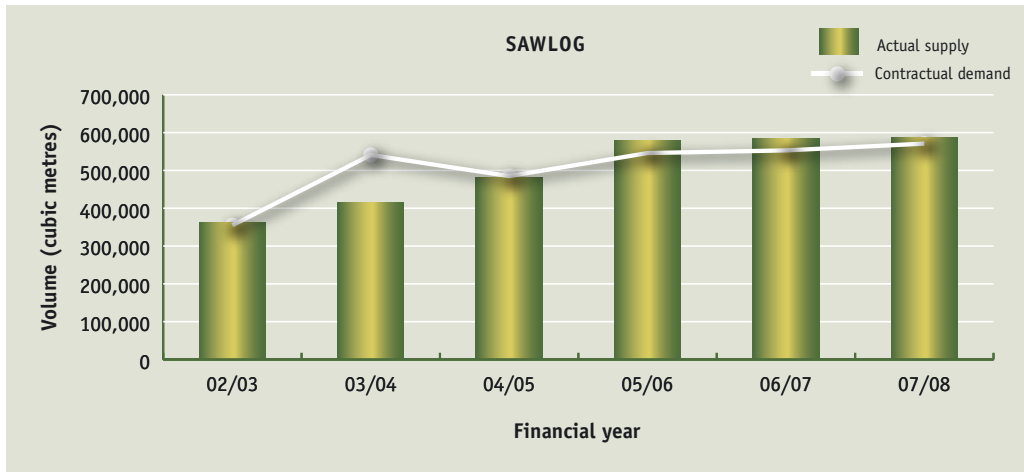
Total payments to Government increased to \$5.8million including dividends of \$2.8million and taxes of \$3million, an increase of \$3.76million or 54% over 2006/07.

**4. STUMPAGE REVENUE.**



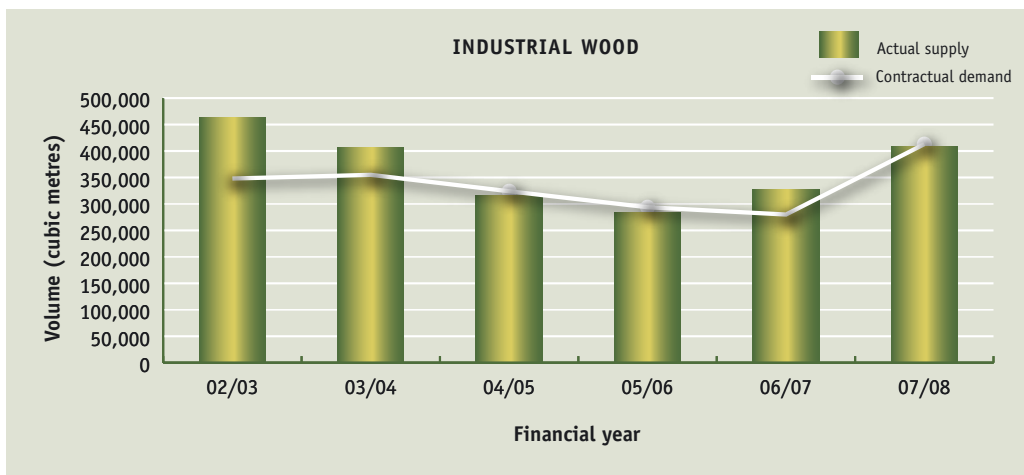
Native Forest stumpage continues to remain at a level consistent with the allowable harvesting levels set by the Forest Management Plan 2004-2013. Plantation stumpages increased marginally over 2007/08 reflecting increased production volumes. Sandalwood stumpage also increased slightly in line with improved export sales.

## 5. PLANTATION LOG PRODUCTION CONSISTENT WITH CONTRACTED SUPPLY TO INDUSTRY<sup>7</sup> .



The contractual demand is the total of volume FPC is to supply various customers under various supply contracts, including State Agreements. Actual supply is the volume of sawlog product delivered by FPC against those contracts.

Sawlog production in 2007/08 essentially met total contracted demand.



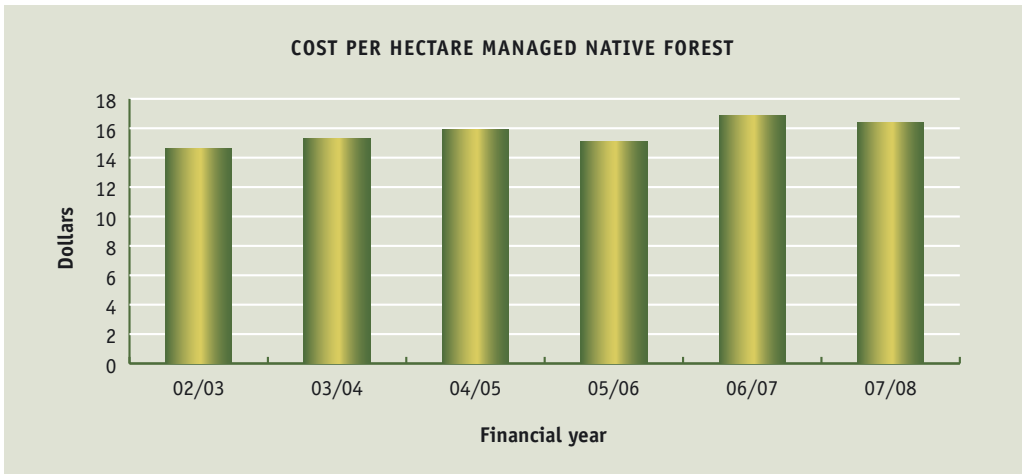
The contractual demand represents the year budget for likely customer orders. 2007/2008 actual supply increased to meet new supply contracts for supply of pine resource primarily from the Albany region.

<sup>7</sup>  Audited KPI

## 6. SILVICULTURAL COST PER HECTARE MANAGED OF NATIVE FOREST

The Commission has access to a total State forest estate of approximately 850,000 ha and is responsible (with other agencies), for the management of that forest following harvest.

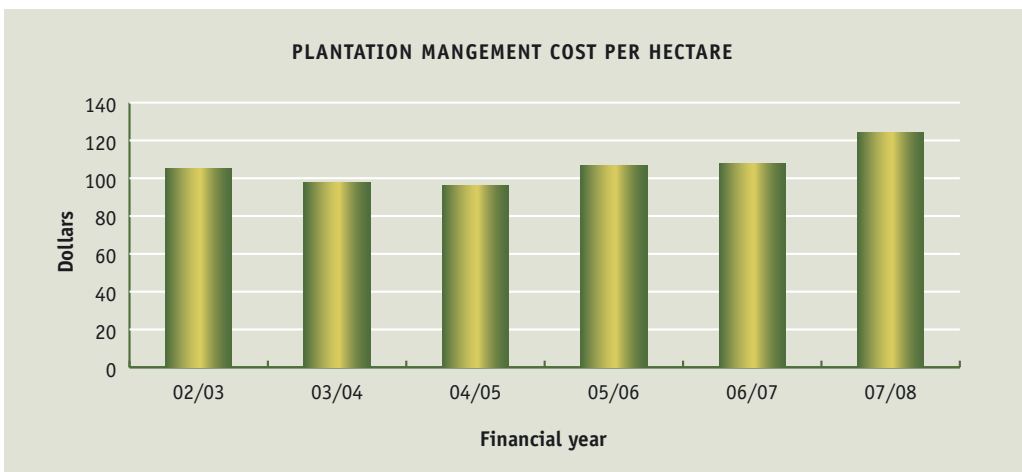
The cost per hectare managed is essentially in line with the 2006/07 result.



## 7. PLANTATION MANAGEMENT COST PER HECTARE

This indicator, which is a variation to one previously listed, demonstrates FPC's cost efficiency in managing the various plantations FPC is responsible for.

The increase in Plantation Management Cost per hectare has been driven by additional costs associated with fire suppression and with remediation activities associated with the impact of the 2007 drought.



## SIGNIFICANT ISSUES AND TRENDS

The Commission's operations are subject to the vicissitudes of domestic and global market forces, evolving government policies relating to water use, salinity, climate change and forestry.

The main issues and trends impacting the forestry industry and Commission in the coming years are:

- Proposed legislation for an Emissions Trading Scheme will create opportunities for plantation-based carbon sequestration. The recently announced Carbon Pollution Reduction Scheme (CPRS) scheduled to commence in 2010, provides for plantation-based carbon sinks which will see new plantations being established specifically for this purpose. The Commission will position its forestry expertise and operational capacity to play a leading role in this emerging new industry.
- The Commission's Strategic Tree Farming (STF) program continues to be a major project in helping to address salinity and water quality in Western Australia. The initial establishment of 18,000 hectares of new plantations under the project is essentially complete. The Commission will continue to position STF as a key strategy to address salinity within the Federal Government's *Caring for Country* Strategy.
- The South West native timber saw milling industry continues to adjust to variability in cost and quality of sawlogs coming from the bush. A comprehensive study is being undertaken collaboratively with the industry to identify an industry-wide response which is likely to see some further refinement of log grades.
- Lower rainfall in the South West of Western Australia has had an unwanted impact on growth rates of the Commission's pine plantations. It has been necessary to pursue development of enhanced silvicultural activities, along with further advances in tree breeding, to address any impact of reduced rainfall in Western Australia.
- With continued demand for renewable energy sources, the Commission's plantation harvest residues provide a ready source of renewable fuel to bioenergy power plants. Much work has been done by the Commission to assist potential developers of such power plants in determining how plantation residue can be utilised. In a similar vein, plantation residues can be converted into fuel pellets for use in domestic heating applications.
- Western Australian sandalwood remains a highly sought-after product in local and international markets. The establishment of sandalwood plantations in recent years, both by the Commission and by the private sector, will see an increased availability of the resource coming onto the market in the next 10–15 years.
- The Minister for Forestry launched the *Plantation and Farm Forestry Strategy* in 2007/08. This strategy provides a blueprint for the ongoing development of the State's plantation timber resources. The Commission, as the State's lead forestry agency, will manage the implementation of the strategy.





# 6

## FINANCIAL REVIEW

6

FINANCIAL REVIEW

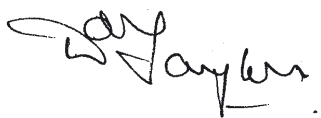
FOREST PRODUCTS COMMISSION ANNUAL REPORT 2007/08

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## CERTIFICATION OF THE FINANCIAL STATEMENTS

The accompanying financial statements of the Forest Products Commission have been prepared in compliance with the provisions of the *Financial Management Act 2006*, from proper accounts and records, to present fairly the financial transactions for the financial year ending 30 June 2008 and the financial position as at 30 June 2008.

At the date of signing we are not aware of any circumstance that would render any particulars in the financial statements misleading or inaccurate.



**David Taylor**  
*Chairman*

30 August 2008



**Eva Skira**  
*Deputy Chair*

30 August 2008



**Steve Melville**  
*Executive Manager  
Corporate Services*

30 August 2008

# INDEPENDENT AUDIT OPINION



## Auditor General

### INDEPENDENT AUDIT OPINION

To the Parliament of Western Australia

#### **FOREST PRODUCTS COMMISSION FINANCIAL STATEMENTS AND KEY PERFORMANCE INDICATORS FOR THE YEAR ENDED 30 JUNE 2008**

I have audited the accounts, financial statements, controls and key performance indicators of the Forest Products Commission.

The financial statements comprise the Balance Sheet as at 30 June 2008, and the Income Statement, Statement of Changes in Equity and Cash Flow Statement of the Commission for the year then ended, a summary of significant accounting policies and other explanatory Notes.

The key performance indicators consist of key indicators of effectiveness and efficiency.

#### **Commission's Responsibility for the Financial Statements and Key Performance Indicators**

The Commission is responsible for keeping proper accounts, and the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Treasurer's Instructions, and the key performance indicators. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements and key performance indicators that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; making accounting estimates that are reasonable in the circumstances; and complying with the Financial Management Act 2006 and other relevant written law.

#### **Summary of my Role**

As required by the Auditor General Act 2006, my responsibility is to express an opinion on the financial statements, controls and key performance indicators based on my audit. This was done by testing selected samples of the audit evidence. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion. Further information on my audit approach is provided in my audit practice statement. Refer "<http://www.audit.wa.gov.au/pubs/Audit-Practice-Statement.pdf>".

An audit does not guarantee that every amount and disclosure in the financial statements and key performance indicators is error free. The term "reasonable assurance" recognises that an audit does not examine all evidence and every transaction. However, my audit procedures should identify errors or omissions significant enough to adversely affect the decisions of users of the financial statements and key performance indicators.

# INDEPENDENT AUDIT OPINION CONTINUED

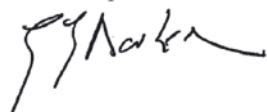
## **Forest Products Commission**

### **Financial Statements and Key Performance Indicators for the year ended 30 June 2008**

#### **Audit Opinion**

In my opinion,

- (i) the financial statements are based on proper accounts and present fairly the financial position of the Forest Products Commission at 30 June 2008 and its financial performance and cash flows for the year ended on that date. They are in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Treasurer's Instructions;
- (ii) the controls exercised by the Commission provide reasonable assurance that the receipt, expenditure and investment of money, the acquisition and disposal of property, and the incurring of liabilities have been in accordance with legislative provisions; and
- (iii) the key performance indicators of the Commission are relevant and appropriate to help users assess the Commission's performance and fairly represent the indicated performance for the year ended 30 June 2008.



GLEN CLARKE  
ACTING AUDITOR GENERAL  
23 September 2008

# INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2008

	Note	2008 \$000	2007 \$000
<b>Income</b>			
<b>Revenue</b>			
Revenue from the sale of goods and services	6.1	115,995	106,618
Commonwealth grants and contributions	7.0	12,659	12,911
Other revenue	9.0	6,256	5,415
Interest revenue	15.0	1,379	998
<b>Gains</b>			
Profit/(loss) from joint venture	22.0	51	94
<b>Total Income</b>		<b>136,340</b>	<b>126,036</b>
<b>Expenses</b>			
Cost of sales	6.4	65,649	55,251
Employee benefits expense	10.0	16,779	16,351
Supplies and services	11.0	28,727	21,741
Depreciation expense	12.0	1,163	1,435
Accommodation expenses	13.0	767	686
Administration expenses	14.0	2,979	1,096
Finance costs	16.0	6,285	5,697
Loss on disposal of assets		4	88
<b>Total Expenses</b>		<b>122,353</b>	<b>102,345</b>
Profit/(loss) before natural resource assets revaluation increment		13,987	23,691
Natural resource asset valuation decrement	6.2	(4,443)	(50,656)
Profit/(loss) before grants and subsidies from State Government		9,544	(26,965)
Grants and subsidies from State Government	8.0	1,518	2,042
Profit/(loss) before income tax equivalent expense		11,062	(24,923)
Income tax equivalent (expense)/benefit	38.0	(4,819)	6,418
<b>Profit/(loss) after tax equivalent expense</b>		<b>6,243</b>	<b>(18,505)</b>

# STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2008

	Note	Contributed equity	Retained earnings	Hedging reserve	Asset revaluation reserve	Total equity
		\$000	\$000	\$000	\$000	\$000
<b>Opening balance 1 July 2006</b>		<b>235,002</b>	<b>27,047</b>	<b>88</b>	<b>2,783</b>	<b>264,920</b>
Reappropriation from Consolidated Funds	30.0	2,270	-	-	-	2,270
Gain/(loss) on revaluation of properties	31.0	-	-	-	1,417	1,417
Cash flow hedge Gain/(loss) taken to equity	31.0	-	-	189	-	189
Net income prior to income tax recognised directly in equity		2,270	-	189	1,417	3,876
Income tax on items taken directly to equity	31.0	-	-	(57)	(425)	(482)
Net income after tax recognised directly in equity		2,270	-	132	992	3,394
Loss after tax for the period as per Income Statement		-	(18,505)	-	-	(18,505)
Dividends paid	31.0	-	(2,700)	-	-	(2,700)
Total recognised income and expense for the period		-	(21,205)	-	-	(21,205)
<b>Closing balance at 30 June 2007</b>		<b>237,272</b>	<b>5,842</b>	<b>220</b>	<b>3,775</b>	<b>247,109</b>
<b>Opening balance 1 July 2007</b>		<b>237,272</b>	<b>5,842</b>	<b>220</b>	<b>3,775</b>	<b>247,109</b>
Reappropriation from Consolidated Funds	30.0	1,270	-	-	-	1,270
Gain/(loss) on revaluation of properties		-	-	-	4,033	4,033
Cash flow hedge Gain/(loss) taken to equity	31.0	-	-	309	-	309
Net income prior to income tax recognised directly in equity		1,270	-	309	4,033	5,612
Income tax on items taken directly to equity	31.0	-	-	(93)	(1,210)	(1,303)
Net income after tax recognised directly in equity		1,270	-	216	2,823	4,309
Profit after tax for the period as per income statement		-	6,243	-	-	6,243
Dividends paid	31.0	-	(2,783)	-	-	(2,783)
Total recognised income and expense for the period		-	3,460	-	-	3,460
<b>Closing balance at 30 June 2008</b>		<b>238,542</b>	<b>9,302</b>	<b>436</b>	<b>6,598</b>	<b>254,878</b>

