

Forest Products Commission

ANNUAL REPORT

July 2003 – June 2004



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*For a copy of the full report visit
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**ENVIRONMENTAL
MANAGEMENT
SYSTEM**
ISO 14001 NATA CERTIFIED

Certification No 8289

Certified 11 July 2001

Operations Division

**TO THE HON KIM CHANCE MLC
MINISTER FOR AGRICULTURE, FORESTRY AND FISHERIES**

In accordance with Section 66 of the *Financial Administration and Audit Act*, I hereby submit for your information and presentation to Parliament, the Annual Report of the Forest Products Commission Western Australia for the year ended 30 June 2004.



Murray Jorgensen
Chairman, Forest Products Commission Western Australia

Review

The year 2003/04 marked a major milestone, not only for the Forest Products Commission (Commission) but for the entire timber industry. New ten-year contracts for jarrah, karri and marri sawlogs commenced and new business opportunities pursued through Infinitree™ - our tree farming initiative for low to medium rainfall zones.

In accordance with Government policy native forest harvesting has reduced and the plantation harvesting business continues to provide opportunities for the future.

The contracts for the South-West native timbers are aligned with the Government's new Forest Management Plan 2004/2013 at levels that can be sustained from regrowth or previously harvested forests and are consistent with the Government's *'Protecting Our Old Growth Forests'* policy.

In the contracts, successful bidders have committed to steps that will see increases in the utilisation of timber from the forest, and most importantly, the supply of milled timber to Western Australian manufacturers of high value end products. These manufacturers, in furniture, flooring and joinery businesses offer the greatest levels of employment for each unit of timber production, an important social outcome for communities in the South-West of the State.

Outside the South-West, the Commission has taken important steps to develop tree farming options for lower rainfall zones under the Infinitree brand, launched by the Premier of Western Australia. Supplementing sharefarms with farmers in all Infinitree cells, the Commission purchased four properties in the Mid-West, Great Southern and South Coast regions. On these properties, the Commission will demonstrate applications of tree-farming integrated with cropping and grazing with the aim of controlling water tables while providing commercial and social benefits through employment and industry development in these regions.

During the year, the Commission has continued to work with potential investors to seek avenues for non-government investment in these areas. The Government's introduction of carbon rights legislation and the proactive nature of plantation forestry provide opportunities for the Commission to pursue national and international investors.

Together with the federal Department of Agriculture, Forestry and Fisheries, the Commission sponsored a forest investment workshop to explore with industry and community groups opportunities to encourage new investments in the WA forestry and wood products industry, particularly in lower rainfall areas. Katanning was the venue for the second in a series of regional workshops to be held in Australia's major forest regions.

The year has also thrown up major challenges, not the least being the wildfire at Bridgetown on 27 December 2003, which burnt 670 hectares of State-owned pine plantations in addition to private property and native forest. Working with other agencies, Commission staff and our harvesting contractors salvaged over \$2 million worth of timber from these plantations and with our customers, found end markets for a wide range of the salvage material. Staff faced major challenges with safety and environmental protection during the operation and achieved a magnificent result in all areas.

Infinitree™ is a registered trademark of the Forest Products Commission Western Australia.

Review *cont'd*

The community, Commission and our customers have also responded to a slower-moving threat in the form of an incursion of the insect pest European house borer. Staff, cooperating with the Department of Agriculture and other agencies, have responded quickly to the need for mapping of the incursion, its containment and plans for its eventual eradication.

In the arid zones of the State, implementation of vertical lift harvesting techniques in new sandalwood harvesting contracts continued to provide increased recovery of butts and roots with lower environmental impact.

Behind the scenes, the Commission has undertaken a review of its board and top management structures. We have changed structures and reporting arrangements in the executive with the aim of increasing our effectiveness in all business segments.

All of the work summarised in this review, and a huge volume of work that has not been mentioned, is delivered by over 200 committed and dedicated staff throughout the organisation. They are recognised nationally and internationally for their unique skill sets and intellectual property and are well positioned to assist forestry development in WA. We thank them for their tireless work during another year of challenge and change.

Our Annual Report this year has taken on a new format so as to provide our stakeholders with feedback on the Commission's performance in the pursuit of its Vision Statement and related sustainability objectives. For the first time we have segmented the Annual Report to highlight our Social, Environmental, Governance and Economic goals, deliverables and achievements in the year. We look forward to continuing to work with all our stakeholders, including the community, our staff and customers during this exciting change in forestry in WA.



Murray Jorgensen
CHAIRMAN



Paul Biggs
GENERAL MANAGER

Business Profile

The Forest Products Commission manages the commercial production of Western Australia's public native forest and plantation timbers, and manages a growing estate of tree farms for both public and private investors.

The Commission's plantations and tree farms are producing the bulk of Western Australia's commodity timbers and our native forest timbers are being used increasingly for high value end uses such as furniture and flooring.

The Commission manages more than 350 contracts (including State Agreements) for works and services contracts and the sale of forest products. These contracts have an approximate life value in the vicinity of \$2.5 billion.

We work in close consultation with industry, government and the Western Australian community to ensure the long-term sustainability of our State's renewable timber resources.

A strong focus on research and development underpins the operation of the Commission's plantation and native forest business. The Technical Services Branch provides research, development and monitoring for plantations and environmental services and the Timber Technology Centre plays a pivotal role in joint research programs based on value adding particularly to plantation grown hardwood timber. The Plant Propagation Centre, which comprises the Manjimup nursery, Seed Technologies and Tree Breeding Centre, provides diverse and superior tree species and meets the needs of our growing business.

The Commission reports to the Minister for Agriculture, Forestry and Fisheries through a seven-member Commission.

As required under the *Forest Products Act 2000*, the Commission aims to ensure that a profit consistent with planned targets is made from the use of forest products while ensuring:

- the long-term viability of the forest products industry; and
- the principles of ecologically sustainable forest management is in accordance with the management of indigenous forests located on public land.

Business Profile *cont'd*

OUR CUSTOMERS

Our customers encompass a diverse group of local and overseas businesses, contractors, farmers, government agencies, regional communities and the broader public.

The Commission produced and sold 1,479,806 tonnes of timber to these customers during the year. It also established and managed plantations for a range of investors.

The plantation industry is now the Commission's largest customer and includes the Wespine sawmill, Wesfi Limited's particleboard and medium density fibreboard plants and Pinetec's sawmill. Output from this industry now provides the bulk of Western Australia's construction timber and panels for cabinet work.

Following the introduction of the new Forest Management Plan 2004/2013, the Commission supplies about fifteen small to medium sized sawmills and a number of craftwood-scale customers with sawlogs, which are now used predominantly for furniture timber. Mills supply a valuable local industry of indoor and outdoor furniture manufacturers with a focus on production for interstate and overseas export.

Low grade, or residue timbers, supply local industries for domestic and industrial firewood (charcoal) as well as overseas buyers of logs and woodchips for pulp and paper making. The Commission continually seeks local markets for these resources in preference to export markets.

WA Sandalwood is sold to a combination of local and overseas buyers - the largest buyer being Mount Romance Australia, which produces oil at its facilities near Albany.



Values and Objectives

The Forest Products Commission is the State's trading enterprise responsible for the allocation and sale of forest products from State-owned and State-managed plantations, and from the State's native forests and woodlands. The Commission works with industry and the community to develop and promote the use of Western Australia's renewable timber resources.

VISION STATEMENT

An environmentally sustainable and commercially viable forest products industry providing economic and social benefits to the people of Western Australia.

MISSION STATEMENT

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

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

VALUES

Achievement

We will deliver best practice service.

Innovation

We will be creative and innovative in meeting our objectives.

Leadership

We will provide leadership to assist in the development and restructure of the timber industry.

Customer focus

We will understand and meet our customers' needs.

Environmental responsibility

We will adhere to ecologically sustainable management.

Accountability

We will adhere to processes that are understood and measured.

Integrity

We will act honestly and ethically in accordance with the Commission's Code of Conduct.

Values and Objectives *cont'd*

OBJECTIVES

The *Forest Products Act 2000* establishes two objectives for the Statement of Corporate Intent:

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*), which state that the Commission decision making process should integrate long and short term environmental, social and equitable considerations in the management of indigenous forest products located on public land;

and also defines the principle that the Commission must try to ensure that a profit that is consistent with planned targets is made from the management of forest products whilst ensuring that these two objectives are met.

These broad objectives, and the principle relating to profit, have been further developed to provide more detailed targets and measurable performance indicators. They have also been aligned to be consistent with Government's policies.

PLANTATIONS

Goal:

To develop the Commission's tree farm and plantation business providing forest products and environmental services at scales relevant to market opportunities and environmental needs.

NEW TREE FARMS AND PLANTATIONS

Objectives:

- For each cell, a tree farm estate of a scale that will support a competitive processing industry in the quickest feasible timeframe; and
- Maximised contribution to watertable control and biodiversity enhancement consistent with regional Natural Resource Management (NRM) strategies.

MATURE PLANTATION ESTATE

Objectives:

- Maximised log production and financial return from the plantation estate in both the short and long-term;
- A secure plantation estate in both the short and long-term, compatible with other land use objectives; and
- An increase in private investment in pine plantations.

Values and Objectives *cont'd*

NATIVE FORESTS

Goal:

To develop the Commission's native forest products business to produce timber for the high value manufacturing industry in Western Australia.

SOUTH-WEST FORESTS

Objectives:

- A viable and sustainable industry based on downstream processing;
- A Commission business providing timber to industry in a profitable manner matched to the resource available; and
- Maximum utilisation and value adding of all timber harvested.

WESTERN AUSTRALIAN SANDALWOOD

Objectives:

- Consolidation and expansion of existing and new markets to provide stability and diversity, increased profits and appropriate levels of local value adding;
- Maintenance of sustainability; and
- Expansion of the resource.

DESERT TIMBERS

Objectives:

- An industry processing 5,000 to 10,000 tonnes of log material for high value niche markets; and
- Operations able to deliver forest products from woodland areas at a competitive price.

TROPICAL TIMBERS

Objectives:

- The development of a tropical timber industry.

OVERARCHING AND SUPPORT SERVICES

Goal:

Provide the necessary infrastructure and services to support goals of plantations and native forests operations.

Plant Propagation Centre

The Plant Propagation Centre encompasses the Commission's nursery, seed centre and genetic deployment unit.

Objectives:

- Reliable and competitive supply of seeds and seedlings (including cuttings, emblings, clones etc.) to meet Commission and external market needs;
- Quality, genetically superior seeds and seedlings;
- Products matching market opportunities; and
- Maximum utilisation of plant propagation assets.

Values and Objectives *cont'd*

CORPORATE SERVICES

Corporate services include financial, business analysis, information technology and human resource services across the whole agency. The strategy for this support area is to:

Objectives:

- Quality financial, business, information technology and human resource systems appropriate and responsive to the Commission business; and
- Efficient and effective use of in-house and external providers.

Performance measures relating to these objectives are provided in the Annual Report.

Audited key performance indicators are marked with the symbol , measures against planned targets in the Statement of Corporate Intent (SCI) are marked with the symbol and in addition measures suggested by the Global Reporting Initiative (GRI)¹ have been included.



¹ GRI is a joint initiative of the US Coalition for Environmentally Responsible Economies and United Nations Environment Programme with the goal of enhancing the quality, rigour and utility of sustainability reporting.

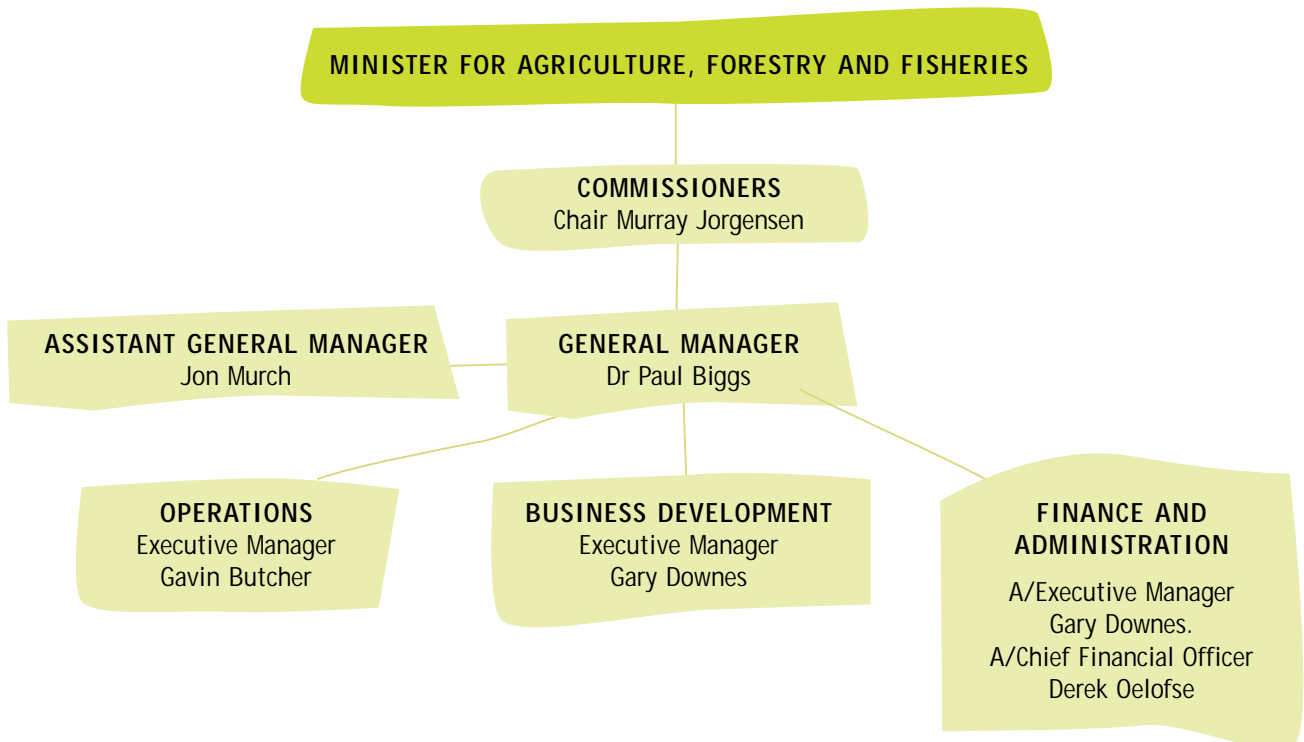
Organisational Structure

During 2003, the Commission initiated a senior management review and reorganised its structure to ensure it is in the best position to deliver on its strategic goals and directions.

With the finalisation of the next 10-year Forest Management Plan, reduction in native forest activity and growing dominance of plantations, these two operations now come under a single division. This is supported by a newly created Technical Services Branch providing a strong focus on research and development and an Operational Services Branch focusing on technical implementation and providing support services.

Business Development, with its focus on new business, marketing and investment has been separated from other corporate services, which now comes under Finance and Administration, consistent with the Government's functional review program.

The new position of Assistant General Manager has a senior negotiation role.



Year Ahead

The year ahead will focus on final allocations of feature logs and firewood allowable under the Forest Management Plan 2004/2013, and continuing to pursue investment into plantations in lower rainfall areas based on a mix of salinity, investment, carbon sequestration and private sector investment.

Relocation of Timber Technology Centre

The next step in improving our research and development capacity will be the relocation of the Timber Technology Centre from Harvey to the University of Western Australia (Facility of Architecture, Landscape and Visual Arts). The Commission will retain its own independent identity but will share facilities and be in a position to significantly leverage its research funding capabilities with the University of Western Australia as well as other tertiary research institutions in WA and interstate.

To get maximum benefit from research funding, it has become increasingly important to participate in joint research programs with industry and other research providers, with particular emphasis on a national approach to achieve efficient leveraging of those funds.

Laminated Veneer Lumber

On the opening of the new Wesbeam-owned Laminated Veneer Lumber (LVL) Plant at Neerabup, the Commission will supply the plant with 4.12 million cubic metres of softwood logs over the next 26 years. The main source of logs will come from the Ngangara mound. The plantation harvesting strategy has been based on the need to optimise the water recharge.

Pinetec relocation

Pinetec has operated its sawmilling business for pallets, packaging and other products for a number of years from Bassendean. In order to expand the business, the company has elected to move to Collie adjacent to the Muja power station. The manufacturing and preservation operations will remain at Bassendean. The company will have an intake of 96,000 cubic metres of logs from Commission plantations throughout the South-West. If amending legislation is passed through parliament, the Commission will enter into a 20-year supply contract with Pinetec.

Environmental monitoring of trees on farms

The establishment of plantations and integrated tree crops in the medium rainfall zone of southern Western Australia under the Infitree brand is designed to provide both economic and environmental benefits to the State. The demonstration of the environmental benefits from tree crops is critical to the development of the Infitree program. The impact of these plantings on soil, water stores and groundwater levels will be monitored so that the benefits of revegetation in ameliorating dryland salinity can be demonstrated. Additionally, the impact of these plantings in sequestering carbon will be determined as part of the ongoing plantation inventory assessment of these plantings.

Environmental Review

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Environmental Review

OUR VISION

To support an environmentally sustainable and commercially viable forest products industry providing economic and social benefits to the people of Western Australia.

POLICY

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

- Apply the principle of sustainable forest management in all native forest operational activities in accordance with appropriate State and National standards;
- Apply the principle of sustainable plantation management, including contributing to global carbon cycles, in accordance with appropriate State and National standards;
- Seek opportunities where plantations can be used as a tool for the enhancement of the environment by abating environmental problems;
- 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 its operations and set objectives and standards to keep potentially significant impacts to acceptable levels, including the prevention of pollution, minimising waste and reducing energy consumption;
- Clearly define environmental responsibilities and train staff and contractors in good environmental management practices; and
- Communicate with internal and external stakeholders on environmental issues and performance.

ENVIRONMENTAL MANAGEMENT

The Commission's focus in relation to environmental outcomes is to ensure that products are grown, extracted and developed in an environmentally sustainable manner.

The Commission was awarded the WA Timber Industry Award for Excellence in Forest Management in 2003 in recognition of its commitment to Environmental Management System ISO 14001 (EMS).

With the Commission's Operations division certified under ISO 14001 for three years, the Commission will undertake recertification in 2004 and apply to extend certification to other divisions.

Environmental Review *cont'd*

ENVIRONMENTAL INCIDENTS

Internal and external quarterly audits are conducted to ensure the Commission monitors environmental impact, has objectives to manage this, is effective in implementing its environmental systems and monitors and reviews its performance.

The most significant incidents last year were:

Bridgetown wildfire

This represented a huge logistical exercise covering fire containment, safety, environmental management (continuing) in a very sensitive area, especially mitigation against erosion of the exposed soils on steep slopes draining into the Blackwood River.

Emergency response to Fire 18 near Bridgetown was effective and is still being monitored. An emergency recovery plan has been successfully implemented.

Insect Incursion

The quarantine pest European house borer, a destructive pest of untreated seasoned pine, confirmed for the first time in WA.

As a result, a State incident management team was established involving Department of Agriculture and the Commission, action coordinated with national Forest Health Committee, other agencies and industry. Surveillance strategy and delimiting survey implemented with a view to eradication. Surveillance will be necessary for up to 15 years.

Planting failures

Approximately 40 per cent of the plantings from the winter of 2003 had to be replanted or infilled.

This was primarily due to a dry hot season, which particularly affected two-year-old seedlings less adaptable to drought conditions.

A review of seedling specifications has been undertaken to minimise the risk of this occurring in the future.

Boundary breach

A harvesting contractor went outside the marked boundary into a Comprehensive and Representative (CAR) river reserve in the Manjimup area adjacent to coupe MWH0203.

The definition and recognition of boundaries and training requirements of contractors have been reviewed.

Unauthorised burn

A contractor burnt windrows at Cooke plantations without notifying the Commission or gaining approvals from the Department of Conservation and Land Management (CALM) creating a smoke hazard.

An internal investigation was conducted and the contractor sent a breach of contract notice.

Internal Processes

An internal audit found issues relating to internal record management, communication and environmental objectives not meeting EMS standards.

Executive undertook a review of environmental policy and objectives, approved new record system policies and prepared a comprehensive communication plan.

All EMS incidents were reviewed and closed on schedule.

Environmental Review *cont'd*

ENVIRONMENTAL SERVICES

During 2003/04 a new Technical Services Branch was established to increase the research, development and monitoring capacity within the Commission.

A high priority will be monitoring the impact on soil water stores and groundwater levels of our Infinitree commercial and integrated tree crops in the low to medium rainfall zones.

New programs coordinated by Technical Services Branch will track the impact of both plantations and integrated tree plantings on water tables in these areas to demonstrate the benefits of revegetation in ameliorating dryland salinity. It is planned that intensive monitoring will occur on two of the properties purchased by the Commission in 2003/04. These will demonstrate the effectiveness of trees in salinity amelioration at the local and sub-catchment level.

WATERTABLE MANAGEMENT OF THE GNANGARA MOUND

Ground water levels have declined across the Gngangara area. Both the extended dry period and abstraction of water for private and public use are likely major contributors to the decline in the groundwater levels. The removal of the 21,500 hectares of pine plantations of Gngangara, Pinjar and Yanchep may assist in addressing this decline.