Other movements in equity arising from transactions with owners are set out in note 30

# BALANCE SHEET

AS AT 30 JUNE 2008

	Note	2008 \$000	2007 \$000
<b>Assets</b>			
Cash and cash equivalents	32.1	34,828	24,436
Trade and other receivables	17.0	21,043	42,494
Inventories	18.0	7,626	8,862
Natural resource assets	23.0	29,961	61,428
Other assets	19.0	2,147	2,367
<b>Total current assets</b>		<b>95,605</b>	<b>139,587</b>
Trade and other receivables	17.0	17,161	16,286
Property, plant and equipment	20.0	23,882	19,288
Natural resource assets	23.0	318,227	290,859
Intangible assets	21.0	26	44
Other assets	19.0	-	722
<b>Total non-current assets</b>		<b>359,296</b>	<b>327,199</b>
<b>Total assets</b>		<b>454,901</b>	<b>466,786</b>
<b>Liabilities</b>			
Trade and other payables	25.0	15,749	15,562
Interest bearing loans and borrowings	26.0	13,300	13,004
Tax liabilities	38.0	6,485	595
Employee benefits	27.0	3,845	4,140
Provisions	29.0	18,233	4,590
<b>Total current liabilities</b>		<b>57,603</b>	<b>37,891</b>
Trade and other payables	25.0	22,655	23,057
Interest bearing loans and borrowings	26.0	80,161	78,649
Deferred tax liabilities	38.0	722	2,435
Employee benefits	27.0	1,495	1,459
Provisions	29.0	37,378	76,186
<b>Total non-current liabilities</b>		<b>142,420</b>	<b>181,786</b>
<b>Total liabilities</b>		<b>200,023</b>	<b>219,677</b>
<b>Net assets</b>		<b>254,878</b>	<b>247,109</b>
<b>Equity</b>			
Contributed equity	30.0	238,542	237,272
Reserves	31.0	7,034	3,995
Retained earnings	31.0	9,302	5,842
<b>Total equity</b>		<b>254,878</b>	<b>247,109</b>

# STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2008

	Note	2008	2007
		\$000	\$000
<b>Cash flows from operating activities</b>			
Sale of goods and services		112,814	105,887
Commonwealth grants & contributions		25,149	10,408
Other receipts		5,614	8,109
Employee expenses		(17,159)	(16,445)
Supplies & services		(32,000)	(32,733)
Forest management expenditure		(65,941)	(55,068)
Net GST		102	(868)
Interest paid		(5,104)	(2,221)
<b>Net cash from operating activities</b>	32.2	23,475	17,069
<b>Cash flows used in investing activities</b>			
Acquisition of property, plant & equipment and intangibles		(1,488)	(1,417)
Proceeds from asset disposal		38	-
Investment in new plantations		(12,719)	(8,870)
Investment in joint venture		(161)	(277)
Interest received		1,379	998
<b>Net cash used in investing activities</b>		(12,951)	(9,566)
<b>Cash flows from financing activities</b>			
Repayment of borrowings - discretionary		(14,996)	(4,967)
Repayment of borrowings - normal		(3,946)	(3,850)
Borrowings		20,750	10,009
Prepayment of WA Treasury Corporation debt		-	2,192
<b>Net cash from financing activities</b>		1,808	3,384
<b>Cash flows (to) / from State Government</b>			
Grants & subsidies	8.0	1,518	2,370
State contributions	30.0	1,270	2,270
Dividends paid	31.0	(2,783)	(2,700)
NTER tax payments	38.0	(1,945)	-
<b>Net cash (to) / from State Government</b>		(1,940)	1,940
Net increase in cash and cash equivalents		10,392	12,827
Cash and cash equivalents at 1 July	32.1	24,436	11,609
<b>Cash and cash equivalents at 30 June</b>	32.1	34,828	24,436

The statement of cash flows should be read in conjunction with the accompanying notes



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FOR THE YEAR ENDED 30 JUNE 2008

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# NOTES TO THE FINANCIAL STATEMENTS

## 1.0 Australian equivalents to International Financial Reporting Standards

### General

The Commission's financial statements for the year ended 30 June 2008 have been prepared in accordance with Australian equivalents to *International Financial Reporting Standards* (AIFRS), which comprise a *Framework for the Preparation and Presentation of Financial Statements* (the Framework) and *Australian Accounting Standards* (including the Australian accounting interpretations).

In preparing these financial statements the Commission has adopted, where relevant to its operations, new and revised standards and interpretations from their operative dates as issued by the AASB and formerly the Urgent Issues Group (UIG).

The Australian accounting interpretations are adopted through *AASB 1048 Interpretation and Application of Standards* and are classified into those corresponding to IASB Interpretations and those only applicable in Australia.

The AASB has decided to maintain the statements of accounting concepts (SAC 1 and SAC 2) and has continued to revise and maintain accounting standards and the interpretations that are of particular relevance to the Australian environment, especially those that deal more specifically with not-for-profit entity issues and/or do not have an equivalent IASB standard or interpretation.

### Early adoption of standards

The Commission cannot early adopt an Australian accounting standard or interpretation unless specifically permitted by *TI 1101 Application of Australian Accounting Standards and Other Pronouncements*. No standards and interpretations that have been issued or amended but are not yet effective have been early adopted by the Commission for the annual reporting period ended 30 June 2008.

## 2.0 Summary of significant accounting policies

### 2.01 General statement

The financial statements constitute a general purpose financial report which has been prepared in accordance with the Australian Accounting Standards, the Framework, Statements of Accounting Concepts and other authoritative pronouncements of the AASB as applied by the Treasurer's instructions. Several of these are modified by the Treasurer's instructions to vary application, disclosure, format and wording.

The *Financial Management Act* and the Treasurer's (TI's) instructions are legislative provisions governing the preparation of financial statements and take precedence over the accounting standards, the framework, statements of accounting concepts and other authoritative pronouncements of the AASB. Where modification is required and has a material or significant financial effect upon the reported results, details of that modification and the resulting financial effect are disclosed in the notes to the financial statements.

### 2.02 Basis of preparation

The financial statements have been prepared on the accrual basis of accounting using the historical cost convention, modified by the revaluation of land, buildings, infrastructure, derivative financial instruments and natural resource assets which have been measured at fair value.

The accounting policies adopted in the preparation of the financial statement have been consistently applied throughout all periods presented except where otherwise stated.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollar \$000.

The judgments that have been made in the process of applying accounting policies that have the

most significant effect on the amounts recognised in the financial statements are included at Note 23 'natural resource assets'.

The key assumptions made concerning the future, and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discount rates, fair value of land and buildings and the fair value of foreign exchange contracts and the fair value of embedded derivatives.

### 2.03 Reporting entity

The reporting entity comprises the Commission and the related bodies listed at note 40.

### 2.04 Income

#### Revenue recognition

Revenue is measured at the fair value of consideration received or receivable. Revenue is recognised for the major business activities as follows:

##### *Sale of goods*

Revenue is recognised from the sale of goods and disposal of other assets when the significant risks and rewards of ownership control transfer to the purchaser and can be measured reliably.

##### *Rendering of services*

Revenue is recognised on delivery of the service to the client or by reference to the stage of completion of the transaction.

##### *Grants, donations, gifts and non-reciprocal contributions*

Revenue is recognised at fair value when the Commission obtains control over the assets comprising the contributions, usually when cash is received.

Other non-reciprocal contributions that are not contributions by owners are recognised at their fair value. Contributions of services are only recognised when a fair value can be reliably determined and the services would be purchased if not donated.

Where contributions recognised as revenues during the reporting period were obtained on the condition that they be expended in a particular manner or used over a particular period, and those conditions were undischarged as at the balance sheet date, the nature of, and amounts pertaining to, those undischarged conditions are disclosed in the notes.

##### *Interest*

Revenue is recognised as the interest accrues using the effective interest rate method.

##### *Gains*

Gains may be realised or unrealised and are usually recognised on a net basis. These include gains arising on the disposal of non-current assets and some revaluations of non-current assets.

## 2.05 Income tax

The Commission operates within the National Tax Equivalent Regime (NTER) whereby an equivalent amount in respect of income tax is payable to the WA Treasury. The calculation of the liability in respect of income tax is governed by NTER guidelines and direction approved by Government.

As a consequence of participation in the NTER, the Commission is required to comply with AASB 112 'Income taxes'.

The income tax expense or revenue for the period is the tax payable on the current period's taxable income adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rate expected to apply when the assets are recovered and liabilities settled, based on those tax rates which are enacted or substantively enacted. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not effect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

## 2.06 Property, plant and equipment, and infrastructure

### *Capitalisation/Expensing of assets*

Items of property, plant and equipment and infrastructure costings \$1,000 or more are recognised as assets and the cost of utilising assets is expensed (depreciated) over their useful lives. Items of property, plant and equipment and infrastructure costing less than \$1,000 are expensed direct to the Income Statement (other than where they form part of a group of similar items which are significant in total).

### *Initial recognition and measurement*

All items of property, plant and equipment and infrastructure are initially recognised at cost.

For items of property, plant and equipment and infrastructure acquired at no cost or for nominal cost, cost is their fair value at the date of acquisition.

### *Subsequent measurement*

After recognition as an asset, the Commission uses the revaluation model for the measurement of land, buildings and infrastructure and the cost model for all other property, plant and equipment. Land, buildings and infrastructure are carried at fair value less accumulated depreciation on buildings and infrastructure and accumulated impairment losses. All other items of property, plant and equipment are carried at cost less accumulated impairment losses.

Where market-based evidence is available, the fair value of land and buildings is determined on the basis of current market buying values determined by reference to recent market transactions. When buildings are revalued by reference to recent market transactions, the accumulated depreciation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount.

Where market-based evidence is not available, the fair value of land and buildings is determined on the basis of existing use. This normally applies where buildings are specialised or where land use is restricted. Fair value for existing use assets is determined by reference to the cost of replacing the remaining future economic benefits embodied in the asset, i.e. the written-down current replacement cost. Where the fair value of buildings is dependant on using the depreciated replacement cost, the gross carrying amount and the accumulated depreciation are restated proportionately.

Independent valuations of land and buildings are provided annually by the Western Australian Land Information Authority (Valuation Services) and recognised with sufficient regularity to ensure that the carrying amount does not differ materially from the asset's fair value at the balance sheet date.

Fair value of infrastructure has been determined by reference to the written-down current replacement cost (existing use basis) as the assets are specialised and no market-based evidence of value is available. Land under infrastructure is included in land reported under Property, plant and equipment. Independent valuations are obtained every 3 to 5 years.

Where infrastructure is revalued, the accumulated depreciation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

The most significant assumptions in estimating fair value are made in assessing whether to apply the existing use basis to assets and in determining estimated useful life. Professional judgment by the valuer is required where the evidence does not provide a clear distinction between market type assets and existing use assets.

### 2.07 Depreciation

All non-current assets having a limited useful life are systematically depreciated over their estimated useful lives in a manner that reflects the consumption of their future economic benefits.

Land is not depreciated. Depreciation on other assets is calculated using the straight line method, using rates which are reviewed annually. Estimated useful lives for each class of depreciable asset are:

	2008	2007
Buildings	20 to 40 years	20 to 40 years
Computer equipment	4 years	4 years
Heavy fleet vehicles	5 years	5 years
Infrastructure	20 years	20 years
Motor vehicles	3 to 7 years	3 to 7 years
Office equipment	6 to 7 years	6 to 7 years
Office furniture	6 to 7 years	6 to 7 years
Plant and machinery	4 to 10 years	4 to 10 years
Software(a)	2.5 years	2.5 years

(a) Software that is integral to the operation of any related hardware.

### 2.08 Intangible assets

#### *Capitalisation/Expensing of assets*

Acquisitions of intangible assets costing \$1,000 or more are capitalised. The cost of utilising the assets is expensed (amortised) over their useful life. Costs incurred of less than \$1,000 are immediately expensed directly to the Income Statement.

All acquired and internally developed intangible assets are initially measured at cost. For assets acquired at no cost or for nominal cost, cost is their fair value at the date of acquisition.

The cost model is applied for subsequent measurement requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses.

Amortisation for intangible assets with finite useful lives is calculated for the period of the expected benefit (estimated useful life) on the straight line basis using rates which are reviewed annually. All intangible assets controlled by the Commission have a finite useful life and zero residual value. The expected useful lives for each class of intangible asset are:

	2008	2007
Software (a)	2.5 years	2.5 years

(a) *Software that is not integral to the operation of any related hardware.*

*Computer Software*

Software that is an integral part of the related hardware is treated as property, plant and equipment. Software that is not an integral part of the related hardware is treated as an intangible asset. Software costing less than \$1,000 is expensed in the year of acquisition.

**2.09 Impairment of assets**

Property, plant and equipment, infrastructure and intangible assets are tested for any indication of impairment at each balance sheet date. Where there is an indication of impairment, the recoverable amount is estimated. Where the recoverable amount is less than the carrying amount, the asset is considered impaired and is written down to the recoverable amount and an impairment loss is recognised. As the Commission is a not-for-profit entity, unless an asset has been identified as a surplus asset, the recoverable amount is the higher of an asset’s fair value less costs to sell and depreciated replacement cost.

The risk of impairment is generally limited to circumstances where an asset’s depreciation is materially understated, where the replacement cost is falling or where there is significant change in useful life. Each relevant class of assets is reviewed annually to verify that the accumulated depreciation/ amortisation reflects the level of consumption or expiration of the asset’s future economic benefits and to evaluate any impairment risk from falling replacement costs.

Intangible assets with an indefinite useful life and intangible assets not yet available for use are tested for impairment at each balance sheet date irrespective of whether there is any indication of impairment.

The recoverable amount of assets identified as surplus assets is the higher of fair value less costs to sell and the present value of future cash flows expected to be derived from the asset. Surplus assets carried at fair value have no risk of material impairment where fair value is determined by reference to market-based evidence. Where fair value is determined by reference to depreciated replacement cost, surplus assets are at risk of impairment and the recoverable amount is measured. Surplus assets at cost are tested for indications of impairment at each balance sheet date.

**2.10 Operating lease payments**

Payments made under operating leases are expensed in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense and spread over the lease term.

**2.11 Financial Instruments**

In addition to cash and bank overdraft, the Commission has three categories of non-derivative financial instruments:

- Loans and receivables;
- Financial liabilities measured at amortised cost; and
- Financial liabilities at fair value through profit & loss.

These have been disaggregated into the following classes:

*Financial Assets:*

- Cash and cash equivalents;
- Receivables; and
- Amounts receivable for services.

*Financial Liabilities:*

- Payables;
- Bank overdraft;
- WA Treasury Corporation long term borrowings;
- Amounts due to the Treasurer;
- Land annuity obligations; and
- Deferred rental.

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Initial recognition and measurement is at fair value. The transaction cost or face value is equivalent to the fair value. Subsequent measurement is at amortised cost using the effective interest method.

The fair value of short-term receivables and payables is the transaction cost or the face value because there is no interest rate applicable and subsequent measurement is not required as the effect of discounting is not material.

See note 3.02 for derivative financial instruments

### 2.12 Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents includes restricted cash and cash equivalents. These include cash on hand and short-term deposits with original maturities of three months or less that are readily convertible to a known amount of cash and which are subject to insignificant risk of changes in value, and bank overdrafts.

### 2.13 Inventories

Inventories are measured at the lower of cost and net realisable value. Costs are assigned by the method most appropriate to each particular class of inventory, with the majority being valued on a first in first out basis. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Inventories not held for resale are valued at cost unless they are no longer required, in which case they are valued at net realisable value.

### 2.14 Receivables

Receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. The collectability of receivables is reviewed on an ongoing basis and any receivables identified as uncollectible are written-off against the allowance account. The allowance for uncollectible amounts (doubtful debts), is raised when there is objective evidence that the Commission will not be able to collect its debts. The carrying amount is equivalent to fair value as it is due for settlement within 30 days.