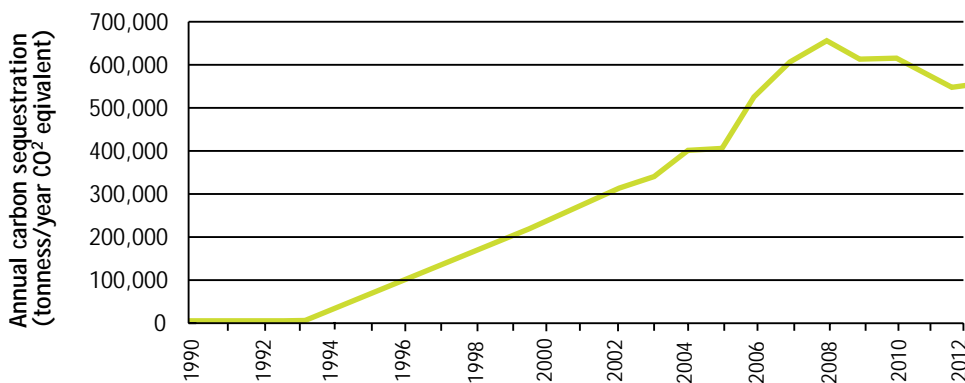
Since January 2003 the plantation harvesting strategy has been based on the need to optimise the water recharge whilst meeting our commitments to supply a new laminated veneer lumber (LVL) plant under the *LVL State Agreement Act*.

Ongoing work by the Gngangara vegetation technical team, made up of representatives from Watercorp, Department of Environment, CSIRO, Edith Cowan University and the Commission, is investigating the gaps in knowledge on water recharge rates.

The outcomes of this work will assist the environment by providing options to maximising water recharge as well as optimising the level of timber resource to meet contractual commitments.

CARBON SEQUESTRATION

The Commission has undertaken considerable research, both independently and as a member of the Co-operative Research Centre for Greenhouse Accounting, to develop best practice techniques for sampling and estimation of carbon sequestration in farm plantations and forecasting future carbon sequestration.



Estimated annual carbon sequestration in Commission-owned plantations established 1990-2003 and model projections of future carbon sequestration in those plantations.

Environmental Review *cont'd*

PROTECTING BIODIVERSITY VALUES

Tree crops for water table control and biodiversity enhancement are gaining acceptance being included in Regional Catchment Plans during 2003/04.

No areas of native vegetation of environmental value have been cleared for the establishment of plantations.

RENEWABLE ENERGY

As part of the Commission's objective to provide opportunities for developing renewable energy resources, two successful applicants of a Request for Proposal are conducting trials to develop a business plans for biomass energy plants using pine harvest residues.

SUSTAINABLE FORESTRY

Sustainability is one of the key elements underpinning the strategic directions of the Commission and underpins the principles on which it is required to act.

We are committed to delivering a sustainable forest products industry in WA; maximising the sustainable use of forest residues, including waste reduction and value adding; and being a recognised provider of environmental services and benefits. These services include watertable/salinity control; carbon sequestration; biodiversity enhancement and erosion control/farm enhancement.

QUANTITY OF NATIVE FOREST HARDWOOD LOG TIMBER HARVESTED¹ COMPARED TO SUSTAINABLE LEVELS AND TARGETS

The sustainable level is the average quantity of timber available for harvest each year, which can be continued in the long term (sustainable yield level).

Forest areas 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 independent analysis of this information, the estimated sustainable yield level of annual bole volume for jarrah, karri and marri is determined for the term of each Forest Management Plan. During this financial year the Forest Management Plan 1994/2003 expired on 31 December 2003 and a new Forest Management Plan commenced on 1 January 2004 for a 10-year period commencing from 2004 to 2013.

- (A)(i) For the period 1994/2003 the annual sustainable yield of total bole volume for jarrah, karri and marri was 1,360,000m³, 417,000m³ and 559,000m³ respectively and,
- (ii) For the period 2004/2013 the annual sustainable yield of bole volume (including first and second grade sawlogs) for jarrah and karri is 665,000m³ and 171,000m³ respectively and for all marri bole logs is 196,000m³.
- (B)(i) For the period 1994/2003 the annual sustainable yield of first and second grade sawlogs for jarrah, karri and marri, as modified by the 1999 Regional Forest Agreement and Government policy, was 324,000m³, 149,000m³ and 78,000m³ respectively.
- (ii) For the period 2004/2013 the annual sustainable yield of first and second grade sawlogs for jarrah and karri is 131,000m³ and 54,000m³ respectively. Marri sawlogs is part of the 196,000m³ identified for marri bole logs.

¹ 'Harvest' means the commercial extraction and sale of log timber for processing and value adding.

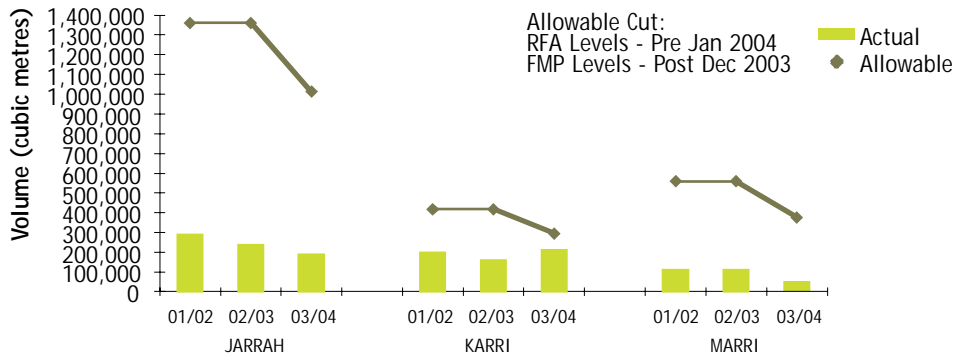
Audited key performance indicator

Environmental Review *cont'd*

Measure: A: Total bole-volume log timber harvest does not exceed allowable cut.

OUTPUT A (i) and (ii)

TOTAL BOLE-VOLUME LOG TIMBER HARVEST



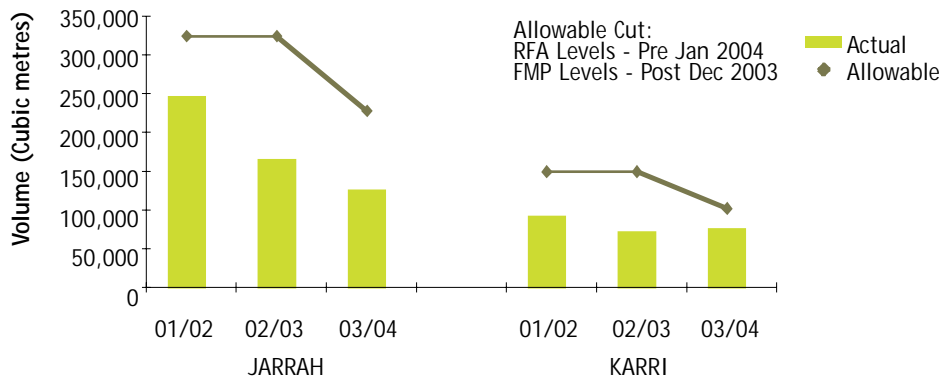
Note: The 2004 targets are an aggregation of harvest activity of the last six months under the 1999 Regional Forest Agreement and the first six months of the Forest Management Plan 2004/2013.

- A (i) Actual quantity of total bole volume harvest of native forest hardwood log timber for the period July to December 2003 for jarrah was 83,371m³, for karri 114,174m³ and marri 41,931m³
- (ii) Actual quantity of the total bole volume harvest of native forest hardwood log timber for the period January to June 2004 for jarrah was 102,118m³ for karri was 94,389m³ and marri 6,327m³

Measure B: Total first and second grade sawlog timber harvest does not exceed allowable cut .

OUTPUT B (i) and (ii)

TOTAL FIRST AND SECOND GRADE SAWLOG TIMBER HARVEST (Jarrah & Karri)



Note: The 2004 targets are an aggregation of harvest activity of the last six months under the 1999 Regional Forest Agreement and the first six months of the Forest Management Plan 2004/2013.

Audited key performance indicator

Environmental Review *cont'd*

- B (i) Actual quantity for July to December 2003 of first and second grade jarrah was 55,772m³, karri sawlog 44,264m³ and marri sawlog 7,334m³
- (ii) Actual quantity for January to June 2004 of first and second grade jarrah was 69,188m³, karri sawlog 30,614m³ and marri sawlog 3,103m³

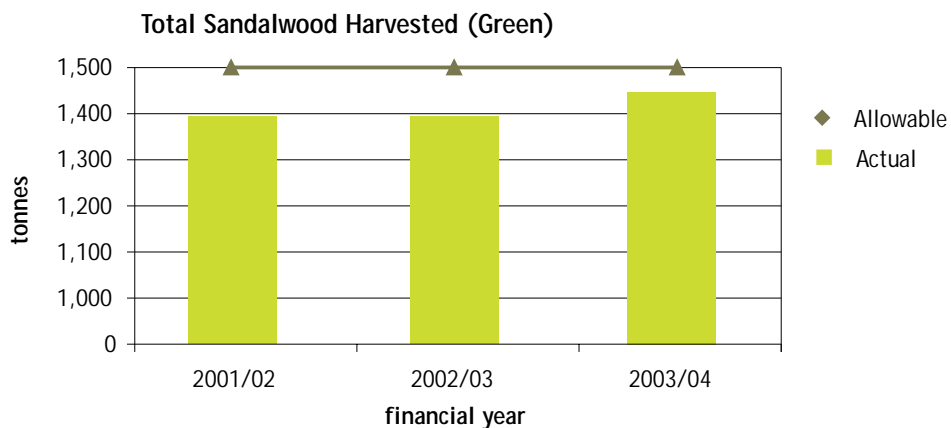
THE HARVEST OF 'GREENWOOD' SANDALWOOD WILL BE MAINTAINED AT A SUSTAINABLE LEVEL .

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, deadwood is also harvested.)

Measure:

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



The above graph does not include roots extracted, as root volume did not form part of the sustainable limit.

The harvested volumes are: green 1,444 tonnes; dead 581 tonnes and roots 120 tonnes which demonstrates the Commission's endeavour to maximise resource utilisation.

Percentage of sandalwood roots and butts recovered

The recovery of 8.6 per cent of butts and roots during 2003/04 exceeded the target of five per cent set in the SCI.

SCI Indicator

Audited key performance indicator

Environmental Review *cont'd*

REGENERATION

Natural regeneration, supplemented by an appropriate planting regime, is the primary outcome of the Commission's silvicultural program in all previously harvested forest areas.

AREA OF NATIVE FOREST HARDWOOD REGENERATED

Regeneration treatments applied in any one year may include parts of areas harvested over a number of preceding years. On an annual basis the area regenerated may fluctuate above or below the area harvested due to unsuitable field conditions.

The area of native forest hardwood regenerated compared with the area harvested for regeneration.