### 2.15 Investments and other financial assets

The Commission classifies its investments into the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments was acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each balance sheet date. Investments not at fair value are initially recognised at cost being the fair value of consideration given, including directly attributable transaction costs.

After initial recognition, investments classified as held for trading and available-for-sale, are measured at fair value. Gains or losses on investments held for trading are recognised in the income statement. Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

Fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active, the Commission establishes fair value using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models.

Non-derivative financial assets with fixed or determinable payments and fixed maturity dates are classified as held-to-maturity when management has a positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification.

Loans and receivables and held-to-maturity investments, such as commercial bills, are subsequently measured at amortised cost using the effective interest method. Amortised costs is calculated by taking into account any discount or premium on acquisition, over the period to maturity. For investments carried at amortised cost, gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

The Commission assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired.

### 2.16 Natural resource assets

Natural resource assets are stated at fair value less estimated point-of-sale costs and costs necessary to get the assets to market. A gain or loss on valuation is recognised in the income statement.

Fair value of natural resource assets is based on their present location and condition. As a result, fair value is determined based on historical volume increases and historical cash flows, adjusted for known variances.

The Commission's valuations of natural resource assets are for financial reporting purposes only. The Commission's valuations are not intended for estimating other values inherent in or provided by forests, such as unpriced goods or services and the forests' ecological benefits.

Standing timber less than seven years old is carried at replacement cost less impairment, as the net market value of those assets is not reasonably assessable.

### 2.17 Payables

Payables are recognised when the Commission becomes obliged to make future payments as a result of a purchase of assets or services at the amounts payable. The carrying amount is equivalent to fair value, as they are generally settled within 30 days.

**2.18 Borrowings**

All loans are initially recognised at cost, being the fair value of the net proceeds received. Subsequent measurement is at amortised cost using the effective interest rate method.

**2.19 Provisions**

Provisions are liabilities of uncertain timing and amount and are recognised where there is a present legal or constructive obligation as a result of a past event and when the outflow of resources embodying economic benefits is probable and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date.

**(i) Provisions – employee benefits***Annual leave and long service leave*

The liability for annual and long service leave expected to be settled within 12 months after the end of the balance sheet date is recognised and measured at the undiscounted amounts expected to be paid when the liabilities are settled. Leave liabilities are in respect of services provided by employees up to the balance sheet date.

When assessing expected future payments consideration is given to expected future wage and salary levels including non-salary components such as employer superannuation contributions. In addition, the long service leave liability also considers the experience of employee departures and periods of service.

The expected future payments are discounted to present value using market yields at the balance sheet date on national government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

All annual leave and unconditional long service leave provisions are classified as current liabilities as the Commission does not have an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

*Superannuation*

The Government Employees Superannuation Board (GESB) administers the following superannuation schemes.

Employees may contribute to the Pension Scheme, a defined benefit pension scheme now closed to new members, or to the Gold State Superannuation (GSS) scheme, a defined benefit lump sum scheme also closed to new members. Employees commencing employment prior to 16 April 2007 who are not members of either the Pension or the GSS schemes became non-contributory members of the West State Superannuation Scheme (WSS). Employees commencing employment on or after 16 April 2007 became members of the GESB super scheme (GESBS). Both of these schemes are accumulation schemes. The Commission makes concurrent contributions to GESB on behalf of employees in compliance with the Commonwealth Government's *Superannuation Guarantee (Administration) Act 1992*. These contributions extinguish the liability for superannuation charges in respect of the WSS and GESBS Schemes.

The pension scheme and the pre-transfer benefit for employees who transferred to the GSS scheme are defined benefit schemes. These benefits are wholly unfunded and the liabilities for future payments are provided for at balance sheet date. The liabilities under these schemes have been calculated separately for each scheme annually by GESB using the projected unit credit method.

The expected future payments are discounted to present value using market yields at the balance sheet date on national government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

The GSS Scheme, the WSS Scheme, and the GESBS Scheme, where the current service superannuation charge is paid by the Commission to the GESB, are defined contribution schemes. The liabilities for current service superannuation charges under the GSS Scheme, the WSS Scheme, and the GESBS Scheme are extinguished by the concurrent payment of employer contributions to the GESB.

The GSS Scheme is a defined benefit scheme for the purposes of employees and whole-of-government reporting. However, from an agency perspective, apart from the transfer benefits, it is a defined contribution plan under AASB 119.

**(ii) Provisions – other**

*Employee on-costs*

Employee on-costs, including workers' compensation insurance and payroll tax, are not employee benefits and are recognised separately as liabilities and expenses when the employment to which they relate has occurred. Employment on-costs are included as part of the Commission's 'Employee benefits expense' and the related liability is included in Employment on-costs provision.

*Native Forest Regeneration Provision*

A provision is recognised where the Commission has a legal, equitable or constructive obligation to undertake regeneration work. Estimates are based on the present value of expected future cash outflows.

*Onerous contracts*

A provision for onerous contracts is recognised when the expected benefits to be derived to the Commission from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

*Dividends*

Provision is made for the amount of any dividend declared on or before the end of the financial year, but not distributed at balance sheet date.

**2.20 Superannuation expense**

The superannuation expense of the defined benefit plans consists of the following elements:

- Current service cost;
- Interest cost (unwinding of the discount);
- Actuarial gains and losses; and
- Past service cost.

Actuarial gains and losses of the defined benefit plans are recognised immediately as income or expense in the income statement.

The superannuation expense of the defined contribution plans is recognised as and when the contributions fall due.

**2.21 Accrued salaries**

Accrued salaries represent the amount due to staff but unpaid at the end of the financial year, as the end of the last pay period for that financial year does not coincide with the end of the financial year end. The Commission considers the carrying amount of accrued salaries to be equivalent to the net fair value.

**2.22 Resources received free of charge or for nominal cost**

Resources received free of charge or for nominal cost that can be reliably measured are recognised as revenues and as assets or expenses as appropriate at fair value.

**2.23 Jointly controlled operations**

Interests in joint venture operations have been reported in the financial report including the Commission's share of assets employed in the joint ventures, the share of liabilities incurred in relation to the joint ventures and the share of expenses incurred in relation to the joint ventures in their respective classification categories.

**2.24 Financial liabilities at fair value through profit or loss**

An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

**2.25 Comparative figures**

The Commission has adopted the income statement in the form of the 'Model Statutory Authority (Commercial) Income Statement'. Comparative figures are, where appropriate, reclassified to be comparable with the figures presented in the current financial year.

Treasury Funds Receivable and Seedling Stocks have been reclassified on the Balance Sheet which to better reflect their liquidity status. The item of Treasury Funds Receivable has been reclassified from Other Assets into Trade Receivables and seedling stocks have been reclassified from Natural Resource Assets to Inventories. Accordingly, comparative figures have been reclassified to be comparable with the current year.

Additionally, with a corresponding increase in the natural resource asset, land annuity obligations previously net the natural resource asset and has been recorded on a gross basis on the balance sheet as a Trade Payable at note 25 for 2008.

**3.0 Other policies****3.01 Segment reporting**

Segment information is prepared in conformity with the accounting policies of the entity as disclosed in AASB 114 'Segment Reporting'.

Segment, income, expenses, assets and liabilities are allocated on the basis of direct attribution and reasonable estimates of usage.

A segment is a distinguishable component of the Commission that is engaged either in providing goods or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Comparative figures are, where appropriate, reclassified to be comparable with the figures presented in the current financial year.

**3.02 Foreign currency translation, derivative financial instrument and hedge accounting**

Transactions denominated in a foreign currency are translated at the rates in existence at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange current at balance sheet date. Exchange gains and losses are brought to account in determining the result for the year.

Forward foreign exchange contracts are entered into as hedges to avoid or minimise possible adverse financial effects of movements in exchange rates. Such derivative financial instruments are stated at fair value. Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in the income statement.

When the hedged firm commitment results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability. For all other cash flow hedges, the gains or losses that are recognised in equity are transferred to the income statement in the same year in which the hedged firm commitment affect the net profit and loss, for example when the future sale actually occurs.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss that was reported in equity at that time remains in equity and is recognised when the forecasted transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Note that derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the income statement.

#### 4.0 Disclosure of changes in accounting policy and estimates

The Commission has applied the following Australian Accounting Standards and Australian Accounting Interpretations effective for annual reporting periods beginning on or after 1 July 2007 that impacted on the Commission:

AASB 7 'Financial Instruments: Disclosures' (including consequential amendments in AASB 2005-10 'Amendments to Australian Accounting Standards [AASB 132,AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4,AASB 1023 & AASB 1038]'). This Standard requires new disclosures in relation to financial instruments and while there is no financial impact, the changes have resulted in increased disclosures, both quantitative and qualitative, of the Commission's exposure to risks, including enhanced disclosure regarding components of the Commission's financial position and performance, and changes to the way of presenting certain items in the notes to the financial statements.

The following Australian Accounting Standards and Interpretations are not applicable to the Commission as they have no impact or do not apply to not-for-profit entities:

101	Presentation of Financial Statements' (relating to the changes made to the Standard issued in October 2006)
2005-10	Amendments to Australian Accounting Standards (AASB 132,AASB 101, AASB 114, AASB 117, AASB 133, AASB 139,AASB 1, AASB 4, AASB 1023, AASB 1038)
2007-1	Amendments to Australian Accounting Standards arising from AASB Interpretation 11 [AASB 2]
2007-4	Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments (AASB 1, 2, 3, 4, 5, 6, 7, 102,107, 108, 110, 112, 114, 116, 117, 118, 119, 120, 121, 127,128, 129, 130, 131, 132, 133, 134, 136, 137, 138, 139, 141,1023 & 1038)'. The amendments arise as a result of the AASB decision to make available all options that currently exist under IFRSs and that certain additional Australian disclosures should be eliminated. The Treasurer's instructions have been amended to maintain the existing practice when the Standard was first applied and as a consequence there is no financial impact.
2007-5	Amendments to Australian Accounting Standard – Inventories Held for Distribution by Not-for-Profit Entities [AASB 102] 2007-7 'Amendments to Australian Accounting Standards [AASB 1,AASB 2, AASB 4, AASB 5, AASB 107 & AASB 128]'

2007-7	'Amendments to Australian Accounting Standards [AASB 1,AASB 2, AASB 4, AASB 5, AASB 107 & AASB 128]'
ERR	Erratum 'Proportionate Consolidation [AASB 101, AASB 107,AASB 121, AASB 127, Interpretation 113]
Interpretation 10	Interim Financial Reporting and Impairment'
Interpretation 11	AASB 2 – Group and Treasury Share Transactions'
Interpretation 1003	Australian Petroleum Resource Rent Tax

**5.0 Future impact of Australian Accounting Standards not yet operative**

The Commission cannot early adopt an Australian Accounting Standard or Australian Accounting Interpretation unless specifically permitted by TI 1101 'Application of Australian Accounting Standards and Other Pronouncements'. Consequently, the Commission has not applied the following Australian Accounting Standards and Australian Accounting Interpretations that have been issued but are not yet effective. These will be applied from their application date:

	<b>Operative for reporting periods beginning on/after</b>
AASB 101 'Presentation of Financial Statements' (September 2007). This Standard has been revised and will change the structure of the financial statements. These changes will require that owner changes in equity are presented separately from non owner changes in equity. The Commission does not expect any financial impact when the Standard is first applied.	1 January 2009
Review of AAS 27 'Financial Reporting by Local Governments', 29 'Financial Reporting by Government Departments' and 31 'Financial Reporting by Governments'. The AASB has made the following pronouncements from its short term review of AAS 27,AAS 29 and AAS 31:	
AASB 1004 'Contributions' (December 2007).	1 July 2008
AASB 1050 'Administered Items' (December 2007).	1 July 2008
AASB 1051 'Land Under Roads' (December 2007).	1 July 2008
AASB 1052 'Disaggregated Disclosures' (December 2007)	1 July 2008
AASB 2007-9 'Amendments to Australian Accounting Standards arising from the review of AASs 27, 29 and 31[AASB 3, AASB 5, AASB 8, AASB 101, AASB 114, AASB 116, AASB 127 & AASB 137] (December 2007).	1 July 2008
Interpretation 1038 'Contributions by Owners Made to Wholly-Owned Public Sector Entities (December 2007).	1 July 2008
The existing requirements in AAS 27, AAS 29 and AAS31 have been transferred to the above new and existing topic-based Standards and Interpretation. These requirements remain substantively unchanged. AASB1050, AASB 1051 and AASB 1052 only apply to government departments. The other Standards and Interpretation make some modifications to disclosures and provide additional guidance (for example, Australian Guidance to AASB 116 'Property, Plant and Equipment' in relation to heritage and cultural assets has been introduced), otherwise, there will be no financial impact.	

The following Australian Accounting Standards and Interpretations are not applicable to the Commission as they will have no impact or do not apply to not-for-profit entities:

	<b>Operative for reporting periods beginning on/after</b>
AASB 3 'Business Combinations' (March 2008)	1 July 2008
AASB 8 'Operating Segments'	1 January 2009
AASB 123 'Borrowing Costs' (June 2007). This Standard has been revised to mandate the capitalisation of all borrowing costs attributable to the acquisition, construction or production of qualifying assets.	1 January 2009
AASB 127 'Consolidated and Separate Financial Statements' (March 2008)	1 July 2009
AASB 1049 'Whole of Government and General Government Sector Financial Reporting'	1 July 2008
AASB 2007-2 'Amendments to Australian Accounting Standards arising from AASB Interpretation 12 [AASB 1, AASB 117, AASB 118, AASB 120, AASB 121, AASB 127, AASB 131 and AASB 139]' – paragraphs 1 to 8	1 January 2008
AASB 2007-3 'Amendments to Australian Accounting Standards arising from AASB 8 [AASB 5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 & AASB 1038]'	1 January 2008
AASB 2007-6 'Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12]'	1 January 2009
AASB 2007-8 'Amendments to Australian Accounting Standards arising from AASB 101'	1 January 2009
AASB 2007-8 'Amendments to Australian Accounting'	1 January 2009
AASB 2008-1 'Amendments to Australian Accounting Standard - Share-based Payments: Vesting Conditions and Cancellations'	1 January 2009
AASB 2008-2 'Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations arising on Liquidation' [AASB 7, AASB 101, AASB 132, AASB 139 & Interpretation 2]	1 January 2009
AASB 2008-3 'Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127 [AASBs 1, 2, 4, 5, 7, 101, 107, 112, 114, 116, 121, 128, 131, 132, 133, 134, 136, 137, 138, 139 and Interpretations 9 & 107]'	1 July 2009
AASB 2008-4 'Amendments to Australian Accounting Standard – Key Management Personnel Disclosures by Disclosing Entities [AASB 124]'	30 June 2008
Interpretation 4 'Determining whether an Arrangement contains a Lease' (February 2007)	1 January 2008
Interpretation 12 'Service Concession Arrangements'	1 January 2008
Interpretation 13 'Customer Loyalty Programmes'	1 July 2009
Interpretation 14 'AASB 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'	1 January 2008
Interpretation 129 'Service Concession Arrangements: Disclosures'	1 January 2008

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

	2008	2007
	\$000	\$000
<b>6.0 Revenue and expenses from natural resource assets</b>		
<b>6.1 Revenue from the sale of goods and services</b>		
Harvesting operations	57,261	52,215
Recovery of harvesting costs	57,806	52,996
Plant Propagation Centre revenue	928	1,407
<b>Total revenues</b>	<b>115,995</b>	<b>106,618</b>
<b>6.2 Revenue from natural resource assets valuation adjustments</b>		
Increment/(Decrement) from revaluations	(4,443)	(50,656)
<b>Revenue from natural resource assets valuation adjustments</b>	<b>(4,443)</b>	<b>(50,656)</b>
<b>6.3 Reconciliation of increment/(decrement) from revaluations to movement of natural resource assets</b>		
Gross movement on natural resource assets	(4,099)	(35,360)
Movement in associated softwood liabilities	12,375	(4,899)
Capitalisation of new plantation expenditure	(12,719)	(10,397)
	(4,443)	(50,656)
<b>6.4 Cost of sales</b>		
Harvesting Costs	58,978	52,265
Roading Maintenance and Construction	5,437	3,085
Write Down of Inventory to Net Realisable Value	1,234	(99)
<b>Total cost of sales</b>	<b>65,649</b>	<b>55,251</b>
<b>7.0 Commonwealth grants and contributions</b>		
Commonwealth Government contribution to National Action Plan for Salinity and Water Quality <sup>2</sup>	12,659	12,911
	<b>12,659</b>	<b>12,911</b>
<b>8.0 Grants and subsidies from State Government</b>		
Grants and subsidies from State Government	1,518	2,042
	<b>1,518</b>	<b>2,042</b>
<b>9.0 Other revenue</b>		
Contracts and other	2,190	1,709
Revenue from cost recovery operations	3,143	4,606
Embedded derivatives valuation (increment) / decrement taken to income statement	923	(900)
	<b>6,256</b>	<b>5,415</b>
Revenue from cost recovery operations is due mainly to services to DEC for fire support and the Department of Agriculture for services associated with pest control. Expenses associated with these contributions are included in expenses from ordinary activities.		
<b>10.0 Employee benefits expense</b>		
Wages and salary	11,592	11,002
Fringe Benefits Tax	96	70
Leave expense	2,486	2,821
Superannuation	1,560	1,488
Payroll tax	1,000	987
Workers compensation insurance	92	(15)
Actuarial gain/(loss)	(47)	(2)
	<b>16,779</b>	<b>16,351</b>