The figures being reported cover the 2003 calendar year, with the comparatives covering the 2002 calendar year.

The area of native forest harvested for regeneration was 5,825 hectares (2002/03 8,250 hectares). All areas were proposed for follow-up silvicultural treatments. Treatments to achieve regeneration were completed for 2,995 hectares from this or previous years cutting.

Percentage of karri regenerated to required standards

Regeneration success rate is measured in late December. The seedling survival count for karri regeneration since July 2003 of clearfell area harvested from 1999 to 2002 showed a 97 per cent survival rate against a target of 98 per cent. The 35 hectare area below the required stocking rate is included in the winter 2004 seedling infill program.

Western Australian Sandalwood

The Commission's continued commitment to researching the recruitment of sandalwood in its natural distribution has provided significant ecological breakthroughs.

Collaborative research between the Commission and Murdoch University is revealing the extent of the relationship between the almost extinct woylie and sandalwood regeneration. Results have assisted with developing substantial changes to sandalwood silvicultural techniques, these techniques now provide for greater levels of sandalwood regeneration above that of the existing natural level.

For each sandalwood tree harvested, 12 new sandalwood seeds are buried in the same area, to mimic the function of the woylie. Field trials within harvested areas are indicating higher levels of regeneration are now occurring than previously recorded.

Eighty-five inspections conducted from July 2003 to mid-June 2004, covered 15 harvesting contractors and confirmed that the silvicultural prescription, i.e. sowing of sandalwood seed (nuts), has been complied with and that each contractor has adequate seed supplies.

◇ SCI Indicator

Audited key performance indicator

Environmental Review *cont'd*

IMPLEMENTATION OF THE REGIONAL FOREST AGREEMENT

The Commission is responsible for the implementation of four of the commitments made under the Regional Forest Agreement (RFA) between the Western Australian and Federal Governments signed in May 1999.

The following have been completed:

- Development of a Memorandum of Understanding for a Forest Industry Structural Adjustment Program;
- Review of timber harvesting documents with a view to improving understanding by field operatives and field staff
- Legislative review and competitive neutrality review regarding wood based businesses.

Progress continues on the outstanding commitment in relation to:

- Pre-logging fauna assessment.

The Forest Management Plan 2004/2013 requires this to be addressed by 1 January 2005.

ENERGY MANAGEMENT

The Commission has committed to an energy management program under the Energy Smart Government Policy. Being a Government Trading Enterprise, the Commission is a voluntary subscriber to the program that requires government agencies to reduce their stationary energy consumption by 12 per cent over the period 2001/02 to 2006/07. The energy reduction target for the 2003/04 financial year is 1 per cent - providing a total energy reduction of 6 per cent since 2001/02.

Table 1

Energy Smart Government Program	2001/02 Baseline Data	2002/03 Actuals	2003/04 Actuals
Energy	Energy Consumption (GJ)		
• Electricity	2,839	3,682	2,841
• Natural Gas	2,330	736	2
• LPG	825	916	691
• Industrial Diesel	472	704	708
Total Energy Consumption	6,467	6,038	4,242
Total Energy Cost	\$173,032	\$171,084	\$159,385
Greenhouse Gas	Emission in tonnes of CO²		
Emissions	930	1,114	841

Environmental Review *cont'd*

Table 2

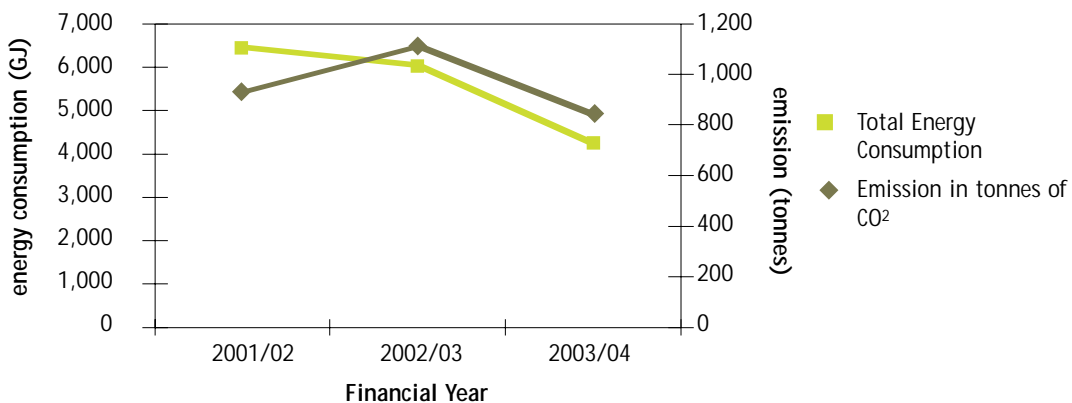
Performance Indicators by End Use category	2001/02 Baseline Data	2002/03 Actuals	2003/04 Actuals
1) Office buildings - tenant services			
• MJ/person/annum	9,322	8,880	9,888
• MJ/m ² /annum	269	283	377
2) Office buildings - combined services			
• MJ/person/annum	5,355	5,760	6,683
• MJ/m ² /annum	540	475	210

Note:

Table 2.1 is electricity consumption per person per annum at the Rivervale, Kalgoorlie and Guildford offices.

Table 2.2 is electricity consumption per person per annum at the Harvey, Manjimup, Nannup, Bunbury and Collie offices.

Total Energy Consumption (GJ) & Greenhouse Gas



The Commission has achieved a total reduction in energy consumption of 34 per cent compared to the baseline data set in 2001/02.

Explanation of significant variances for the 2003/04 financial year

Significant reductions in energy consumptions over the 2003/04 financial year can be attributed to two major factors:

- 1 The Timber Technology Centre in Harvey recorded a significant reduction in electricity and natural gas usage due mainly to the Commission commencing to phase out its commercial timber drying facility in the 2002/03 year.
- 2 The Manjimup Nursery reported a 50 per cent or 806 GJ reduction in electricity consumption over the 2003/04 year due to a decrease in nursery production by almost one million units, which resulted in reduced operational usage of the equipment and cool room.

Offsetting these significant decreases were increases in electricity consumption due to the commissioning of a new building for the Manjimup Seed Centre and occupying additional floor space at the Rivervale Office.

Environmental Review *cont'd*

Commission's Energy Management Policy

The Commission has implemented an Energy Management Policy, which aims to:

- Reduce dependence on fossil fuels by reducing energy use;
- Reduce expenditure on energy by investing in cost effective plant and equipment; and
- Reduce pollution, particularly carbon dioxide emissions by sourcing energy that is low in greenhouse emissions.

An energy management team has been established to implement the Policy, develop an energy management program and communicate energy awareness and initiatives to all staff. Staff are also encouraged to identify energy saving ideas.

The Commission is to undertake an energy audit of its Rivervale office premises in order to initiate its energy management program. This audit will be funded by a grant from the Sustainable Energy Development Office (SEDO) under the Energy Smart Government program.

Staff are encouraged to conserve energy wherever possible and to be active in identifying energy saving ideas.

WASTE PAPER RECYCLING INITIATIVES

Staff are actively encouraged to recycle paper and the Commission uses accredited contractors for paper recycling.

For the year 2003/04, the Commission provided approximately 2,800 kilograms of paper to be recycled under the State Government's waste paper recycling program.

The Commission has implemented a Recycling and Waste Management Policy and established a management team to implement the Policy and to develop and promote recycling and waste management procedures.

The Commission's nursery obtained access to a plant that will ensure full recycling of all waste from planting trays and packaging.



Social Review



25 REGIONAL DEVELOPMENT AND EMPLOYMENT

27 PROMOTION AND CONSULTATION

29 COMMUNITY EDUCATION

30 OUR PEOPLE

Social Review *cont'd*

The Commission's suite of programs and products provide social outcomes as well as financial returns.

Regional WA in particular will benefit from a range of initiatives including establishing a plantation resource sufficient to attract industry development, infrastructure and provide employment opportunities.

Consultation and communication with stakeholders is central to Commission activities, as is promotion of value adding opportunities and the long term sustainable management of our timbers.

In keeping with our responsibility to our people and the broader community, the Commission regularly reviews and improves mechanisms and opportunities for the development of our staff in areas such as occupational safety and health and leadership and development.

REGIONAL DEVELOPMENT AND EMPLOYMENT

Investment confidence in plantation processing industries was given a boost with the introduction in 2004 of extended terms of production contracts for plantation timber up to 25 years.

The introduction of a new Forest Management Plan and new sawlog contracts will create more long-term employment and has brought stability to the industry and regional WA.

In October 2003, industry, research and State and Commonwealth Government leaders attended a Regional Forest Investment workshop in Katanning hosted by the Commission. It highlighted the types of industry development that can contribute to our salinity action as well as generating economic and employment benefits.

The Commission has continued to work with community catchment groups to develop regional strategic plans for the delivery of NRM outcomes. The inclusion of tree cropping as a significant component of the regional groups activities has been encouraging.

The feasibility of biomass energy plants using plantation harvesting residue is being trialled by two companies following a Commission Request for Proposal.

Pinetec is relocating to Collie which will see its annual intake increase from 60 to 100,000 m³ of plantations resource.



Social Review *cont'd*



THE AREA OF PLANTATIONS ESTABLISHED

Areas established can achieve a range of benefits. This will be to supply the existing industry, to develop resources in new areas for future regional economic benefits and for multiple landcare protection purposes.

Plantation establishment straddles the financial year, therefore areas of establishment reported in this Annual Report are those established during the winter of 2003.

MEASURE:

The areas established against targets .

	Second Rotation pine species (ha)	First Rotation pine species (ha)	Eucalypt species (ha)	Sandalwood (ha)
Target	1309	2300	2650	50
Total Area established	1013	1907	1404	96
Note:	(1)	(2)	(3)	(4)
Sustain existing industry	1013	816	-	96
Regional development	-	1091	1404	-
Salinity, water quality and landcare*	-	-	-	-

* Note: The salinity, water quality and landcare purpose is delivered concurrently with timber production.

(1) Second rotation pines

Target: 1,309 hectares

- (i) Re-establish all areas clearfelled and ready for replanting (1,013 hectares).

(2) First rotation pines

Target: 2,300 hectares

This is part of a long-term goal to establish a viable plantation estate to deliver economic, social and environmental benefits in target regions.

- (i) In order to sustain softwood resource in the Perth and Mid-West region, plantations are being established on farmland to replace areas to be clearfelled at Gnangara (approx. 23,000 hectares). Since 1995 a total of approximately 9,511 hectares have been established; and
- (ii) Final goal for various regional cells (Katanning, Esperance, Albany) are yet to be determined as part of detailed planning for coordinated approach to tree farming in Western Australia. Gaining access to land by sharefarming has proven increasingly difficult. Alternative measures may be necessary to sustain planting programs.