	2008	2007
	\$000	\$000
<b>11.0 Supplies and services</b>		
Travel	615	510
Writedown of UWA joint venture	212	371
Sundry supplies and services	254	1,292
Operating lease	2,315	1,998
Other services	164	13
Legal fees and consultants	367	190
DEC service level agreements	11,490	10,598
Materials	1,463	1,391
Forest management expenses	11,440	5,062
Repairs and maintenance	370	269
Vehicle expenses	37	47
	<b>28,727</b>	<b>21,741</b>
<b>12.0 Depreciation expense</b>		
Plant, equipment, vehicles, office equipment and nursery infrastructure	916	1,135
Buildings	203	204
Amortisation of software	44	96
	<b>1,163</b>	<b>1,435</b>
<b>13.0 Accommodation expenses</b>		
Lease rentals and travel accommodation	573	469
Other property	194	217
	<b>767</b>	<b>686</b>
<b>14.0 Administration expenses</b>		
Audit fees internal/external	105	178
Increase/(decrease) provision for doubtful debts	1,773	58
Telephone, postage, communications	853	540
Other administration costs	248	320
	<b>2,979</b>	<b>1,096</b>
<b>15.0 Interest revenue</b>		
Interest revenue	1,379	998
	<b>1,379</b>	<b>998</b>
<b>16.0 Finance costs</b>		
Interest on WA treasury corporation loans	5,034	5,695
Foreign exchange loss/(gain)	1,251	2
	<b>6,285</b>	<b>5,697</b>

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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FINANCIAL REVIEW

	2008	2007
	\$000	\$000
<b>17.0 Trade and other receivables</b>		
<i>Current</i>		
WA Department of Treasury and Finance Receivable	1,125	25,149
Trade and other receivables	22,485	18,139
Allowance for impairment <sup>1</sup>	(2,567)	(794)
	<b>21,043</b>	<b>42,494</b>
<b>Movement in allowance for impairment:</b>		
Opening balance at 1 July	(794)	(737)
Bad debts written off	156	-
Raised	(1,929)	(58)
Closing balance at 30 June	<b>(2,567)</b>	<b>(795)</b>
<i>Non Current</i>		
WA Department of Treasury and Finance Receivable	<b>17,161</b>	<b>16,286</b>
<sup>1</sup> The allowance provision relates to assessment of specific assets for indicators of impairment		
<b>18.0 Inventories</b>		
<i>Current</i>		
Inventories held for resale at cost <sup>1</sup> :		
- Plant Propagation Centre	4,566	3,951
- Sandalwood	2,116	4,466
- Timber on forest landings	944	352
- Timber technology stocks	-	93
	<b>7,626</b>	<b>8,862</b>
<sup>1</sup> Cost is the net market value of inventories at the time inventories become non-living.		
<b>19.0 Other assets</b>		
<i>Current</i>		
Prepayments	804	780
Performance Security Account	-	271
Accrued Revenue	721	1,002
Hedge Contract	622	314
	<b>2,147</b>	<b>2,367</b>
<i>Non-Current</i>		
Performance Security Account	-	722
	<b>-</b>	<b>722</b>

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**20.0 Property, plant and equipment**
**20.1 Land and buildings**

 Freehold land at fair value<sup>1</sup>

2008	2007
\$000	\$000

9,421	7,672
<u>9,421</u>	<u>7,672</u>
8,095	4,636
(1,179)	(988)
<u>6,916</u>	<u>3,648</u>
<b>16,337</b>	<b>11,320</b>

 Buildings at valuation<sup>2</sup>  
 Accumulated depreciation

Total land and buildings

<sup>1</sup> Commission owned land is revalued each financial year in accordance with an independent valuation by the Department of Land Information (Valuation Services). The valuations are based on "fair value" as per AASB 116. Market value is equal to fair value where an active and liquid market exists.

<sup>2</sup> Commission owned buildings located in the South West of WA were revalued during the 2007/08 financial year by the Department of Land Information (Valuation Services). The valuations are based on "fair value" as per AASB 116. For specialised assets where there is no readily available market evidence of selling price, fair value is calculated as 'market buying price' (replacement value).

**20.2 Plant, equipment and vehicles**

 Nursery infrastructure at written down replacement cost<sup>1</sup>

Accumulated depreciation

Nursery infrastructure at fair value

12,130	12,130
(6,988)	(6,785)
<u>5,142</u>	<u>5,345</u>

Plant, equipment and vehicles at cost

Accumulated depreciation

3,770	4,275
(2,549)	(2,298)
<u>1,221</u>	<u>1,977</u>

Office equipment at cost

Accumulated depreciation

2,852	2,062
(1,670)	(1,416)
<u>1,182</u>	<u>646</u>

Total plant, equipment and vehicles

<b>7,545</b>	<b>7,968</b>
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<sup>1</sup> Nursery infrastructure was revalued at 30 June 2005 on a 'written down replacement value' basis by independent valuers McGarry Associates Pty Ltd. This valuation was updated by the Commission to provide a written down replacement cost as at 30 June 2006 and 30 June 2007.

**Total Property, plant and equipment**

<b>23,882</b>	<b>19,288</b>
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## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 20.3 Reconciliations

Reconciliations of the carrying amounts of property, plant, equipment, and vehicles at the beginning and end of the financial period are set out below.

	Freehold land	Buildings	Nursery infr'cture	Plant equipment and vehicles	Office equipment	Total
	\$000	\$000	\$000	\$000	\$000	\$000
<b>Cost</b>						
<b>Balance at 1 July 2006</b>	5,879	4,549	11,717	3,628	1,682	27,455
Additions	629	87	-	737	401	1,854
Disposals	-	-	-	(90)	(21)	(111)
Revaluation increment	1,164	-	413	-	-	1,577
<b>Balance at 30 June 2007</b>	7,672	4,636	12,130	4,275	2,062	30,775
<b>Balance at 1 July 2007</b>	7,672	4,636	12,130	4,275	2,062	30,775
Reclassifications	465	130	-	(440)	261	416
Additions	-	805	-	60	623	1,488
Disposals	-	(40)	-	(125)	(94)	(259)
Revaluation increment	1,469	2,564	-	-	-	4,033
<b>Balance at 30 June 2008</b>	9,606	8,095	12,130	3,770	2,852	36,453
<b>Depreciation and impairment losses</b>						
<b>Balance at 1 July 2006</b>	-	(784)	(6,354)	(1,882)	(1,151)	(10,171)
Depreciation	-	(204)	(431)	(420)	(283)	(1,338)
Adjustments	-	-	-	4	18	22
<b>Balance at 30 June 2007</b>	-	(988)	(6,785)	(2,298)	(1,416)	(11,487)
<b>Balance at 1 July 2007</b>	-	(988)	(6,785)	(2,298)	(1,416)	(11,487)
Reclassifications	(440)	-	-	-	-	(440)
Depreciation	-	(203)	(203)	(370)	(343)	(1,119)
Disposal	-	12	-	119	89	220
Reversal of impairment	255	-	-	-	-	255
<b>Balance at 30 June 2008</b>	(185)	(1,179)	(6,988)	(2,549)	(1,670)	(12,571)
<b>Carrying Amounts</b>						
At 1 July 2006	5,879	3,765	5,363	1,746	531	17,284
At 30 June 2007	7,672	3,648	5,345	1,977	646	19,288
At 1 July 2007	7,672	3,648	5,345	1,977	646	19,288
At 30 June 2008	9,421	6,916	5,142	1,221	1,182	23,882

**21.0 Intangible assets**

Software - cost  
Software - accumulated amortisation

2008	2007
\$000	\$000
488	468
(462)	(424)
<b>26</b>	<b>44</b>

Reconciliations of the carrying amounts of intangible assets at the beginning and end of the financial period are set out below.

	Intangible Assets
	\$000
<b>Cost</b>	
<b>Balance at 1 July 2006</b>	562
Additions from external sources	52
Disposals	(146)
<b>Balance at 30 June 2007</b>	468
<b>Balance at 1 July 2007</b>	468
Additions from external sources	26
Disposals	(6)
<b>Balance at 30 June 2008</b>	488
<b>Amortisation and impairment losses</b>	
<b>Balance at 1 July 2006</b>	(328)
Amortisation of software costs	(96)
<b>Balance at 30 June 2007</b>	(424)
<b>Balance at 1 July 2007</b>	(424)
Amortisation of software costs	(44)
Disposals	6
<b>Balance at 30 June 2008</b>	(462)
<b>Carrying Amounts</b>	
At 1 July 2006	234
At 30 June 2007	44
At 1 July 2007	44
At 30 June 2008	26

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 22.0 Investment in Joint Venture

The Commission has the following investment in a joint venture entity, accounted for using the equity method:

Entity:	Principal activity:	Reporting date:	Ownership:	
			2008	2007
UWA/FPC Joint Venture	Timber research and product development	31 December <sup>1</sup>	50%	50%

The joint venture manages the operations of a timber research program and associated facilities located within the Faculty of Architecture, Landscape and Visual Arts (ALVA) at the University of Western Australia (UWA). It is intended that the Joint Venture will provide opportunities for collaborative research, sharing of facilities and enhanced use of the ALVA premises and amenities.

2008							
\$'000							
	Revenue	Profit/(loss)	Commission's share of profit/(loss)	Total assets	Total liabilities	Net assets reported by JV	Share of JV net assets equity accounted
	(100%)	(100%)		(100%)	(100%)	(100%)	
UWA/FPC Joint Venture:	161	(284)	(142)	102	-	102	51

2007							
\$'000							
	Revenue	Profit/(loss)	Commission's share of profit/(loss)	Total assets	Total liabilities	Net assets reported by JV	Share of JV net assets equity accounted
	(100%)	(100%)		(100%)	(100%)	(100%)	
UWA/FPC Joint Venture:	277	110	55	187	-	187	94

	2008	2007
	\$'000	\$'000
Share of joint venture profit before income tax	51	94
Share of joint venture net profit accounted for using the equity method	51	94

#### Reconciliation of movement in investment in joint venture:

Balance at 1 July	-	-
Contributions to joint venture	161	277
Share of net assets equity accounted	51	94
Investment in joint venture before adjustments:	212	371
Adjustments:		
Write down of investment in joint venture to net recoverable amount	(212)	(371)
Investment in joint venture at 30 June	-	-

#### Commitments:

The Commission has a contractual liability to fund the UWA/FPC Joint Venture for operating expenses and capital equipment of \$470,000 (2007 \$470,000).

As at 30 June 2008 the Commission has no share of liabilities or contingent liabilities associated with its investment in the UWA/FPC Joint Venture, other than as disclosed above.

#### Note:

Under the Joint Venture Agreement with UWA, UWA has responsibility for preparation of the joint venture financial statements.

UWA's financial year ends on 31 December. The Commission is able to obtain interim financial statements for equity accounting purposes.

**23.0 Natural Resource Assets**
**Current**
*Natural resource assets at valuation*
*Native forest*

Native forest standing timber

Standing sandalwood

Native forest natural resource assets at valuation

*Plantations*

Plantations natural resource assets at valuation

**Total natural resource assets at valuation current**
**Non-Current**
*Natural resource assets at valuation*
*Native forest*

Native forest standing timber

Standing sandalwood

Native forest natural resource assets at valuation

*Plantations*

Plantations standing timber

Plantations reforestation program

Plantations afforestation program

Plantations natural resource assets at valuation

**Total natural resource assets at valuation non-current**
**Total natural resource assets at valuation**

	2008 \$000	2007 \$000
<b>Current</b>		
<i>Natural resource assets at valuation</i>		
<i>Native forest</i>		
Native forest standing timber	13,359	13,510
Standing sandalwood	2,271	4,865
Native forest natural resource assets at valuation	15,630	18,375
<i>Plantations</i>		
Plantations natural resource assets at valuation	14,331	43,053
<b>Total natural resource assets at valuation current</b>	<b>29,961</b>	<b>61,428</b>
<b>Non-Current</b>		
<i>Natural resource assets at valuation</i>		
<i>Native forest</i>		
Native forest standing timber	93,442	95,560
Standing sandalwood	33,077	25,783
Native forest natural resource assets at valuation	126,519	121,343
<i>Plantations</i>		
Plantations standing timber	151,808	122,303
Plantations reforestation program	12,978	19,724
Plantations afforestation program	26,922	27,489
Plantations natural resource assets at valuation	191,708	169,516
<b>Total natural resource assets at valuation non-current</b>	<b>318,227</b>	<b>290,859</b>
<b>Total natural resource assets at valuation</b>	<b>348,188</b>	<b>352,287</b>

**23.1 Government contributions to natural resource assets**

Funding cash flows have been received / are expected as follows:

		\$000	\$000	\$000
		Total	State	Commonwealth
Gross Commonwealth and State contributions	<b>Financial year:</b>	<b>Received:</b>		
	2004/2005	2,966	-	2,966
	2005/2006	6,324	-	6,324
	2006/2007	11,702	1,633	10,069
	2007/2008	25,149	12,308	12,841
	<b>Total received</b>	<b>46,141</b>	<b>13,941</b>	<b>32,200</b>
			<b>Expected:</b>	
	2008/2009	1,125	1,125	-
	2009/2010	1,211	1,211	-
	2010/2011	1,287	1,287	-
	2011/2012	1,366	1,366	-
	2012/2013 onwards	13,297	13,297	-
	<b>Total expected</b>	<b>18,286</b>	<b>18,286</b>	<b>-</b>
	<b>Total funding</b>	<b>64,427</b>	<b>32,227</b>	<b>32,200</b>
Hectares to be established:	<b>Planting year<sup>1</sup></b>	<b>Hectares:</b>		
	2005	1,053		
	2006	3,258		
	2007	5,262		
	2008	8,094		
	2009	500		
		<b>18,167</b>		

<sup>1</sup> Planting year is the period from 1 October to 30 September of the following year.

**23.2 Hectares under management**

	Hectares under management <sup>1</sup>	
	2008	2007
<i>Plantations</i>		
Plantations standing timber <sup>1</sup>	71,151	74,545
Plantations reforestation program <sup>1</sup>	12,942	12,862
Plantations afforestation program <sup>1</sup>	16,802	9,510
<b>Total plantation hectares under management</b>	<b>100,895</b>	<b>96,916</b>

<sup>1</sup> Area under management as at 31 December. This number will not vary materially to the 30th June.

**24.0 Natural Resource Assets risk analysis**

2008	2007
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**24.1 Discount rates**

The following discount rates have been applied in the calculation of net market values:

Natural resource asset discount rate	12.30%	12.35%
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The discount rate, which is real and pre-tax, is based on the Commission's weighted average cost of capital (WACC). The WA Treasury Corporation provided an update of the Commission's WACC as at 30 June 2008.

**24.2 Sensitivity analysis**

The value of natural resource assets is dependent on assumptions underpinning the Commission's growth models and cash flow assumptions.

Discount rates have been adjusted to take account of significant risk factors not adjusted directly through cash flows.

The following sensitivity analysis has been provided to assist in the assessment of the impact of variances in these assumptions.

Sensitivity of the net market value of commercial forestry operations to changes in significant assumptions:

			\$000 Increase/ (decrease)	\$000 Increase/ (decrease)
Discount rate:	+300 bpts	Total natural resource assets at valuation	(34,523)	(54,366)
	- 300 bpts	Total natural resource assets at valuation	45,904	82,325
Future income:	+ 3%	Total natural resource assets at valuation	10,843	19,538
	- 3%	Total natural resource assets at valuation	(13,780)	(19,538)
Future costs:	+ 3%	Total natural resource assets at valuation	(6,600)	(10,078)
	- 3%	Total natural resource assets at valuation	3,662	10,078

**24.3 Cash flows**

(a) Cash flows are real and pre tax.