Audited key performance indicator

Social Review *cont'd*

(3) Eucalypt species

Target: 2,650 hectares

- (i) *Eucalyptus globulus*- establish plantations to meet requirements of Commission arrangements. The demand for new planting in bluegums has curtailed and most plantations are being directly managed by the investors.
- (ii) Eucalypt sawlog - The project has been continued by the Commission that was initiated originally with the Water and Rivers Commission. The target area is currently being re-evaluated as part of the Commission cell planning process.

(4) Sandalwood

Target: 50 hectares.

- (i) The area planted was 96 hectares.

PROMOTION AND CONSULTATION

Part of the Commission's role is to assist industry with the promotion of finished timber products.

A proud supporter of numerous industry events and activities, the Commission is committed to educating the wider community about the uniqueness and value adding opportunities available with Western Australia's native forest and plantation timbers and finished products.

Furniture Industry Association

Ongoing assistance was provided to the Furnishing Industry Association of Australia, Western Australian branch (FIAA (WA)), and its furniture manufacturers to enable them to become more progressive in design, manufacturing and exporting.

The Commission was involved in a regional tour to South-West sawmills for manufacturers to secure timber supply arrangements for their businesses. Following the awarding of native hardwood log sale agreements to sawmills now that the Forest Management Plan 2004/2013 has been approved, manufacturers and sawmillers need to ensure long term future viability by securing resource. The tours were arranged by the South West Development Commission, the Small Business Development Corporation, the FIAA (WA) and the Commission.

The Commission was again the 'Platinum' sponsor of the FIAA West Australian and Australian Furniture of the Year Awards, in October 2003. Two Western Australian manufacturers, Just Jarrah and Quedos Billiard Tables, took out joint honours in the Western Australian Best of the Best award with their timeless pieces using WA's unique jarrah as well as national winners in the respective categories of bedroom furniture and using native Australian timber.



Social Review *cont'd*

Australian School of Fine Wood

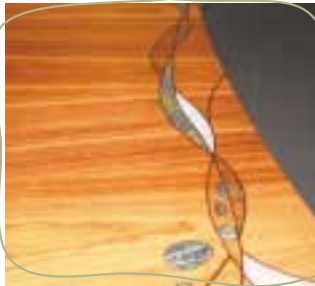
The Commission continued its contribution to the Forest Heritage Centre (FHC) and the Australian School of Fine Wood in Dwellingup.

The school conducts a two-year full time Diploma of Art - Furniture Design, introductory woodcraft course and creative workshop program

The centre has recently restructured its board and is developing plans for new additions to the centre to enhance its capabilities and attractiveness to wood workers and the tourism industry.

The Commission contributes to the salary and vehicle running expenses of the Centre's General Manager.

Mandurah Performing Arts Centre



The Commission contributed to the re-fit of the Serpentine Room at the Mandurah Performing Arts Centre. Within this project the FHC was commissioned by the Centre to design the boardroom furniture reflecting the culture and history of the 'Peel Region'.

The FHC also employed an aboriginal youth to provide design background on the embellishing and inlays reflecting aboriginal culture and assisted in the finishing of the furniture.

The Serpentine Room was officially opened by the Minister for Agriculture, Forestry and Fisheries.

Timber Advisory Centre

Ongoing weekly marketing of Western Australia's timber products takes place in the Timber Advisory Centre, in the Home Base Building Expo, in Subiaco.

The Commission contributes \$20 000 a year towards its management, promotion and upkeep. It is also represented on the Centre's council.

Mid-year, the Forest Industries Federation of Western Australia (FIFWA) handed over control of the display space for the Timber Advisory Centre to the management of Home Base Expo. The House of Ideas, however, remains under management by FIFWA, with participation with the Commission.

In addition to educating the broader public, the Centre is used as a timber specifier's point for architects, builders, designers and tradespeople.

Furniture Manufacturing and Exports

The Commission's Timber Technology and Industry Development branches continued to provide technical information on the characteristics and qualities of our timbers for application in newly designed and manufactured timber furniture for the Australian and international markets.

Export marketing

Assistance for the furniture industry in its export and marketing efforts continue to be ongoing. The furniture show at High Point, North Carolina in October 2003 was attended by representatives of FIAA WA with positive results achieved for WA manufacturers.

Social Review *cont'd*

COMMUNITY EDUCATION

The Commission has participated in the following events in an effort to further educate the broader community about its objectives, the State's timbers and the many value adding uses of our timber products:

- Dowerin Field Days
- South West Horticultural and Forestry Expo
- WA Farmers Federation annual conference
- Wagin Woolarama
- Working with Wood Show
- School of Wood end of year student exhibition
- numerous field days

Community consultation

The Commission consulted a range of stakeholders in regard to its native and plantation harvesting plans.

Stakeholder groups included the public, property owners, indigenous representatives, shires, parliamentary members, corporations, conservation groups, students and government agencies.

The Commission ensured prior notification was provided via media notices and direct mail when required. Detailed coupe maps, educational tours and follow up contact was also provided by Commission staff upon request.

Committee communication

The Plantation Industry Ministerial Advisory Committee (PIMAC) formed to improve communication between the government and the private plantation sector meets bi-monthly. The Committee's membership includes growers, harvesters, processors, users and key stakeholders from the community. The Commission participated in Regional Plantation Committees in the South-West (Trees Southwest) and Great Southern (Timber 2020) as well as the TIRES (transport planning) group. Senior Commission staff also gave presentations at various strategic planning forums and were regular contributors to the local branch of Australian Forest Growers (the national private forestry body) and the WA Agroforestry Working Group.



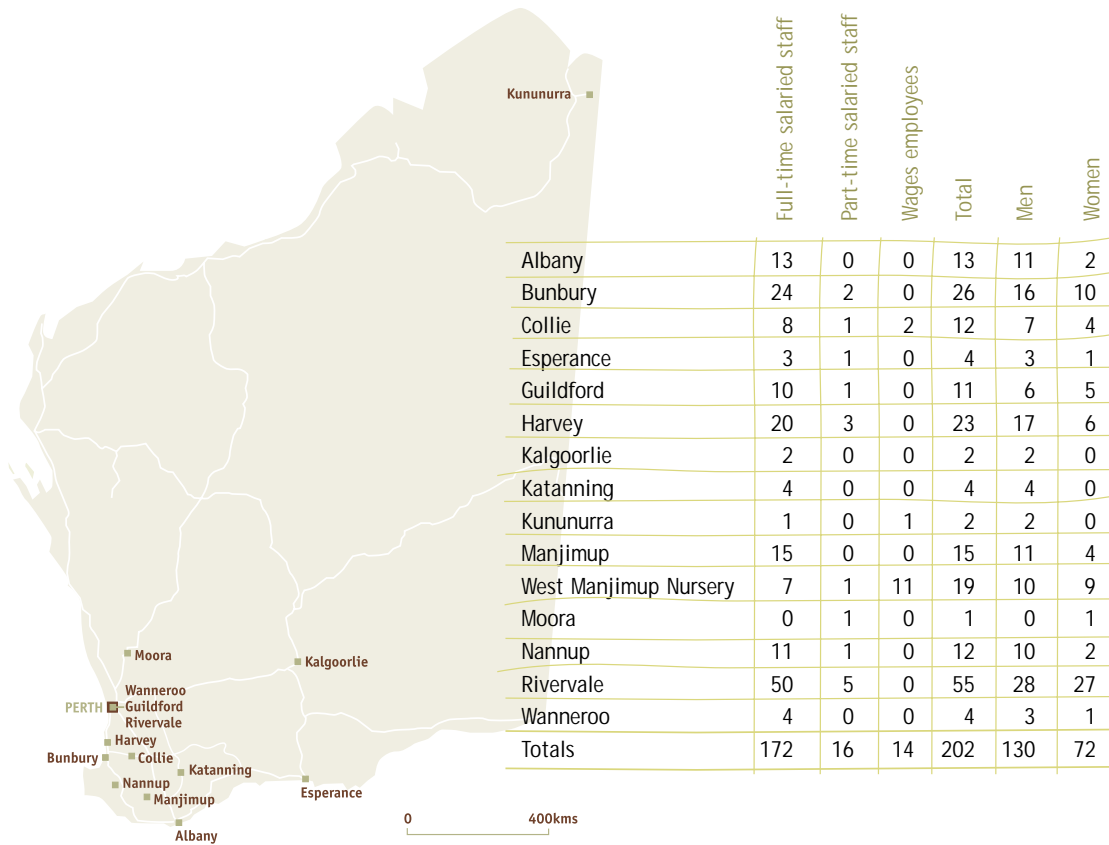
Social Review *cont'd*

OUR PEOPLE

The Commission has 55 employees working from the corporate headquarters in metropolitan Rivervale and 147 in 14 regional offices around the State. This represents an increase of 18 staff on the previous year and is mainly due to the transfer of the Technical Services Branch from the Department of Conservation and Land Management (CALM) and recruitment drive for entry level field staff.

The Commission's employees are committed to working closely with industry in a dynamic environment that holds enormous potential for the entire Western Australian community.

As at 30 June 2004, staff numbers and their locations were:




All employees are committed to the Commission's values and act with integrity, professionalism and understanding.

The Commission management seeks to develop the skills of its employees and build on the personal commitment of each member of the team with a targeted program of professional development.

The Forest Products Commission was established on the premise that it will rely upon outsourced service provision for Human Resource Management functions. During 2003/04 the Commission's principal service provider was the People Services Branch of CALM. These arrangements are reviewed annually.

Areas of Human Resource Management in which the Commission has progressed matters on its own behalf are highlighted hereunder.



Social Review *cont'd*

Structural Review

The Commission initiated a review of its senior management structure during 2003/04. This, in turn, has resulted in an overall review of the organisation's structure with regard to ensuring that the structure facilitates the delivery of strategic goals. Although the senior managerial structure is settled, the process of implementing further outcomes of this review is ongoing as at 30 June 2004.

Recruitment of entry level field staff

Since inception the Commission has relied upon the annual recruitment process undertaken by CALM to provide sufficient access to entry level field staff.

During 2003/04 the Commission identified the need to ensure access to a pool of entry level field staff with career aspirations in the forestry sector. A large scale recruitment process was undertaken with the intent of attracting enough staff to provide a pool of readily available forest officers for immediate deployment, should the need arise as a result of successful investment strategies or other strategic outcomes.

Training

While normal practices regarding the provision of training to staff have continued, the Commission has initiated the development of a training program for entry level field staff. This program is intended to deliver courses designed to address the particular requirements of the Commission and its employees. In accordance with this, those Commission courses identified as having relevance are currently being reviewed in order to ensure that they meet the requirements for delivery by a Registered Training Organisation (RTO). While the Commission is not an RTO, it has an affiliation with CALM which has attained RTO status.