(b) Inflation is expected to continue at the current rate.

(c) Where revenues/costs are expected to increase or decrease other than in line with inflation, the nominal increase/decrease is included in cash flows.

(d) Cash flows are discounted to balance date from their expected date of occurrence at the rates set out under 24.1 above

(e) Cash flows are expected to occur over the following periods:

Category	Years
Native forest standing timber	50
Standing sandalwood	50
Plantations standing timber	30

**24.4 Insurance**

The Commission does not insure its natural resource assets.



	2008	2007
	\$000	\$000
<b>25.0 Trade and other payables</b>		
<i>Current</i>		
Trade payables	5,053	3,218
GST (receivable)/payable	(218)	(320)
Payroll tax accrual	78	200
Accrued logging costs	2,626	3,069
Other accruals	4,401	4,420
Accrued interest	1,411	1,481
Land annuity obligations	2,398	3,495
	<b>15,749</b>	<b>15,562</b>
<i>Non-Current</i>		
Land annuity obligations	22,655	23,057
	<b>22,655</b>	<b>23,057</b>
<b>26.0 Interest bearing borrowings</b>		
<i>Current</i>		
Western Australian Treasury Corporation loans	13,300	13,004
<b>Total current</b>	<b>13,300</b>	<b>13,004</b>
<i>Non-Current</i>		
Western Australian Treasury Corporation loans	80,161	78,649
<b>Total non-current</b>	<b>80,161</b>	<b>78,649</b>
<b>Total interest bearing borrowings</b>	<b>93,461</b>	<b>91,653</b>
Refer Financial Instruments Note 37.1 for interest rate analysis.		
<b>27.0 Employee benefits</b>		
<i>Current</i>		
Compensated absences - Annual leave	1,861	1,984
Compensated absences - Long service leave	1,984	2,156
	<b>3,845</b>	<b>4,140</b>
<i>Non-current</i>		
Compensated Absences - Long service leave	1,389	1,315
Provision for unfunded superannuation liability <sup>1</sup>	106	144
	<b>1,495</b>	<b>1,459</b>

The Commission has a provision for the unfunded liability associated with those employees who are currently members of Gold State Superannuation Scheme. Refer Note 28 below.

2008	2007
\$000	\$000

## 28.0 Gold State Superannuation Scheme

### 28.1 Scheme information

Some former Pension Scheme members have transferred to Gold State Super. In respect of their transferred benefit members receive a lump sum benefit at retirement, death or invalidity which is related to their salary during their employment and indexed during any deferral period after leaving public sector employment.

The following disclosures are in respect of the employer-financed benefits only.

#### *Reconciliation of the Present Value of the Defined Benefit Obligation*

##### **Financial year ending**

*(Gold State Super)*

##### **Present value of defined benefit obligations at the beginning of the year**

Interest costs  
Actuarial losses  
Benefits paid

30-Jun-08      30-Jun-07

144              138

9                  8

(47)              (2)

-                  -

##### **Present value of defined benefit obligations at the end of the year**

106              144

These defined benefit obligations are wholly unfunded, as there are no fund Assets. The Commission contributes as required to meet benefits paid.

#### *Reconciliation of the Fair Value of Scheme Assets:*

##### **Financial year ending**

##### **Fair value of Scheme Assets at the beginning of the year:**

Employee contributions  
Benefits paid

30-Jun-08      30-Jun-07

-                  -

-                  -

-                  -

##### **Fair value of Scheme Assets at the end of the year**

-                  -

#### *Reconciliation of the Assets and Liabilities recognised in the Balance Sheet:*

##### **Financial year ending**

Defined Benefit Obligation

##### **Net Liability**

30-Jun-08      30-Jun-07

106              144

106              144

#### *Expense recognised in the Income Statement:*

##### **Financial year ending**

Interest cost  
Actuarial loss

30-Jun-08      30-Jun-07

9                  8

(47)              (2)

##### **Superannuation expense**

(38)              6

### **Gold State**

#### *Scheme Assets*

There are no assets in Gold State Super for current employees to support benefits. Therefore there are:

- ~ No fair value of Scheme Assets
- ~ No asset allocation of Scheme Assets
- ~ No assets used by the employer
- ~ No expected return of Scheme Assets
- ~ No actual return on Scheme Assets

#### *Principal Actuarial Assumptions Used:*

##### **Financial year ending**

*(Gold State Super)*

Discount rate (active members) per annum  
Discount rate (pensioners) per annum  
Expected salary increase rate per annum  
Expected pension increase rate per annum

30-Jun-08      30-Jun-07

6.64%              6.06%

6.64%              6.06%

4.50%              4.50%

2.50%              2.50%

	2008	2007
	\$000	\$000
The discount rate is based on the 10 year Government bond rate at the relevant date. The decrement rates used (e.g. mortality and retirement rates), are based in those used at the last actuarial valuation for the Schemes.		

*Historical Information:*

Financial year ending (Gold State Super)	30-Jun-08	30-Jun-07
Present value of defined benefit obligation	106	144
Fair value of Scheme assets	-	-
(Surplus)/deficit in Scheme	106	144
Experience adjustments (gain) / loss - Scheme liabilities	(57)	(36)

The experience adjustment for Scheme liabilities represents the actuarial loss due to a change in the liabilities arising from the Scheme's experience (e.g. membership movements, unit entitlements) and excludes the effects of changes in assumptions (e.g. movements in bond rates).

*Expected contributions:*

	30-Jun-09
	\$000
Expected employer contributions	(1)

**28.2 Nature of liability**

The Commission has recognised a liability in the balance sheet in respect of its deferred benefit superannuation fund arrangements. The GESB does not impose a legal liability of the Commission to cover any deficit that exists in the Scheme.

**29.0 Provisions**

*Current*

	2008	2007
	\$000	\$000
Embedded Derivatives	9	55
Provision for regeneration of Native Forest	1,614	3,453
Deferred rental	674	206
Unearned revenue	15,936	876
	<b>18,233</b>	<b>4,590</b>

*Non-Current*

Unearned revenue	24,479	50,026
Embedded Derivatives	1,800	2,677
Provision for regeneration of Native Forest	4,537	5,576
Deferred rental	6,562	17,907
	<b>37,378</b>	<b>76,186</b>

**Explanations:**

- a The Commission has an obligation under the Forest Management Plan (2004 to 2013) to ensure that Re-growth Native Forest harvested are restored.
- b Pre-paid income received by the FPC for the delivery of forestry services to be delivered in the future.

**Net movement in provisions**

Opening balance at 1 July	80,776	36,564
<i>Provisions utilised</i>		
Embedded Derivatives	(923)	-
Provision for regeneration of Native Forest	(2,876)	(5,888)
Deferred rental	(10,877)	-
Unearned revenue	(14,136)	(13,767)
	<b>(28,812)</b>	<b>(19,655)</b>

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

	2008	2007
	\$000	\$000
<i>Provisions raised</i>		
Embedded Derivatives		900
Provision for regeneration of Native Forest		
Deferred rental		4,845
Unearned revenue	3,647	58,122
	<b>3,647</b>	<b>63,867</b>
Closing balance at 30 June	<b>55,611</b>	<b>80,776</b>

### 30.0 Contributed equity

The following assets and liabilities have been contributed to equity:

#### *Contributions during the period*

State contribution to National Action Plan for salinity and water quality	-	1,000
Reappropriation from Consolidated Funds (arising out the sale of Peel B' Baldivis)	1,270	1,270
<b>Total contribution by owners</b>	<b>1,270</b>	<b>2,270</b>

#### **Reconciliation:**

Contribution by owners at the beginning of the financial period	237,272	235,002
Amounts contributed during the financial period	1,270	2,270
<b>Contribution by owners at the end of the financial period</b>	<b>238,542</b>	<b>237,272</b>

### 31.0 Reserves

Note:

#### **Asset Revaluation Reserve**

Opening balance	3,775	2,783
Net revaluation increments:		
Land, buildings and infrastructure	a 2,823	992
Closing balance	<b>6,598</b>	<b>3,775</b>

#### **Cashflow Hedge Reserve**

	<b>436</b>	220
--	------------	-----

#### **Reserves total**

	<b>7,034</b>	<b>3,995</b>
--	--------------	--------------

#### **Retained earnings**

Opening balance	5,842	27,047
Total recognised income and expenses	6,243	(18,505)
Dividend paid	b (2,783)	(2,700)
Closing balance	<b>9,302</b>	<b>5,842</b>

a Revaluations as per Department of Land Information (Valuation Services), net of tax.

b Dividend is paid out for 2006/2007 financial year and is tax exempted.

**32.0 Notes to the Statement of Cash Flows**
**32.1 Reconciliation of cash**
**Cash assets:**

	2008 \$000	2007 \$000
Petty Cash	4	4
Commonwealth Bank - Cash Management Account	29,295	23,377
Commonwealth Bank - USD Bank Account	5,529	1,055
	<b>34,828</b>	<b>24,436</b>

**32.2 Reconciliation of profit from ordinary activities after income tax to net cash flows provided by operating activities:**

Profit/(loss) from ordinary activities after income tax	6,243	(18,505)
<i>Non-cash items:</i>		
Depreciation and amortisation expense	1,163	1,435
Movement in impairment of receivables	1,773	58
Disposal of non-current assets	4	(90)
Reversal of impairment losses on property, plant and equipment	(255)	-
Change in fair value of natural resource assets	16,818	45,745
Grants and subsidies from State Government	(1,518)	(2,370)
Interest received	(1,379)	(331)
<i>Decrease/(increase) in assets:</i>		
Current inventories	1,229	(100)
Current receivables	19,678	(1,931)
Other assets	529	6,697
Write down of investment in joint venture	161	-
Other assets	(153)	-
<i>Increase/(decrease) in liabilities:</i>		
Payables	(214)	(4,952)
Employee benefits	(259)	227
Unearned revenue and deferred income	(10,487)	277
Other liabilities	(14,677)	(2,672)
Movement in tax balances	4,819	(6,418)
Net cash provided by operating activities	<b>23,475</b>	<b>17,069</b>

**32.3 Borrowing facilities**
**The Commission had access to the following lines of credit as at reporting date:**

Credit cards	750	853
Bank overdraft facility	9,000	9,000
Short term lending facility with WATC	9,345	9,758
WA Treasury Corporation - Portfolio Lending Arrangement	84,118	82,542
	<b>103,213</b>	<b>102,153</b>

**Facilities in use as at reporting date:**

Credit cards	4	97
Bank overdraft facility	-	-
Short term lending facility with WATC	9,345	9,758
WA Treasury Corporation - Portfolio Lending Arrangement	84,116	81,895
	<b>93,465</b>	<b>91,750</b>

**Available facilities not in use as at reporting date:**

Credit cards	746	756
Bank overdraft facility	9,000	9,000
Short term lending facility with WATC	-	-
WA Treasury Corporation - Portfolio Lending Arrangement	2	647
	<b>9,748</b>	<b>10,403</b>

2008	2007
\$000	\$000

### 33.0 Commitments for expenditure

#### 33.1 Expenditure commitments

Expenditure commitments, being contracted expenditure additional to the amounts reported in the financial statements, are payable as follows:

Within 1 year	15,609	28,852
Later than 1 year and not later than 5 years	15,609	15,609
	<b>31,218</b>	<b>44,461</b>

These commitments support the Wood Processing (WESFI) Agreement Act 2000 for the Plantations Afforestation program, the National Action Plan for Salinity and Water Quality. These commitments are to be funded by loans from the Western Australian Treasury Corporation, State and Commonwealth Government contributions and internal funding.

#### 33.2 Lease commitments

Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, are payable as follows:

Within 1 year	428	370
Later than 1 year and not later than 5 years	231	394
Later than 5 years	-	-
	<b>659</b>	<b>765</b>
Non-cancellable operating leases	<b>659</b>	<b>765</b>

These commitments are inclusive of GST.

Contingent rental payments have been determined based on existing rental agreements, escalation clauses, payments and lease periods. Renewal options, where applicable, have not been brought to account.

#### 33.3 Guarantees and undertakings

The Commission has no guarantees and/or undertakings that have not been provided for in the balance sheet other than those disclosed in this note.

### 34.0 Contingent assets

Under the *Wood Processing (Wesbeam) Agreement Act 2002*, Wesbeam has a commitment to pay to the Commission \$1million per annum (or such lesser amount as the Minister determines is reasonable in the circumstances) during the period 1 July 2009 to 30 June 2027 on planting trees suitable for the production of timber to be supplied to Wesbeam by the Commission during the period 2029 to 2054. Due to uncertainty surrounding the quantity, value and length of period of supply of timber by the Commission to Wesbeam under this clause of the Wesbeam Agreement, no value has been attributed to the net benefit that may flow to the Commission as a result of this commitment.

#### Contingent liabilities

##### *Embedded derivative*

AASB 139.11 defines an embedded derivative as a component of a hybrid (combined) instrument that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

The provisions of AASB139 are affected by the International Financial Reporting Interpretations Committee (IFRIC) Interpretation 9 which states that "an entity shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required".

The Commission has an embedded derivative which has not been separated from the host contract as a consequence of the IFRIC 9 interpretation. As the Commission is currently in negotiation with parties associated with the contract that may result in a significant modification to the cash flows that otherwise would be expected under the contract, the Commission has a contingent liability for an amount of up to \$18.6million (2007: \$21.7million) that may arise as consequence of these negotiations.

*Subsequent to year-end, the Commission has concluded the renegotiation of this contract.*

**35.0 Events occurring after reporting date**

There were no events that occurred after balance date other than events for which the financial effects have already been brought to account that would have a material effect on the Commission's financial statements as at 30 June 2008.

**36.0 Explanatory statement**

**36.1 Explanation of significant variations between current and prior year actual results**

	2008	2007	Variance	Explanation
	\$000	\$000	\$000	
<b>Income</b>				
Revenue from the sale of goods and services	115,995	106,618	9,377	a
<b>Expense</b>				
Cost of sales	65,649	55,251	10,398	b
Supplies and services	28,727	21,741	6,986	c
Administration expenses	2,979	1,096	1,883	d
Natural Resource Asset Decrement	(4,443)	(50,656)	46,213	e
Income tax equivalent (expense)/benefit	(4,819)	6,418	(11,237)	f

**Explanation:**

- a Major reason for the increase in revenue due to increased yields in harvestable native forest coupes and consistent softwood production
- b Associated increase in cost of sales due to increase in revenues, together with an increase in road construction and maintenance costs over 2007
- c General activity cost increases, specifically in payments to DEC and contractor supplies and services within forest management expenditures
- d Increased impairment of trade receivables
- e The 2007 decrement represented a large write down of the value of Standing Timber on the Commission's balance sheet. In 2008 the decrement is relatively modest representing a relative modest net overall change in valuation from 2007.
- f Tax equivalent expense or benefit is largely influenced by natural resource asset decrement. Refer to note 38.0

**36.2 Comparison of 2007/08 actual results to estimated results**

	2008 actual	2008 estimate	Variance %	Explanation
	\$000	\$000	\$000	
<b>Income</b>				
Revenue from the sale of goods and services	115,995	109,357	6,638	a
<b>Expenses</b>				
Cost of sales	65,649	53,306	12,343	b
Administration expenses	2,979	1,183	1,796	c

**Explanation:**

- a Increase in yields from Native Forest together with consistent softwood production
- b Increase in roading activity costs
- c Increased impairment of trade receivables

**37.0 Financial instruments**

Financial instruments held by the Commission are cash and cash equivalents, trade and other receivables, trade and other payables, loans from WA Treasury, tax liabilities, forward exchange contracts for hedging and embedded derivatives. The Commission's financial risk management program focuses on managing the risks identified below.

*Credit Risk*

Credit risk arises when there is the possibility of the Commission's debtors defaulting on their contractual obligations resulting in financial loss to the Commission. The Commission measures credit risk on a fair value basis and monitors risk on a regular basis. The maximum exposure to credit risk at balance sheet date in relation to each class of recognised financial assets is the gross carrying amount of those assets inclusive of any provisions for impairment, as shown in the table at 37.1. The Commission trades only with recognised, creditworthy third parties. The Commission has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. In addition, receivable balances are monitored on an ongoing basis with the result that the Commission's exposure to bad debts is minimal. There are no significant concentrations of credit risk, other than amounts due from the WA Department of Treasury and Finance (refer note 17).

The Commission's collection and account management policy includes, the holding of security (cash or bank guarantees), interest charging on overdue accounts and stop supply policies.

Provision for impairment of financial assets is calculated based on past experience, and current and expected changes in client credit ratings. Factors such as customer credit risk, security and the prevailing economic conditions are considered during this process. The maximum exposure to credit risk at balance sheet rate in relation to each class of recognised financial asset is the gross carrying amount of those assets inclusive of any provision for impairment, as shown in note 37.1.

For financial assets that are either past due or impaired, refer to Note 37.4.

The Commission's bad debt policy is in accordance with the Treasurer's Instruction 807, Financial Administration Regulation 7 and Division 6 of the Financial Management Act 2006.

*Liquidity risk*

The Commission is exposed to liquidity risk through its trading in the normal course of business. Liquidity risk arises when the Commission is unable to meet its financial obligations as they fall due. The Commission's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, loans and finance leases. The Authority has appropriate procedures to manage cash flows by monitoring forecast cash flows to ensure that sufficient funds are available to meet its commitments.

*Market risk*

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and commodity prices will affect the Commission's income or the value of its holdings of financial instruments. The Commission's policy in regard to managing foreign exchange risks through the use of financial exchange contracts is dealt with in Note 37.1.

The Commission's exposure to market risk for changes in interest rates relate primarily to the long-term debt obligations. The Commission's borrowings are all obtained through the Western Australian Treasury Corporation (WATC) and are at fixed rates with varying maturities. The risk is managed by WATC through portfolio diversification and variation in maturity dates.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Commission enters into derivatives in order to manage market risks. All such transactions are carried out within the guidelines set by the Board. Generally the Commission seeks to apply hedge accounting in order to manage volatility in profit or loss.

*Currency risk*

The Commission is exposed to currency risk on sales that are denominated in a currency other than the Australian dollar (AUD). The currencies in which these transactions primarily are denominated are the United States of America dollar (USD).



At any point in time the Commission hedges 75 percent of its estimated foreign currency exposure in respect of forecasted sales over the following 18 months. The Commission also hedges at least 75 percent of all trade receivables denominated in a foreign currency. The Commission uses forward exchange contracts to hedge its currency risk, most with a maturity of less than one year from the reporting date. When necessary, forward exchange contracts are rolled over at maturity.

The Commission also holds a US\$ commercial bank account which exposes the Commission to foreign currency risk. The balance of this account at 30 June 2008 is \$5.322 million (2007: \$0.896 million).

*Interest rate risk*

The Commission adopts a policy of ensuring that 100 percent of its exposure to changes in interest rates on borrowings is on a fixed rate basis.

*Categories of Financial Instruments*

In addition to cash and bank overdraft, the carrying amounts of each of the following categories of financial assets and financial liabilities at balance sheet date are as follows:

	2008 \$000	2007 \$000
<b>Financial Assets</b>		
Cash and cash equivalents	34,828	24,436
<i>Loans and receivables:</i>		
Trade Receivables	38,204	58,780
	73,032	83,216
<b>Financial Liabilities</b>		
<i>Financial liabilities measured at amortised cost</i>		
Trade payables	13,351	12,067
Land annuity obligations	25,054	26,552
Interest Bearing Borrowings	93,461	91,653
Forward Exchange Contracts	8,144	7,119
Embedded derivatives	1,809	2,732
	140,006	140,123

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 37.1 Credit Risk, Liquidity Risk and Interest Rate Risk Exposure

The following table details the exposure to liquidity risk and interest rate risk as at the balance sheet date. The Commission's maximum exposure to credit risk at the balance sheet date is the contractual cash flows following table. Except for Land Annuities Payable and deferred rental, the contractual cash flows is the carrying amount as at balance sheet date. The carrying amount of land annuity payments is \$25.054 million (2007 : \$26.552 million) and deferred rental is \$7.236 million (2007: \$18.113 million)

		2008				
		\$000				
Note	Effective Interest Rate %	Contractual Cash Flows	0 - 12 months	1 - 2 years	2 - 5 years	More than 5 years
<b>Financial assets</b>						
Commonwealth Bank						
Cash Management Account	32.1	6.94%	29,295	29,295	-	-
Commonwealth Bank USD Account	32.1	3.16%	5,529	5,529	-	-
Treasury Funds Receivable	17.0		18,286	1,126	1,211	5,644
Trade Receivables	17.0		22,485	22,485	-	-
Provision for Doubtful Debts	17.0		(2,567)	(2,567)	-	-
Collateral security held - cash			(1,140)	(1,140)	-	-
Collateral security held - non cash	37.4		(4,371)	(4,371)	-	-
Total credit exposure - Trade Receivables			14,407	14,407	-	-
Foreign Exchange Contracts			8,767	6,785	1,982	-
			<b>76,284</b>	<b>57,142</b>	<b>3,193</b>	<b>5,644</b>
						<b>10,305</b>
<b>Financial liabilities</b>						
Trade Payables	25.0		5,053	5,053	-	-
WA Treasury Corporations (long term loan)	26.0	6.15%	84,116	4,173	4,235	13,093
WA Treasury Corporations (short term loan)	26.0	5.46%	9,345	9,128	217	-
Land Annuities Payable	25.0		33,822	2,219	4,070	5,186
Embedded Derivatives	29.0		3,428	9	33	238
Deferred Rental	29.0		32,116	715	411	2,232
			<b>167,880</b>	<b>21,297</b>	<b>8,966</b>	<b>20,749</b>
						<b>116,868</b>
		2007				
		\$000				
Note	Effective Interest Rate %	Contractual Cash Flows	0 - 12 months	1 - 2 years	2 - 5 years	More than 5 years
<b>Financial assets</b>						
Commonwealth Bank						
Cash Management Account	32.1	5.94%	23,377	23,377	-	-
Commonwealth Bank USD Account	32.1	4.53%	1,055	1,055	-	-
Performance Security deposit account	19.0	6.11%	993	271	118	286
Treasury Funds Receivable	17.0		41,435	1,407	1,126	5,314
Trade Receivables	17.0		18,139	18,139	-	-
Impairment of trade receivables	17.0		(794)	(794)	-	-
Collateral security held - cash			(1,090)	(1,090)	-	-
Collateral security held - non cash	37.4		(4,733)	(4,733)	-	-
Total credit exposure - Trade Receivables			11,522	11,522	-	-
Foreign Exchange Contracts			7,119	5,413	1,706	-
			<b>85,501</b>	<b>43,045</b>	<b>2,950</b>	<b>5,600</b>
						<b>33,906</b>
<b>Financial liabilities</b>						
Trade Payables	25.0		3,218	3,218	-	-
WA Treasury Corporations (long term loan)	26.0	6.15%	81,895	3,741	3,697	12,451
WA Treasury Corporations (short term loan)	26.0	5.46%	9,758	9,263	278	217
Land Annuities Payable	25.0		31,148	2,112	3,856	4,865
			<b>126,019</b>	<b>18,334</b>	<b>7,831</b>	<b>17,533</b>
						<b>82,321</b>

### 37.2 Forward foreign exchange contracts

The Commission is exposed to the effects of foreign currency fluctuations by virtue of its export sales. The majority of the transactions are negotiated in United States dollars (USD). The Commission has entered into forward foreign exchange contracts with the West Australian Treasury Corporation for up to 75% of its budgeted USD sales. The objective of entering into these forward foreign exchange contracts is to reduce the Commission's exposure, and the impact on projected financial performance, of changes in the USD/AUD exchange rate.

The table below represents the forward foreign exchange contracts entered into with the West Australian Treasury Corporation.

Sell currency	Value date	USD sell amount \$'000	Historic forward rate	Buy currency	Buy amount \$'000	Current forward points	Current forward rate	Revalued buy currency 30 June 08	Revalued buy amount 30 June 08 \$'000	Variance currency	Variance amount \$'000
USD	30-Sep-08	1,423	0.8360	AUD	1,702	-0.011225	0.951375	AUD	1,496	AUD	206
USD	31-Dec-08	1,372	0.8529	AUD	1,609	-0.022719	0.939881	AUD	1,460	AUD	149
USD	31-Mar-09	1,423	0.8443	AUD	1,685	-0.033677	0.928923	AUD	1,532	AUD	153
USD	30-Jun-09	1,539	0.8602	AUD	1,789	-0.044272	0.918328	AUD	1,676	AUD	113
USD	30-Sep-09	1,800	0.9084	AUD	1,982	-0.053891	0.908709	AUD	1,981	AUD	1
					<b>8,767</b>				<b>8,144</b>		<b>623</b>

### 37.3 Sensitivity Analysis

The following table represents a summary of the interest rate, currency and other sensitivities of the Commission's financial assets and liabilities at the balance sheet date on the surplus for the period and equity for a 1% change in rates. It is assumed the rates are held constant throughout the reporting period.

	Carrying amount (\$'000's)	2008			
		-1% change		+1% change	
		Profit (\$'000's)	Equity (\$'000's)	Profit (\$'000's)	Equity (\$'000's)
<b>Interest rate sensitivity analysis</b>					
<b>Financial Assets</b>					
Cash and cash equivalents	34,828	(348)	(348)	348	348
<b>Financial Liabilities</b>					
WA Treasury Interest bearing loans and borrowings	93,461	(935)	(935)	935	935
Land Annuities Payable	25,054	(1,852)	(1,852)	1,627	1,627
Deferred Rental	7,236	(696)	(696)	604	604
	Carrying amount (\$'000's)	-10% change		+10% change	
		Profit (\$'000's)	Equity (\$'000's)	Profit (\$'000's)	Equity (\$'000's)
		<b>Currency sensitivity analysis</b>			
<b>Financial Assets</b>					
USD Bank Account <sup>1</sup>	5,529	(345)	(345)	345	345

<sup>1</sup> USD rate used in this analysis was the spot rate as at 30 June 2008 - AUD1 = USD .9696

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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	2007				
	Carrying amount (\$'000's)	-1% change		+1% change	
		Profit (\$'000's)	Equity (\$'000's)	Profit (\$'000's)	Equity (\$'000's)
<b>Interest rate sensitivity analysis</b>					

**Financial Assets**

Cash and cash equivalents	24,436	(244)	(244)	244	244
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**Financial Liabilities**

WA Treasury Interest bearing loans and borrowings	91,653	(915)	(915)	915	915
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	Carrying amount (\$'000's)	-10% change		+10% change	
		Profit (\$'000's)	Equity (\$'000's)	Profit (\$'000's)	Equity (\$'000's)
<b>Currency sensitivity analysis</b>					

**Financial Assets**

USD Bank Account <sup>1</sup>	1,055	(106)	(106)	106	106
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<sup>1</sup> USD rate used in this analysis was the spot rate as at 30 June 2007 - AUD1 = USD .8487

**37.4 Credit risk concentrations**

Accounts receivable consists largely of timber debtors, for which deposits and securities equivalent to an average of six weeks' deliveries are required to be lodged in favour of the Commission under timber contracts of sale. These deposits and securities are held in trust until the expiry or default of contracts. As at 30 June 2008, the value of deposits and securities was less than overdue accounts by \$4.541 million (deposits and securities exceeded overdue by \$2.97million at 30 June 2007).

In addition to securities, protection of the Commission's interest is provided as forest produce may be seized and disposed of under a statutory retention right.

The Commission's credit risk exposure at 30 June 2008 is illustrated by the aged debtors table below:

	2008 Number of customers	2008 Value overdue <sup>1</sup> : \$000	2008 Impair- ment: \$000	2007 Number of customers	2007 Value overdue <sup>1</sup> : \$000	2007 Impairment \$000
1 to 30	19	4,602	1,128	25	2,236	
31 to 60	4	2,335	572	3	402	
Greater than 60	45	3,533	866	35	1,579	794
All overdue accounts	68	10,470	2,567	63	4,217	794

<sup>1</sup> Overdue beyond the Commission's agreed trading terms.

The likelihood of recovery as at 30 June 2008 was estimated and factored into the amounts provided for impairment of receivables (refer note 17). Where applicable, interest is charged under the terms of the customer's supply contract.

The Commission's debtors are based in Western Australia and as such credit risk is concentrated within the state.

*Maximum exposure to credit risk for trade receivables by type of Customer*

	2008	2007
Forest Product Manufacture/Supply	19,918	17,345
State Government	18,286	41,435
	38,204	58,780

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### 37.5 Funds held in trust

Funds held in trust<sup>1</sup> as security for contract obligations. These funds are repayable upon completion of contracts.

	2008	2007
Opening balance	1,580	1,162
Receipts	228	538
Payments	(149)	(12)
Closing balance	<b>1,659</b>	<b>1,580</b>

<sup>1</sup> Trust funds do not form part of the assets of the Commission, and are held in a separate trust fund established for that purpose. Interest accruing on these funds accumulates for the benefit of security providers.

### 37.6 Fair values

The carrying amount of financial assets and financial liabilities recorded in the financial statements are determined in accordance with the accounting policies in note 2.

The Commission's long and short term borrowings are valued as per the accounting policy in note 2. The Commission's borrowings of \$93.461 million (\$91.653 million at 30 June 2007) from the Western Australian Treasury Corporation (WATC) have been assessed by the WATC to have a net fair value of \$92.554 million (\$91.332 million at 30 June 2007) as at 30 June 2008. The net fair value of a financial liability is the amount at which the liability could be settled in a current transaction after allowing for the premium required if debt is settled prior to the due date.

The net fair value of other assets and liabilities is considered to approximate their carrying value.

### 38.0 Taxation

The numerical reconciliation of income tax expense to prima facie tax payable is as follows:

Profit/(loss) from ordinary activities before tax equivalents	11,062	(24,923)
Tax calculated at 30% of operating profit/(loss)	3,318	(7,477)
Non-deductible expense	-	-
Underprovided / (overprovided) in prior periods	1,501	1,059
	<b>4,819</b>	<b>(6,418)</b>
<b>Current tax expense</b>		
Current year	7,835	595
	<b>7,835</b>	<b>595</b>
<b>Deferred tax expense</b>		
Relating to origination and reversal of temporary differences	(3,016)	(7,013)
	4,819	(6,418)
<b>Total income tax expense in income statement</b>	<b>4,819</b>	<b>(6,418)</b>

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

**Recognised deferred tax assets and liabilities**

	Assets		Liabilities		Net	
	2008	2007	2008	2007	2008	2007
	\$000	\$000	\$000	\$000	\$000	\$000
Receivables	(770)	(387)	-	-	(770)	(387)
Performance Security Account - Premium Plantations 2005	-	(92)	-	-	-	(92)
Inventories	(361)	-	-	866	(361)	866
Land	(50)	(207)	-	-	(50)	(207)
Buildings	(242)	(211)	-	-	(242)	(211)
Nursery infrastructure	(670)	(786)	-	-	(670)	(786)
Plant, equipment and vehicles	(23)	(22)	-	-	(23)	(22)
Investment in Joint Venture	(129)	(147)	-	-	(129)	(147)
Natural resource assets	(5,922)	(6,397)	25,899	19,826	19,977	13,429
Employee provisions	(1,602)	(1,680)	-	-	(1,602)	(1,680)
Legal fee provision	-	(1)	-	-	-	(1)
Share farm annuities	(6,293)	(371)	-	-	(6,293)	(371)
Auditing fees provision	(30)	(29)	-	-	(30)	(29)
Provision for embedded derivatives	(543)	(820)	-	-	(543)	(820)
Deferred rental provision	(2,171)	(5,434)	-	-	(2,171)	(5,434)
Restoration provision	(1,845)	(2,708)	-	-	(1,845)	(2,708)
Deferred income	(24)	(15)	-	-	(24)	(15)
Incentive payments provision	(7,516)	(661)	-	-	(7,516)	(661)
Reserves	-	-	3,014	1,711	3,014	1,711
Net tax (assets) / liabilities	<b>(28,191)</b>	<b>(19,968)</b>	<b>28,913</b>	<b>22,403</b>	<b>722</b>	<b>2,435</b>