Growth Development Leadership Program

During 2003/04 the Commission implemented its inaugural Growth Development Leadership programme, designed to provide staff and the organisation with an ongoing development and leadership program. The program, with an initial group of twenty participants, commenced in December 2003.

Participants, nominated from across the Commission, have been involved in the development of a number of projects selected for their input to the Commission's strategic objectives. These projects are due for completion in the latter half of the 2004 calendar year.

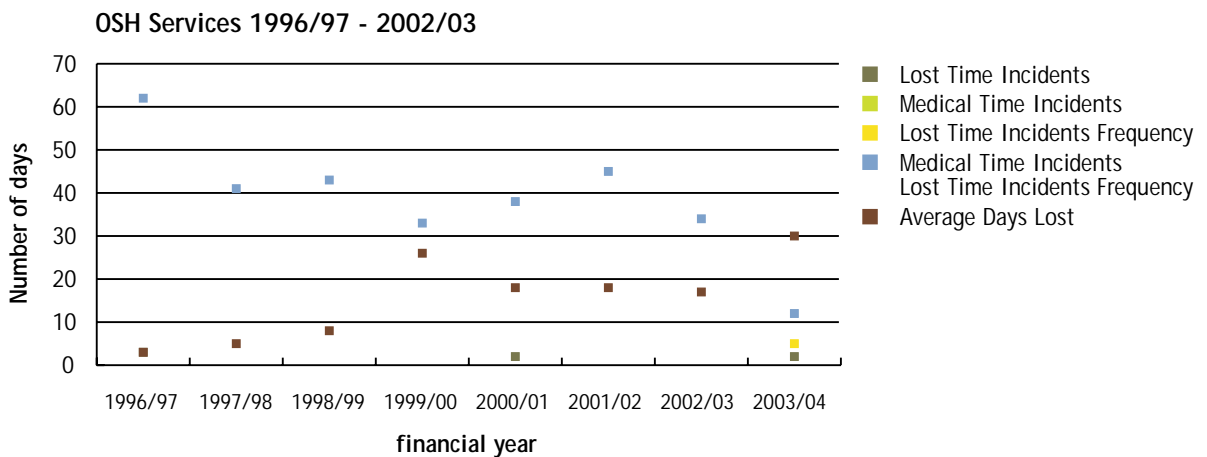
Occupational Safety and Health (OSH)

During 2003/04 the Commission took steps to internalise the management of the delivery of OSH services. Primarily this was achieved through recognition that the Commission responsibility to ensure that industry safety and training standards were managed and complied with could be strategically partnered with the need for more general OSH requirements. This outcome not only reflects changes to the industry, but anticipates changes to OSH legislation, including the Dangerous Goods Safety Bill 2002(WA) which was assented to on 10 June 2004.

During the year the Commission has ensured that operational staff have had the benefit of a one-day training and information session on OSH and particularly contractor safety practices. This training will be extended to all other staff during the 2004/05 year. Commission has also reinvigorated its OSH team leaders' network and ensured that all team leaders underwent at least two days of dedicated OSH training during the year. A Commission specific course is being developed for implementation during the coming year.

Social Review *cont'd*

There were five claims (two lost time incidents (LTI)) for workers' compensation during the year 2003/04. All five claims have been finalised. This represents an improvement on the previous year during which 13 claims were lodged (three LTIs). Unfortunately the average number of days lost was disproportionately high due to one of the two LTIs requiring extensive post operative treatment to a broken finger resulting in just over 50 days lost time.



Disability Service Plan outcomes

The Commission continued to operate in accordance with its existing Disability Services Plan. Significant activities undertaken during 2003/04 reflecting this plan include the further modification of corporate headquarters accommodation. This plan will be renewed in 2004/05.

Equal employment opportunities

The Commissions yearly Equal Employment Opportunity Management Plan for the period ending 30 June 2004 reflected the following outcomes:

The representation of women within the workforce has decreased from 41.2 per cent to 34.6 per cent;

The number of employees who are from indigenous backgrounds (0.4 per cent), have disabilities (0.9 per cent) or culturally diverse backgrounds (7.5 per cent) remains unchanged;

During 2003/04 the Commission instituted a carers' room facility at its corporate headquarters, for those staff with family responsibilities and has sought to create part-time and regionally based employment opportunities wherever possible; and

No breaches of EEO policy or legislation were reported.



Social Review *cont'd*

Code of Conduct

The Commission complies with the Public Sector Code of Ethics and has its own Code of Conduct for employees, which has been in place since July 2001.


The Code of Conduct addresses issues including conflicts of interest, corruption, discipline, confidentiality, freedom of information, security of records, equal employment opportunities and diversity, disability services and grievance resolution.

Feedback opportunities are available through internal and external mechanisms and staff are regularly surveyed. During 2003/04 the Office of the Public Sector Standards conducted a survey of human resources, standards, ethics and equal employment opportunity which returned quite positive results for the Commission.

One incident involving an alleged breach of this code was inquired into, with no further action being required.

There were no reported breaches of the Public Sector Standards lodged against the Commission.

Corporate Governance



35	COMMISSIONERS AND COMMITTEES
38	EXECUTIVE
38	LEGISLATIVE REQUIREMENTS
40	CERTIFICATION AND COMPLIANCE
40	STATEMENT OF COMPLIANCE WITH PUBLIC SECTOR STANDARDS
41	CERTIFICATION OF PERFORMANCE INDICATORS
42	AUDITOR GENERAL'S REPORT ON PERFORMANCE INDICATORS
43	STATEMENT OF COMPLIANCE WITH WRITTEN LAW

Corporate Governance

This statement outlines the main Corporate Governance practises that were in place throughout the financial year.



Forest Products Commissioners. Pictured from left to right (back row) John Castrilli, Sandy Breeze, Ray Curo, Dr Per Christensen (Deputy Chairman), Nick Oaks, and (front) Murray Jorgensen (Chairman) and Dr Marilyn Clark-Murphy.

COMMISSIONERS AND COMMITTEES

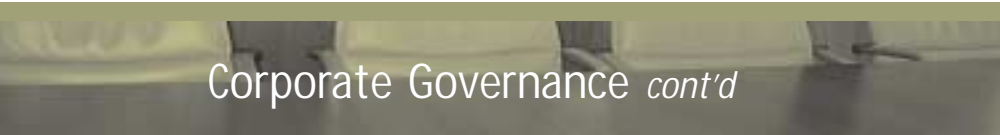
The seven Commissioners are the governing body of the Forest Products Commission and are responsible to the Minister for Agriculture, Forestry and Fisheries. Under the *Forest Products Act 2002* the Commissioners, in the name of the Commission, are to perform the functions, determine the policies and 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

During the year, the Commission has reviewed the roles, structures, competencies and performance of both its Executive group and the Commission. Following the first of these reviews, the Commission has revised its management structure as outlined earlier in this annual report. The second review provides Commissioners with a foundation on which to plan for professional development and succession planning in the coming years - with the aim of maximising the effectiveness of the Commission with complementary skills aligned with the role of a governing body. During the preparation of this report John Castrilli resigned and a new Commissioner will be appointed by the Minister for Agriculture, Forestry and Fisheries.

Murray Jorgensen OAM, Cent. Medal, JP - Chairman

Mr Jorgensen is the principal of a management and business consultancy for a wide range of commercial, State and Local Government agencies. He has extensive experience in Local Government, including five years as the Shire Clerk at the Shire of Manjimup and 10 years as the Chief Executive Officer of the Town of Albany. He was a Commissioner at the City of Cockburn between April 1999 and December 2000. He has been in a number of small businesses and consulted to many publicly listed companies. Mr Jorgensen is also Chairman of the Plantation Industry Ministerial Advisory Committee (PIMAC). He has been a member of the Forest Management Plan Steering Committee and the Fisheries Statutory Management Authority Advisory Committee.



Corporate Governance *cont'd*

Per Christensen PhD- Deputy Chairman

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 the scientific adviser and member of the management committee of Project Eden, which aims to rid Shark Bay's Peron Peninsula of feral cats and foxes.

Sandy Breeze

Ms Breeze has been a business proprietor and manager in the furnishing industry since 1982. National Director of the Furnishing Industry Association of Australia (FIAA), she has been a councillor of the FIAA (WA) since 1990 and Vice President since 1999. She has also been Chairperson of the Australian Furniture of the Year Awards since 1995.

John Castrilli

Mr Castrilli has been Mayor of the City of Bunbury since May 1997. He has experience in accounting, financial management and commerce and is a board member on various organisations.

Marilyn Clark-Murphy BA, MBus, PhD.

Dr Clark-Murphy is Associate Dean, Research and Higher Degrees in the Faculty of Business and Public Management at Edith Cowan University and also lectures in finance. Prior to joining ECU she had a long career in industry and has broad experience in financial management and stockbroking. Dr Clark-Murphy has served as a board member of several government instrumentalities/agencies. She was a Commissioner to the City of Joondalup and City of Wanneroo from November 1997 to December 1999, overseeing the creation of two separate Local Government authorities, and member of the Metropolitan Cemeteries Board from 1994 to 2002.

Ray Curo

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

Mr Oaks is currently employed as a Workers Employment Adviser supporting the implementation of the Government's *'Protecting Our Old Growth Forests'* policy. He is a Board Member of the South West Development Commission and the Dwellingup Forest Heritage Centre. Nick is the Chairman of Trees South West, a Private Forestry Development Committee, Chair of Timber Training Group and Vice Chair of the WA Primary Industry Training Council.

Corporate Governance *cont'd*

The Commissioners met 12 times during the year with all Commissioners attending 10 or more meetings.

Murray Jorgensen	12
Dr Per Christensen	12
Sandy Breeze	10
John Castrilli	10
Dr Marilyn Clark-Murphy	11
Ray Curo	10
Nick Oaks	11

Committees

The Commissioners sit on a number of committees to evaluate and make recommendations on specific aspects of the business.

Risk Management and Audit Committee

Dr Marilyn Clark-Murphy - Chairperson
Mr John Castrilli
Mr Ray Curo

An annual program covering financial and operation audit provides internal scrutiny of systems and management process.

In addition a range of external audits review the organisations management against national standards. For example, the EMS system undergoes two external surveillance audits each year and in July 2004 will be assessed for recertification under ISO 14001 standard. The Office of the Auditor General also conducted two audits in this fiscal year.

A severe wildfire in December 2003 caused significant damage to almost 800ha of Commission managed plantation adjoining the Blackwood river. The management plan developed to minimise the environmental impacts arising from the salvage harvesting and associated operations has been audited regularly since the following January.

Summary of audits applied.