**Movement in temporary differences during the year**

	Balance 1 July 06	Recognised in income	Recognised in equity	Balance 30 June 07	Balance 1 July 07	Recognised in income	Recognised in equity	Balance 30 June 08
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Receivables	(370)	(17)	-	(387)	(387)	(383)	-	(770)
Performance Security Account - Premium Plantations 2005	-	(92)	-	(92)	(92)	92	-	-
Inventories	-	866	-	866	866	(1,227)	-	(361)
Land	77	(585)	301	(207)	(207)	157	-	(50)
Buildings	531	(742)	-	(211)	(211)	(31)	-	(242)
Nursery infrastructure	(340)	(570)	124	(786)	(786)	116	-	(670)
Plant, equipment and vehicles	-	(22)	-	(22)	(22)	(1)	-	(23)
Investment in Joint Venture	-	(147)	-	(147)	(147)	18	-	(129)
Natural resource assets	24,428	(10,999)	-	13,429	13,429	6,548	-	19,977
Employee provisions	(1,611)	(69)	-	(1,680)	(1,680)	78	-	(1,602)
Legal fees provision	-	(1)	-	(1)	(1)	1	-	-
Share farm annuities	(371)	-	-	(371)	(371)	(5,922)	-	(6,293)
Auditing fees provision	(36)	7	-	(29)	(29)	(1)	-	(30)
Provision for embedded derivatives	(549)	(271)	-	(820)	(820)	277	-	(543)
Deferred rental provision	(3,980)	(1,454)	-	(5,434)	(5,434)	3,263	-	(2,171)
Restoration provision	(4,475)	1,767	-	(2,708)	(2,708)	863	-	(1,845)
Deferred income	(218)	203	-	(15)	(15)	(9)	-	(24)
Incentive payments provision	(645)	(16)	-	(661)	(661)	(6,855)	-	(7,516)
Reserves	-	1,654	57	1,711	1,711	-	1,303	3,014
Tax value of loss carry- forwards recognised	(3,522)	3,522	-	-	-	-	-	-
<b>Net tax (assets) / liabilities</b>	<b>8,919</b>	<b>(6,966)</b>	<b>482</b>	<b>2,435</b>	<b>2,435</b>	<b>(3,016)</b>	<b>1,303</b>	<b>722</b>

**Provision for taxation**

Opening	595	-
Provision raised	7,835	595
Tax Paid	(1,945)	-
Closing	<b>6,485</b>	<b>595</b>

### 39.0 Remuneration of members of the Accountable Authority and Senior Officers

#### 39.1 Remuneration of members of the Accountable Authority

The number of Members of the Accountable Authority (Commissioners) whose total of fees, salaries, superannuation<sup>1</sup>, travel and other benefits received, or which are due and receivable, for the financial year which fall within the following bands, is as follows:

\$		
0 - 10,000	2	-
10,001 - 20,000	4	2
20,001 - 30,000	3	5
40,001 - 50,000	-	1
50,001 - 60,000	1	-
	10	8

Total remuneration of Members of the Accountable Authority for the financial period was	<b>207,438</b>	<b>194,547</b>
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#### Remuneration of Members of the Accountable Authority was comprised of:

	2008	2007
\$		
Short-term employee benefits	176,599	160,828
Allowances	14,899	19,397
Post employment benefits (defined contribution funds)	15,940	14,322
	<b>207,438</b>	<b>194,547</b>

<sup>1</sup> No member of the Accountable Authority is a member of the Pension Scheme.

#### 39.2 Remuneration of Senior Officers

The number of Senior Officers (Executive Managers) other than Members of the Accountable Authority, whose total of fees, salaries, superannuation and other benefits received, or which are due and receivable, for the financial year which fall within the following bands is as follows:

\$		
40,001 - 50,000	1	1
70,001 - 80,000	1	-
130,001 - 140,000	2	3
230,001 - 240,000	1	1
	5	5

Total remuneration of Senior Officers for the financial period was	<b>620,880</b>	<b>717,138</b>
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#### Remuneration of Senior Officers was comprised of:

	2008	2007
\$		
Short-term employee benefits	530,599	606,994
Allowances	64,159	66,990
Post employment benefits	26,122	43,154
	<b>620,880</b>	<b>717,138</b>

### 40.0 Related/affiliated bodies

#### 40.1 Related bodies

The Commission has no related bodies as defined by TI 951 (3) to (6).

#### 40.2 Affiliated bodies

An affiliated body is a body that is financially dependent on the Commission, but is not subject to operational control by the Commission.

The Commission has one affiliated body - a joint venture arrangement with the University of Western Australia, refer note 22.

The joint venture manages the operations of a timber research program and associated facilities located within the Faculty of Architecture, Landscape and Visual Arts (ALVA) at the University of Western Australia (UWA). It is intended that the Joint Venture will provide opportunities for collaborative research, sharing of facilities and enhanced use of the ALVA premises and amenities. Refer note 22 for details of financial transactions.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2008	2007
\$000	\$000

### 41.0 Remuneration of auditor

The total fees due and payable to the WA Auditor General for the financial period is as follows:

Auditing the accounts, financial statements and performance indicators	100	95
Provision for remuneration of auditor		
Opening balance	95	120
Payments made during the period	(100)	(110)
Amounts provided during the period	105	85
Closing balance	100	95

### 42.0 Write-offs, losses and gifts

#### 42.1 Write-offs

Debtors <sup>1</sup>	156	-
Total	156	-

<sup>1</sup> \$156,000 of unrecoverable debt was written-off in the financial year and was fully provided for in prior financial years. All requisite approvals as stipulated in the Treasury Instructions were complied with.

42.2 Losses through theft, defaults and other causes	-	-
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42.3 Gifts of public property	-	42
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### 43.0 Segment information

The Commission's operations are comprised of the following main business segments:

#### Main operating segments:

*SouthWest Forest* - Responsible for harvesting and regeneration activities associated with Native Forest other than Sandalwood.

*Arid Forest* - Responsible for harvesting and regeneration activities associated with Sandalwood and other arid timbers.

*Plant Propagation Centre* - Responsible for seed orchard production, collection of seed from the wild and production of seedlings to meet internal and external demand.

*New Plantations (Maintenance)* - This sector is responsible for maintenance of plantations in the low rainfall zone. The objective of this arm of the Commission is to maintain establishments that sustain and develop the timber industry; ameliorate salinity and address soil degradation.

*Mature Plantations* - Responsible for all harvesting, replanting and maintenance of the Commission's mature estate plantations.

*New Plantations (Investment)* - This sector is responsible for Establishment of plantations in the low rainfall zone. The objective of this arm of the Commission is to produce timber to sustain the timber industry, to ameliorate salinity and address soil degradation.

#### Support services:

Corporate & Support Services - This sector provides corporate management and business administration (human resources, contract administration and finance) support to the operating arms of the business as well as the Business Development activities of marketing, expert services in the exploration and analysis of business opportunities.

Capitalisation represents expenditures capitalised in natural resources assets under the NAP program.



## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 43.0 Segment information cont'd

	2008									
	South West Forest	Arid Forest	Plant Propagation Centre	New Plantations (Maintenance)	Mature Plantations	Corporate & Support Services	New Plantations (Investment)	Capitalisation	Eliminations	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>Revenue</b>										
External Segment Revenues	45,190	14,543	1,338	1,589	56,968	5,571	12,659	-	-	137,858
Inter-Segment Sales	-	-	4,315	-	-	-	-	-	(4,316)	(0)
<b>Total Revenue</b>	<b>45,190</b>	<b>14,543</b>	<b>5,653</b>	<b>1,589</b>	<b>56,968</b>	<b>5,571</b>	<b>12,659</b>	<b>-</b>	<b>(4,316)</b>	<b>137,858</b>
<b>Expenses</b>										
Employee Expenses	(2,967)	(646)	(3,286)	(1,041)	(1,574)	(7,265)	(2,702)	2,702	-	(16,779)
External Segment Expenses	(31,137)	(12,653)	(2,457)	(4,095)	(40,651)	(13,864)	(10,018)	10,018	4,316	(100,541)
Interest					(2,014)		(3,020)			(5,034)
<b>Total Expenses</b>	<b>(34,104)</b>	<b>(13,298)</b>	<b>(5,743)</b>	<b>(5,136)</b>	<b>(44,239)</b>	<b>(21,129)</b>	<b>(15,740)</b>	<b>12,720</b>	<b>4,316</b>	<b>(122,353)</b>
Natural Resource Asset Valuation Increment (Decrement)	(2,269)	4,700	-	5,331	(81)	-	(12,124)	-	-	(4,443)
<b>Profit (loss) before Tax</b>	<b>8,817</b>	<b>5,945</b>	<b>(90)</b>	<b>1,784</b>	<b>12,648</b>	<b>(15,558)</b>	<b>(15,204)</b>	<b>12,720</b>	<b>-</b>	<b>11,062</b>
Allocation of Income Tax	(2,645)	(1,783)	27	(535)	(3,795)	3,912	-	-	-	(4,819)
<b>Profit for the period</b>	<b>6,172</b>	<b>4,161</b>	<b>(63)</b>	<b>1,249</b>	<b>8,854</b>	<b>(11,646)</b>	<b>(15,204)</b>	<b>12,720</b>	<b>-</b>	<b>6,243</b>
Total Segment Assets	<b>116,947</b>	<b>41,686</b>	<b>15,852</b>	<b>28,984</b>	<b>174,026</b>	<b>51,837</b>	<b>25,569</b>	<b>-</b>	<b>-</b>	<b>454,901</b>

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 43.0 Segment information cont'd

	2007									
	South West Forest	Arid Forest	Plant Propagation Centre	New Plantations (Maintenance)	Mature Plantations	Corporate & Support Services	New Plantations (Investment)	Capitalisation	Eliminations	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>Revenue</b>										
External Segment Revenues	41,867	12,402	1,798	1,372	50,888	6,837	12,911	-	-	128,077
Inter-Segment Sales	-	-	2,349	-	-	-	-	-	(2,349)	-
<b>Total Revenue</b>	<b>41,867</b>	<b>12,402</b>	<b>4,148</b>	<b>1,372</b>	<b>50,888</b>	<b>6,837</b>	<b>12,911</b>	<b>-</b>	<b>(2,349)</b>	<b>128,077</b>
<b>Expenses</b>										
Employee Expenses	(2,797)	(572)	(2,973)	(1,035)	(1,472)	(7,503)	(2,458)	2,458	-	(16,351)
External Segment Expenses	(24,835)	(6,756)	(3,904)	(8,029)	(36,560)	(2,564)	(7,938)	7,938	2,349	(80,299)
Interest	-	-	-	-	(2,278)	-	(3,417)	-	-	(5,695)
<b>Total Expenses</b>	<b>(27,631)</b>	<b>(7,327)</b>	<b>(6,878)</b>	<b>(9,064)</b>	<b>(40,310)</b>	<b>(10,067)</b>	<b>(13,812)</b>	<b>10,395</b>	<b>2,349</b>	<b>(102,345)</b>
Natural Resource Asset Valuation Increment (Decrement)	1,135	(22,433)	1,603	(7,938)	(23,023)	-	-	-	-	(50,656)
<b>Profit (loss) before Tax</b>	<b>15,371</b>	<b>(17,358)</b>	<b>(1,127)</b>	<b>(15,629)</b>	<b>(12,445)</b>	<b>(3,230)</b>	<b>(901)</b>	<b>10,395</b>	<b>-</b>	<b>(24,924)</b>
Allocation of Income Tax	(4,611)	5,207	338	4,689	3,731	(2,936)	-	-	-	6,418
<b>Profit for the period</b>	<b>10,760</b>	<b>(12,151)</b>	<b>(789)</b>	<b>(10,941)</b>	<b>(8,713)</b>	<b>(6,166)</b>	<b>(901)</b>	<b>10,395</b>	<b>-</b>	<b>(18,505)</b>
Total Segment Assets	<b>118,063</b>	<b>38,011</b>	<b>10,300</b>	<b>49,901</b>	<b>178,765</b>	<b>52,902</b>	<b>18,844</b>	<b>-</b>	<b>-</b>	<b>466,786</b>

	2008 \$000	2007 \$000
<b>44.0 Research expenditure</b>		
<b>44.1 Research expenditure</b>		
Expenses associated with research and development are included in expenses from ordinary activities	3,415	2,745
<b>44.2 Plantation Industry Ministerial Advisory Committee (PIMAC)</b>	8	5
Expenses associated with PIMAC are included in expenses from ordinary activities. The Minister for Agriculture and Forestry established an advisory committee on 1 July 2002 from a wide range of industry and community groups to provide advice on matters affecting the plantation industry. Expenditure incurred relates to member travel, accommodation and fees in attending meetings, as well as costs for Forest Products Commission support staff.		
<b>44.3 Forestry Ministerial Advisory Committee (FMAC)</b>	10	14
Expenses associated with FMAC are included in expenses from ordinary activities. The Native Forest Products Ministerial Advisory Committee, with membership representing a range of forest industry stakeholders, meets bi-monthly to advise the Minister for Agriculture and Forestry in relation to native forests products and industry matters.		
<b>45.0 Advertising and communication expenditure</b>		
In accordance with S175 ZE of the Electoral Act 1907, the Commission incurred the following expenditure in advertising, market research, polling, direct marketing and media advertising:		
Expenditure was incurred in the following areas:		
Advertising expenditure:		
<b>Supplier:</b>	<b>Service:</b>	
Marketforce	Tender and Auction Advertising	27
Marketforce Productions	Tender and Auction Advertising	3
Countrywide Signs	Advertising	12
Elite Publishing	Publication	2
Jadeline	Web Environment	4
Sundry other	Various	5
Total		<b>53</b>
<b>Consultancy:</b>		
<b>Supplier:</b>	<b>Service:</b>	
Media Monitors WA Pty Ltd	Media monitoring, news clippings	16
Total		16
		<b>68</b>
		<b>21</b>
		<b>34</b>

**46.0 Change of accounting policy**

As at 1 January 2008 the Commission adopted AASB 7. This standard requires new qualitative and quantities disclosures in relation to financial instruments. There has been no financial impact with the application of this standard.

**47.0 Additional information**

Domicile and legal form:  
The Forest Products Commission is a Government Trading Enterprise domiciled in Western Australia.

Principal office:  
Level 1/117 Great Eastern Highway, Rivervale, Perth, Western Australia, Australia

Operations and principal activities:  
The Forest Products Commission is responsible for the commercial production, allocation and sale of forest products from Western Australia's native forests and from State-owned and managed plantations.

Parent entity:  
Government of Western Australia.



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# APPENDIX 1

## Trends in the areas of native forest harvested by the Commission (hectares)

	Jarrah forest	Jarrah/Karri forest	Jarrah/Wandoo forest	Karri forest	
				Clearfelled or partially cut	Thinned
1976-77	32,320		1,170	2,610	-
1977-78	26,020		740	4,450	-
1978-79	25,540		530	2,710	-
1979-80	25,150		860	2,110	60
1980-81	22,930		1,440	2,080	180
1981-82	24,680		610	2,180	320
1982-83	23,740		330	990	190
1983-84	21,540		580	1,490	260
1984-85	20,010		1,440	2,360	500
1985-86	22,640		650	1,590	340
1986	19,340		1,150	1,090	490
1987	17,180		1,380	1,310	700
1988	23,400		490	1,180	840
1989	15,130		200	1,510	910
1990	12,960		100	1,560	340
1991	10,910		-	1,920	230
1992	13,990		30	1,540	310
1993	14,250		40	1,630	80
1994	14,050		50	1,440	-
1995	17,830		30	2,410	-
1996	22,320		50	1,300	60
1997	18,240		60	1,870	60
1998	19,250		60	1,970	320
1999	14,200		50	1,890	360
2000	20,570		10	1,310	70
2001	*15,130		-	1,380	120
2002	*12,870		30	700	350
2003	8,520		-	720	485
2004	8,860		-	330	920
2005	6,220		30	460	1,070
2006	8,425	33	308	363	1,127
2007	7,189	16	59	547	999

\* Does not include areas cleared for mining or utilities.