Type of audit	Internal	External
Financial	7	2
Management	2	1
Environmental	5	2

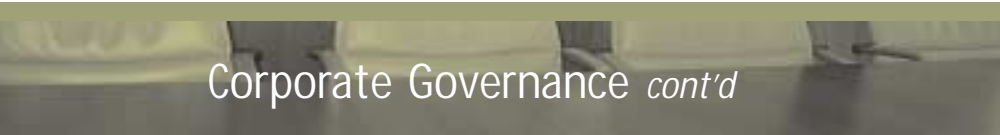
Resource Utilisation Committee

Mr Ray Curo - Chairperson
Mr Nick Oaks
Dr Per Christensen

The Resource Utilisation Committee undertakes a performance review of procedures and specifications for log utilisation from the Commission controlled harvesting operations.

Communications Committee

Ms Sandy Breeze - Chairperson
Mr Murray Jorgensen
Dr Per Christensen



Corporate Governance *cont'd*

The communications committee was formed to advise and make recommendations to the Commissioners on strategies requiring major budgetary expense or major change in emphasis or image for its approval before going ahead. The committee was disbanded on 5 March 2004 as the strategic communications plan had been set.

THE EXECUTIVE

Paul Biggs BScFor (Hons), PhD, MIFA MAICD, General Manager

Paul Biggs has a strong technical background in forest measurement and has been recognised for scientific writing with awards from the American Society of Photogrammetry and the Institute of Foresters of Australia. He worked in a range of senior positions with CALM and has been a Policy Adviser to previous ministers for the Environment and Forest Products. He holds a Bachelor of Science (Hons) in Forestry, a PhD in Forestry and is a member of the Institute of Foresters of Australia and the Australian Institute of Company Directors.

Gavin Butcher BScFor, Executive Manager Operations

Gavin Butcher has a career spanning more than 20 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.

Gary Downes BBus, FCPA, MAICD, Executive Manager Business Development

Gary Downes has occupied Executive positions for the past 16 years and has extensive experience working with Boards of Management in both the private and public sectors. Business development and strategic positioning of organisations have been a primary focus. He holds a Bachelor of Business degree, is a Fellow of CPA Australia and a member of the Australian Institute of Company Directors.

Jon Murch BScFor (Hons), Assistant General Manager

Jon Murch has been involved in the management of forest resources in Western Australia for nearly 30 years and has specialist experience in managing native forest and plantation contracts and the selling of timber products. Before being appointed to his current position, he was the Commission's Executive Manager Native Forest Operations and previously Manager for Forest Resources with CALM. He holds a Bachelor of Science (Hons) in Forestry, specialising in harvest management and the selection of harvesting systems.

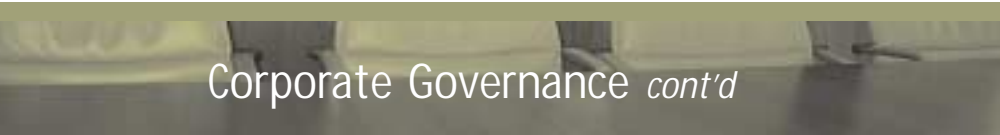
Executive Manager Finance and Administration

This position is currently vacant. In the meantime Derek Oelofse BCom., BAcc., MBA, CA, is acting Chief Finance Officer and Gary Downs is responsible for ongoing management of the non financial functions of the Division.

LEGISLATIVE REQUIREMENTS

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. 2003/04 SCI performance indicators are marked with the symbol \diamond are reported in the Annual Report.



Corporate Governance *cont'd*

Strategic Development Plan

The Strategic Development Plan sets out the Commission's five-year economic and financial objectives and is a confidential document.

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 Corporate Affairs area.

Publications

The following publications are available on request from the Commission. Those marked with an asterisk* can be downloaded from the web site at www.fpc.wa.gov.au

Action Plan for Tree Farming in Western Australia *

Adding Value to Forest Products in WA *

Annual Report*

Code of Practice for Timber Harvesting in Western Australia

Commercial Tree Farming Packages for Farmers*

Farming Maritime Pine*

Farming Western Australian Sandalwood*

Forest Industry Statement*

Forest Management Plan 2003-2014*

Forest Products Commission: Our Objectives

Growing WA Sandalwood from Seed

Indicative Harvest Plan -2004*

Infinittree - Growing a Sustainable Future*

Introducing the Forest Products Commission *

Manual of Management Guidelines for Timber Harvesting in Western Australia

New Eucalypt Sawlog Industry (NESI)*

Plant Propagation Centre Manjimup Nursery

Radiata Pine - making money and making a difference*

Sandalwood Information Sheets

Seed Centre catalogue*

Specialty Timber in the Goldfields

The Tree Grower's Information Kit

Timber Technology Newsletter

Trees to Fight Salinity on Farms

WA Forest Products

WA Forest Today

WA Plantations

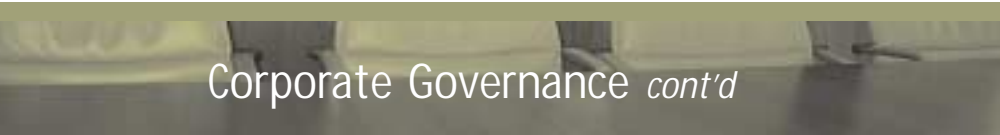
WA Timber Designed by Nature

Information Management

During 2003/04 preparations began for the upgrading of the corporate records management system, aimed at meeting our business needs as well as legislative requirements and best practice.

As required by the *State Records Act 2000*, Commission prepared and submitted its Recordkeeping Plan to the State Records Commission, which was approved in March 2004.

An Information Management Induction Program has been introduced for all new employees and an interactive online Recordkeeping Awareness Training package was also adopted by the Commission.



Corporate Governance *cont'd*

STATEMENT OF COMPLIANCE WITH PUBLIC SECTOR STANDARDS

In the Administration of the Forest Products Commission, I have complied with the Public Sector Standards in Human Resource Management, the Western Australian Public Sector Code of Ethics and the Code of Conduct.

The Commission has adopted guidelines and processes supporting the public sector standards in human resource management. There were no reported breaches against any standard for the reporting period 2003/2004.

The Commission has a series of outsourced service provider arrangements in place for the provision of human resource management services. Within this service provider environment, individual managers are responsible for ensuring compliance with the relevant policies and the Code of Conduct, while the service provider has responsibility to undertake a monitoring and advisory role. This includes monitoring all transactions for recruitment, selection and appointment, secondment, transfer, temporary deployment, performance management and grievance resolution to ensure current policy is adhered to. Commission staff are responsible for termination and disciplinary cases.

Policies and supporting procedures are accessible to all staff on-line via the Commission's intranet, as is the Code of Conduct.

The Commission has in place a system which ensures that a complete compliance audit on three of the standards is undertaken annually. The audit for this reporting period identified that

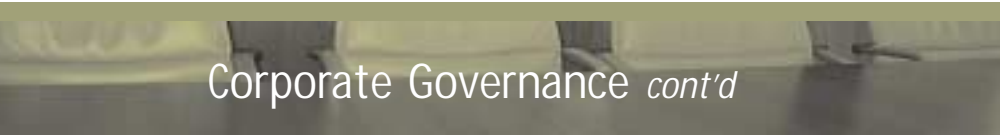
- the policies and procedures being followed by Commission identify with and reflect the standards requirements;
- compliance with the standards was satisfactory; and
- there was no evidence of non-compliance with any standards.

The Commission's Code of Conduct is subject to ongoing review and this process will continue in 2004/2005.



Dr Paul Biggs
GENERAL MANAGER

6 August 2004



Corporate Governance *cont'd*

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 2004.



Murray Jorgensen
CHAIRMAN

6 August 2004



Dr Marilyn Clark-Murphy
COMMISSIONER

Corporate Governance *cont'd*

AUDITOR GENERAL

INDEPENDENT AUDIT OPINION**To the Parliament of Western Australia****FOREST PRODUCTS COMMISSION
PERFORMANCE INDICATORS FOR THE YEAR ENDED JUNE 30, 2004****Audit Opinion**

In my opinion, the key effectiveness and efficiency performance indicators of the Forest Products Commission (identified with the following symbol "☑") are relevant and appropriate to help users assess the Commission's performance and fairly represent the indicated performance for the year ended June 30, 2004.

Scope***The Commission's Role***

The Commission is responsible for developing and maintaining proper records and systems for preparing performance indicators.

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

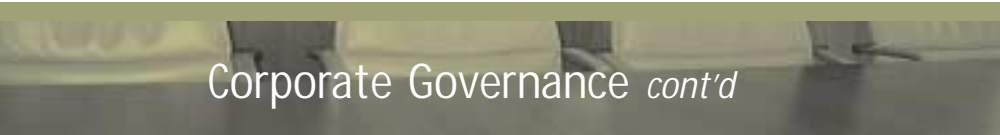
Summary of my Role

As required by the Financial Administration and Audit Act 1985, I have independently audited the performance indicators to express an opinion on them. This was done by looking at a sample of the evidence.

An audit does not guarantee that every amount and disclosure in the performance indicators is error free, nor does it 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 performance indicators.

A handwritten signature in black ink, appearing to read 'D D R Pearson'.

D D R PEARSON
AUDITOR GENERAL
 September 24, 2004



Corporate Governance *cont'd*

STATEMENT OF COMPLIANCE WITH WRITTEN LAW 2003-2004

The Commission has attempted to comply with the requirement of the relevant written law, as originally enacted and as variously amended. Action has been taken to rectify minor errors and omissions detected during 2003 - 2004. The relevant Acts and amendments to regulators are noted in this section of the annual report.



Murray Jorgensen
CHAIRMAN

6 August 2004



Dr Paul Biggs
GENERAL MANAGER

Economic Review

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Economic Review

FINANCIAL PERFORMANCE

The Commission has now been in operation for three full years. The Forest Management Plan 2004/2013, which will govern our native forest harvesting levels for the next ten years, became effective from January 2004.

The Commission's financial results for the year end financial position as at 30 June 2004 are summarised below. The 2003/04 financial results include net revenue of \$19 million relating to revaluation of standing timber and in-forest infrastructure.

Excluding the effect of natural resource and in-forest infrastructure revaluations, revenue from operating activities decreased three per cent (\$3.4 million) and expenses increased by five per cent (\$5.6 million) over the 2002/03 financial year. The reduction in revenues reflects the continued implementation of '*Protecting Our Old Growth Forests*' policy and Forest Management Plan 2004/2013, while the expenses include write downs of assets (other than standing timber and in-forest infrastructure) of \$7.6 million. This comprised of the write-down of inventory for sale of \$3 million and write-down of nursery infrastructure of \$3.8 million due to reduced activity levels at the nursery.