- Forests are regenerated according to the principles of ecologically sustainable forest management in the FMP 2004-2013

# APPENDIX 2

## Areas of coniferous (pine) plantations as at 31 December 2007 (hectares)

YEAR	Commission Owned								Commission Managed		Grand Total
	Pinus radiata				Other pine species				Pinus radiata	Other pin Species	
	1st Rotation		Subsequent Rotation		1st Rotation		Subsequent		1st Rotation	1st Rotation	
State	Sharefarm	State	Sharefarm	State	Sharefarm	State	Sharefarm	Sharefarm	Sharefarm		
Pre 1970	397	11	25	-	6,566	77	47	17	-	-	7,140
1970	88	-	-	-	1,070	-	19	-	-	-	1,177
1971	172	-	1	-	736	-	-	-	-	-	908
1972	326	-	-	-	583	-	-	-	-	-	909
1973	90	-	18	-	485	-	3	-	-	-	595
1974	464	-	-	-	276	-	-	-	-	-	739
1975	581	-	-	-	1,175	-	-	-	-	-	1,756
1976	619	3	5	-	1,111	-	1	-	-	-	1,739
1977	765	-	30	-	851	-	-	-	-	-	1,646
1978	1,104	8	10	-	450	-	-	-	-	-	1,573
1979	934	2	204	-	364	-	-	-	-	-	1,504
1980	1,461	-	-	-	742	-	-	-	-	-	2,204
1981	1,345	-	94	-	841	-	-	-	-	-	2,280
1982	1,192	-	241	-	457	-	5	-	-	-	1,895
1983	1,219	-	36	-	583	-	-	-	-	-	1,838
1984	1,818	-	3	-	497	-	9	-	-	-	2,326
1985	1,599	26	121	-	477	-	2	-	-	-	2,224
1986	876	164	-	-	417	-	-	-	-	-	1,457
1987	663	587	148	-	542	57	-	20	-	-	2,016
1988	508	1,081	120	3	84	87	-	-	-	-	1,884
1989	614	302	406	32	22	-	22	-	-	-	1,400
1990	138	741	335	-	-	-	6	-	-	-	1,219
1991	74	980	502	29	4	-	16	-	-	-	1,605
1992	6	1,781	508	-	-	118	337	-	-	-	2,750
1993	-	655	1,008	-	135	6	305	-	-	-	2,108
1994	143	402	519	13	-	-	392	-	-	-	1,468
1995	36	63	1,117	1	-	275	136	-	-	-	1,628
1996	6	9	1,178	-	160	597	32	-	-	-	1,981
1997	3	1	1,129	-	-	1,111	166	-	-	16	2,426
1998	12	75	79	-	-	1,598	-	-	-	288	2,052
1999	31	43	818	-	6	2,183	197	-	19	446	3,743
2000	5	198	1,162	-	26	3,968	13	-	19	261	5,653
2001	-	-	938	-	-	2,981	-	-	-	326	4,245
2002	3	177	735	-	-	656	-	-	-	210	1,781
2003	-	629	942	-	-	830	69	-	-	312	2,782
2004	5	-	1,273	-	431	612	142	-	-	131	2,594
2005	12	27	1,338	-	120	424	80	-	-	238	2,240
2006	4	5	1,501	-	48	1,471	-	-	-	78	3,156
2007	15	-	1,466	-	-	2,481	49	-	-	250	4,261
<b>Grand Total</b>	<b>17,327</b>	<b>7,971</b>	<b>18,007</b>	<b>128</b>	<b>19,259</b>	<b>19,533</b>	<b>2,047</b>	<b>37</b>	<b>38</b>	<b>2,556</b>	<b>86,902</b>

# APPENDIX 3

## Areas of broadleaved (eucalypt) plantations as at 31 December 2007 (hectares)

PYEAR	Commission owned				Commission managed		Grand Total
	E. globulus		Other eucalypts		E. globulus		
	State	Sharefarm	State	Sharefarm	State	Sharefarm	
Pre 1988	8		6,558	1	-	-	6,567
1988	-	4	11	-	-	-	15
1989	-	38	2	-	-	-	39
1990	20	7	25	-	-	-	52
1991	0		38	-	-	-	39
1992	-	185		-	-	-	185
1993	-	62	6	-	-	-	68
1994	-	7	2	-	-	-	8
1995	3	-	-	-	-	-	3
1996	-	4	0	3	94	280	381
1997	17	-	-	7	-	398	421
1998	25	80		5	411	692	1,213
1999	-	-	9	1	-	278	288
2000	-	57	29	2	-	492	579
2001	-	76		30	-	-	106
2002	-	27	1	483	-	55	567
2003	-	31	26	308	-	-	365
2004	-	18	144	577	-	-	739
2005	-	-	52	259	-	-	311
2006	-	-	6	1,051	-	-	1,057
2007	-	-	17	1,137	-	-	1,154
<b>Grand Total</b>	<b>73</b>	<b>596</b>	<b>6,924</b>	<b>3,865</b>	<b>505</b>	<b>2,194</b>	<b>14,158</b>



## APPENDIX 4

Areas of sandalwood (*Santalum spicatum* and *S. album*) plantations as at 31 December 2007 (hectares)

PYEAR	Commission owned		Commission managed		Grand Total
	State	Sharefarm	State	Sharefarm	
1997	-	5	-	-	5
1998	-	-	-	19	19
1999	-	-	-	-	-
2000	-	19	-	-	19
2001	-	48	-	-	48
2002	-	49	-	12	61
2003	-	55	-	22	77
2004	35	40	-	1	77
2005	39	176	-	-	215
2006	22	564	-	-	586
2007	47	1,533	-	-	1,580
<b>Grand Total</b>	<b>143</b>	<b>2,489</b>	<b>-</b>	<b>55</b>	<b>2,687</b>

## APPENDIX 5

Areas of other species (eg *Casuarina obesa*), within FPC plantations as at 31 December 2007 (hectares)

PYEAR	Commission owned		Grand Total
	State	Sharefarm	
2006	-	15	15
2007	6	32	37
<b>Grand Total</b>	<b>6</b>	<b>47</b>	<b>53</b>

# APPENDIX 6

## Log production by the Commission from Crown land and private property in 2007/08

Product type	Crown land		Private property		Total	
	m <sup>3</sup>	tonnes	m <sup>3</sup>	tonnes	m <sup>3</sup>	tonnes
<b><u>Sawlog timber</u></b>						
Jarrah	191,172	248,622	-	-	191,172	248,622
Karri	48,480	60,114	-	-	48,480	60,114
Marri	14,366	17,813	-	-	14,366	17,813
Blackbutt	1,578	1,951	-	-	1,578	1,951
Wandoo	411	445	-	-	411	445
Sheoak	1,055	1,055	-	-	1,055	1,055
Other	32	39	-	-	32	39
<b>Total native forest sawlogs</b>	<b>257,094</b>	<b>330,039</b>	<b>-</b>	<b>-</b>	<b>257,094</b>	<b>330,039</b>
Globulus	-	-	30	35	30	35
Marri	34	40	-	-	34	40
Yellow Stringybark	8	10	-	-	8	10
Muellerana	815	970	-	-	815	970
<b>Total plantation hardwood sawlogs</b>	<b>857</b>	<b>1,020</b>	<b>30</b>	<b>35</b>	<b>887</b>	<b>1,055</b>
Pinaster	157,759	157,759	181	181	157,940	157,940
Radiata	402,244	402,244	16,735	16,735	418,979	418,979
<b>Plantation softwood sawlogs and veneer logs</b>	<b>560,003</b>	<b>560,003</b>	<b>16,916</b>	<b>16,916</b>	<b>576,919</b>	<b>576,919</b>
<b>Total sawlogs</b>	<b>817,954</b>	<b>891,062</b>	<b>16,946</b>	<b>16,951</b>	<b>834,900</b>	<b>908,013</b>
<b><u>Other log material</u></b>						
<b>Native forests</b>						
Chiplogs	168,845	200,276	-	-	168,845	200,276
Firewood/charcoal logs	116,755	132,002	-	-	116,755	132,002
Sandalwood	2,192	2,192	-	-	2,192	2,192
other *	4,176	5,148	-	-	4,176	5,148
<b>Sub-total native forest other</b>	<b>291,968</b>	<b>339,618</b>	<b>-</b>	<b>-</b>	<b>291,968</b>	<b>339,618</b>
<b>Plantation hardwood</b>						
Chiplogs**	826	978	351	411	1,177	1,389
Firewood/charcoal logs	630	630	-	-	630	630
other *	-	-	4	5	4	5
<b>Sub-total hardwood plantation other</b>	<b>1,456</b>	<b>1,608</b>	<b>355</b>	<b>416</b>	<b>1,811</b>	<b>2,024</b>
<b>Plantation softwood</b>						
Industrial wood	278,275	278,275	12,222	12,222	290,497	290,497
Woodchips	91,823	91,853	895	904	92,718	92,757
Other	12,722	12,722	-	-	12,722	12,722
Pine rounds	25,698	25,698	-	-	25,698	25,698
<b>Sub-total plantation softwood other</b>	<b>408,518</b>	<b>408,548</b>	<b>13,117</b>	<b>13,126</b>	<b>421,635</b>	<b>421,674</b>
<b>Total other material</b>	<b>701,942</b>	<b>749,774</b>	<b>13,472</b>	<b>13,542</b>	<b>715,414</b>	<b>763,316</b>
<b>TOTAL LOG TIMBER</b>	<b>1,519,896</b>	<b>1,640,836</b>	<b>30,418</b>	<b>30,493</b>	<b>1,550,314</b>	<b>1,671,329</b>

Includes logs from Crown land sold under Minor Production contracts.

\* Includes poles, bridge timbers, burls, chopping logs, mining timber, craftwood, pegging logs & fencing material.

\*\* Includes woodchips.

## APPENDIX 7

### Native forest sawlog production by the Commission in 2007/08

Species	High quality sawlogs	1st & 2nd grade sawlogs	Bole sawlogs	Other sawlogs	Total
	m <sup>3</sup>	m <sup>3</sup>	m <sup>3</sup>	m <sup>3</sup>	m <sup>3</sup>
Jarrah	1,156	128,730	25,532	35,754	191,172
Karri	120	45,241	-	3,119	48,480
Marri	720	-	-	13,646	14,366
Other species	1,370	31	395	1,280	3,076
<b>Total</b>	<b>3,366</b>	<b>174,002</b>	<b>25,927</b>	<b>53,799</b>	<b>257,094</b>

	tonnes	tonnes	tonnes	tonnes	tonnes
Jarrah	1,433	169,280	33,575	44,334	248,622
Karri	148	56,099	-	3,867	60,114
Marri	892	-	-	16,921	17,813
Other species	1,662	38	425	1,365	3,490
<b>Total</b>	<b>4,135</b>	<b>225,417</b>	<b>34,000</b>	<b>66,487</b>	<b>330,039</b>

Includes logs from Crown land sold under Minor Production contracts

## APPENDIX 8

### Native forest chiplog production by the Commission

Species	Crown land 2005/06		Crown land 2006/07 <sup>1</sup>		Crown land 2007/08	
	m <sup>3</sup>	tonnes	m <sup>3</sup>	tonnes	m <sup>3</sup>	tonnes
Marri	5,572	6,909	3,147	3,901	3,973	4,905
Karri	136,490	161,771	153,639	182,093	137,626	163,493
Other	392	459	6,927	8,106	27,246	31,878
<b>Total</b>	<b>142,454</b>	<b>169,139</b>	<b>163,713</b>	<b>194,100</b>	<b>168,845</b>	<b>200,276</b>

<sup>1</sup> 2006-07 data revised

## APPENDIX 9

### Native forest fuelwood production by the Commission

Product type	2005/06	2006/07	2007/08
	(tonnes)	(tonnes)	(tonnes)
Firewood logs	86,680	51,160	47,998
Charcoal logs	75,981	82,186	84,004
<b>Total</b>	<b>162,661</b>	<b>133,346</b>	<b>132,002</b>

## APPENDIX 10

### Sandalwood production by the Commission from Crown land

Product type	2005/06	2006/07	2007/08
	tonnes	tonnes	tonnes
Green (excl. roots & 3rd grade)	1,369	1,178	1,008
Roots	205	173	343
3rd grade green	17	99	185
Dead	653	682	656
Bark	38	-	-
<b>Total</b>	<b>2,282</b>	<b>2,132</b>	<b>2,192</b>

# APPENDIX 11

Strategies and targets		Status <sup>1</sup>		
		A1	A2	A3
<b>New Plantations</b>				
Establishment success	Establish plantings within budget and in accordance with agreed NAP program (100% of land acquired for planting and 75% of target areas established within the financial year).		✓	
Research and development	Systems implemented to measure reduction achieved in salinity and improvements achieved in water quality.		✓	
<b>Mature Plantations</b>				
Financial performance	Financial performance meets target.			✓
Establishment success	Cost of area re-established not to exceed budget.	✓		
Financial returns	Economic returns from plantations to increase evenly p.a. to meet FPC Weighted Average Cost of Capital by 2010.		✓	
<b>South West Forests</b>				
Financial performance	Financial performance meets target.	✓		
Sales	Contracts for sale achieve 30% recovery of the available gross timber volume (including residues) by 30 June 2008, rising by 5% p.a. to achieve 50% recovery by 2012.	✓		
Operating performance	Fully achieve contract commitments by delivering 100% of the available first and second grade sawlogs as per the FMP allowable cut per annum.	✓		
Regeneration	Regeneration of <i>harvested areas</i> within time limits as specified in the Forest Management Plan.		✓	
Value adding	Percentage of timber resource used for valued added output per timber sale contract achieved each year.		✓	
<b>Arid Forests</b>				
Operating performance	Financial performance meets target.			✓
Utilisation	Root recovery to remain above a minimum of 10% of total green sandalwood harvest.	✓		
Sustainability	Green sandalwood harvest not to exceed 1,500t per annum.	✓		
<b>Plant Propagation and Operational Support</b>				
Operational performance	95% of orders filled on time and to specification.	✓		
Financial performance	Unit cost of seed and seedlings not to exceed budget unit cost.			✓

1 A1 = Achieved

A2 = Partially achieved

A3 = Not achieved

(\*) Not currently measured

# APPENDIX 12

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APPENDICES

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Bole	Trunk or main stem of tree.
Broadleaved	Hardwood, flowering species.
Butt log	A log cut from the butt or lower end of the bole.
Carbon sequestration	Process where trees take up carbon dioxide from the atmosphere and store carbon in their leaves, branches, stem and roots.
Clearfelling	A silvicultural system in which all trees in an area are removed at one time to allow regeneration to establish and develop as an even-aged stand.
Coniferous	Softwood, cone bearing species.
Crown	A tree's canopy or foliage.
Cubic metre (m <sup>3</sup> )	Measure of timber volume.
Exotic species	A species not native to a region.
Falling or felling	Cutting down trees.
Flitches	Partly sawn log for further processing.
ha	Hectares.
Hardwood	Tree species which is a flowering plant or angiosperm, or the timber from it.
Harvesting	Felling of trees as part of a silvicultural operation.
Low grade logs	Logs unsuitable for sawmilling, but suitable for other uses including manufacturing of reconstituted wood products, wood chipping, charcoal and energy generation.
Plantation	A planted forest.
Residues	Part of trees other than bole or trunk including branches, needles and tree stumps.
Share-farming	Contractual agreement with a farmer or landowner over an agreed period of years to use cleared land for commercial tree cropping.
Silviculture	Theory and practice of managing stands of trees for establishment, quality and growth.
Softwood	Tree species, of the gymnosperm group, or the timber from it. Most commonly conifers (cone-bearing).
Thinning	Felling of a proportion of the trees in an immature stand for the purpose of improving the growth of trees that remain without permanently breaking the canopy and encouraging regeneration.
Timber	General term used to describe sawn wood suitable for building, furniture construction and other purposes.
Sustainable yield	Sustainable yield of a forest is the maximum level of commercial harvest that can be maintained under a given management regime.
Veneer logs	High quality logs that can be sliced or peeled to produce veneer.

## ACRONYMS

ASFW	Australian School of Fine Wood.
CALM	Department of Conservation and Land Management, (as of 1 July 2006 Department of Environment and Conservation).
CO <sub>2</sub>	Carbon dioxide.
CRC	Cooperative Research Centre.
EMS	Environmental Management Systems.
FIAA	Furnishing Industry Association of Australia.
FIFWA	Forestry Industry Federation (WA).
FMAC	Forestry Ministerial Advisory Committee.
FMP	Forest Management Plan 2004-2013.
FPC	Forest Products Commission.
IFRS	International Financial Reporting Standards.
GST	Goods and Services Tax.
ISO 14001	International Standards Organisation 14001. The international standard for environmental management systems.
KPI	Key Performance Indicator.
LTI	Lost Time Incident.
LVL	Laminated veneer lumber.
NAP	National Action Plan for Salinity and Water Quality.
NRM	Natural Resource Management.
NTER	National Tax Equivalent Regime.
ORIA	Ord River Irrigation Area.
PIMAC	Plantation Industry Ministerial Advisory Committee.
RFA	Regional Forest Agreement.
RIRDC	Rural and Industries Research and Development Council.
SCI	Statement of Corporate Intent.
SGARA	Self Generating and Regenerating Assets.
STF	Strategic Tree Farming project.
UIG	Urgent Issues Group.
WATC	Western Australian Treasury Corporation.



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