 Economic Review *cont'd*
FINANCIAL OVERVIEW

Financial performance:	2004	2003	2002	2001 (33 weeks)
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Revenue from ordinary activities (excluding revaluations and fundamental errors)	98,229	101,659	114,439	84,461
Calculated as follows:				
Revenue from ordinary activities as reported:	121,060	126,988	146,983	90,148
Less the following items included in revenue from ordinary activities:				
Revenue from natural resource assets and in-forest infrastructure revaluations	22,831	25,329	22,339	5,687
Correction of prior year fundamental errors	-	-	10,205	-
Expenses from ordinary activities (excluding natural resource asset & infrastructure devaluations)	109,454	99,390	107,950	74,518
Calculated as follows:				
Expenses from ordinary activities as reported:	112,430	106,866	131,514	90,500
Less:				
Expenses from natural resource asset and in-forest infrastructure devaluations	2,976	7,476	23,564	15,982
Profit/(loss) before interest, tax, natural resource asset revaluations and fundamental errors	(5,564)	8,600	12,893	14,741
Financial performance including natural resource revaluations and fundamental errors:				
Profit before interest and tax	14,291	26,453	21,873	4,446
Profit/(loss) before tax	8,630	20,122	15,468	(352)
Profit/(loss) after tax	6,038	14,500	13,310	(2,415)
Summary of financial position:				
Assets:				
Current assets	21,448	28,095	31,462	25,531
Non-current assets	358,017	332,274	308,460	302,529
Total assets	379,465	360,369	339,922	328,060
Liabilities:				
Current liabilities	19,103	22,935	17,941	24,355
Non-current liabilities	100,232	83,287	82,195	78,958
Total liabilities	119,335	106,222	100,136	103,313
Net assets/total equity	260,130	254,147	239,786	224,747



Economic Review *cont'd*

Natural resource asset valuations

The Commission values its natural resource assets using discounted cash flow models to calculate the present value of future benefits associated with harvest and sale. These models are sensitive to movements in market conditions, revenue, cost and product mix changes. Accounting standards dictate that these movements be recorded as part of the Commission's operating revenue and expenses. Due to the inclusion of these figures operating profit is subject to material fluctuations, as noted above.

Debt to Equity

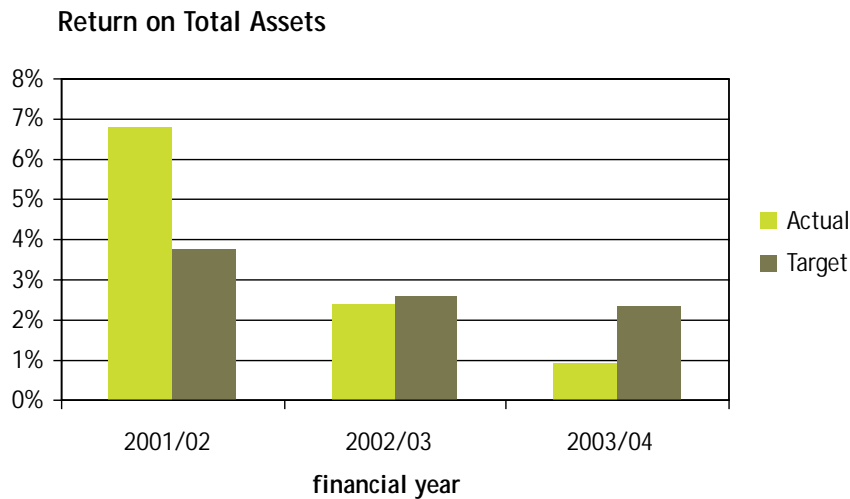
The ratio of debt to equity has increased by 3.2 per cent over the 2002/03 financial year to 32 per cent due new borrowings of \$9 million in the year to fund \$3.3 million investment in land and \$4.4 million in new plantations. The debt to equity ratio continues to be adversely affected by interest-bearing liabilities transferred to the Commission from CALM on the Commission's inception in 2000, for which the Commission received no compensating land assets. Showing an increase in assets to compensate for these liabilities would improve the Commission's debt to equity ratio.

Economic Review *cont'd*

PERFORMANCE INDICATORS

The following indicators reflect the Commission's performance based on audited key performance indicators , measures suggested by the Global Reporting Initiative (GRI) and against planned targets in the SCI . (Data used to compile the 2000/01 financial year is based on 33 weeks of trading operations)

RATIO OF PROFIT BEFORE INTEREST AND TAX TO TOTAL ASSETS (RETURN ON TOTAL ASSETS) :

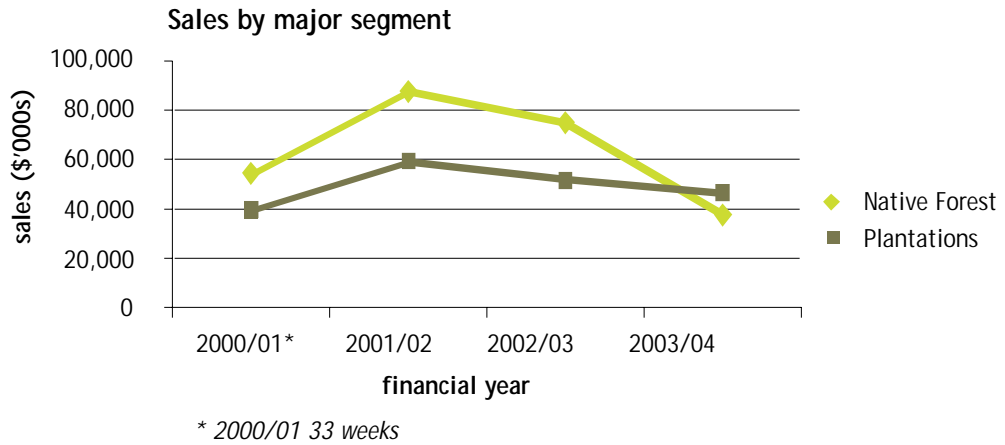


The ratio of Profit Before Interest and Tax to Total Assets is exclusive of the financial effect of Self Generating And Regenerating Assets (SGARA) valuations. The ratio's decrease over the three financial years reflects the effect on the Commission's profit of reductions in Native Forest harvesting activities resulting from the Government's *'Protecting Our Old Growth Forests'* policy, the 1999 Regional Forest Agreement and Forest Management Plan 2004/2013.

The ratio is lower than target this financial year due mainly to the impact of the Bridgetown fire and write-down of assets as mentioned in the financial overview.

Audited key performance indicator

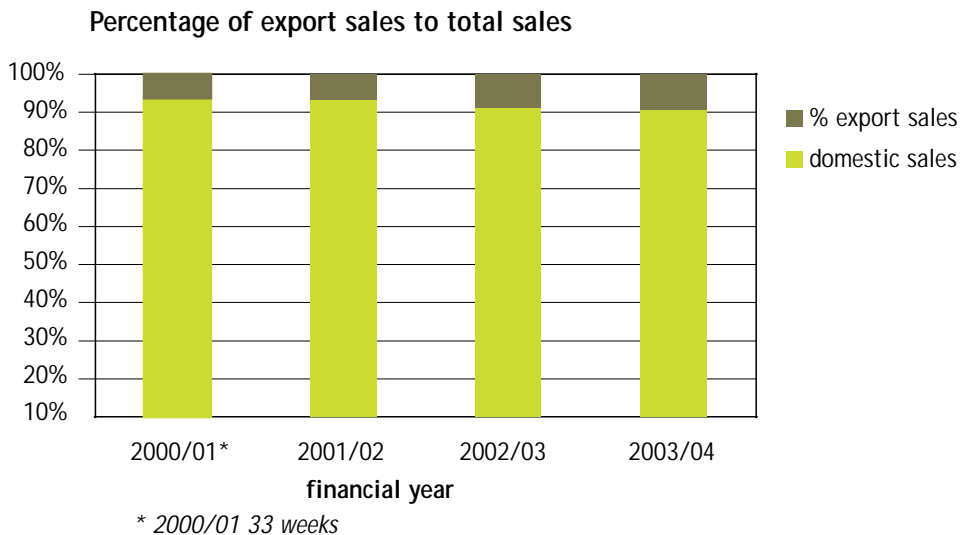
Economic Review *cont'd*



The above graph demonstrates the impact on the Commission's customers of the movement from native forest timbers to those timber species derived from the State's plantations, in line with the Commission's strategic focus over this time.

The reduction in plantation sales is due to the completion of Commission arrangements with Hansol and APFL.

New projects currently under development are focused in the area of plantation resource enhancement. The Commission's forward estimates include an increase in revenue from the Plantation Division as some of these projects come on stream.

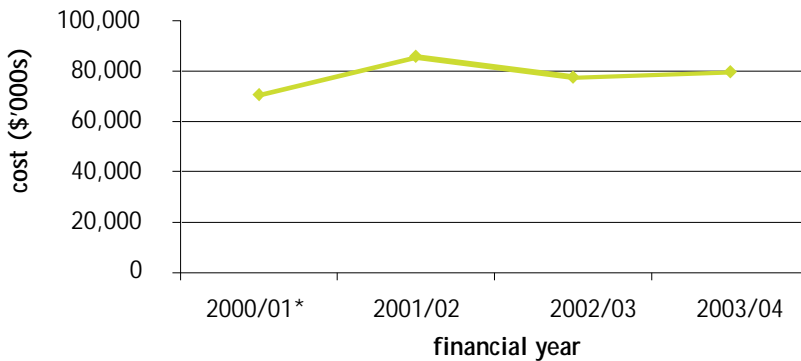


The Commission ensures a maximum amount possible of its products are utilised for value adding purposes in the local market. Product is exported where there is insufficient demand in the local market or where returns to the State for export products well exceed the potential returns to the State for local value adding.

Economic Review *cont'd*

This is particularly the case with WA Sandalwood, where export produces excellent returns for the State. At the same time the Commission has ensured adequate resource remains available to sustain the domestic market.

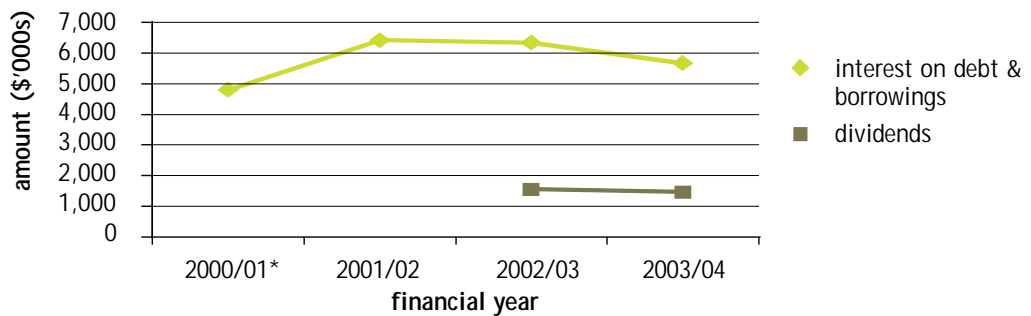
Cost of all goods, materials & services purchased



* 2000/01 33 weeks

The Commission continues to provide approximately \$80m dollars per annum to the WA economy through the purchase of goods, materials and services. By far the largest portion of these amounts is expended in regional WA.

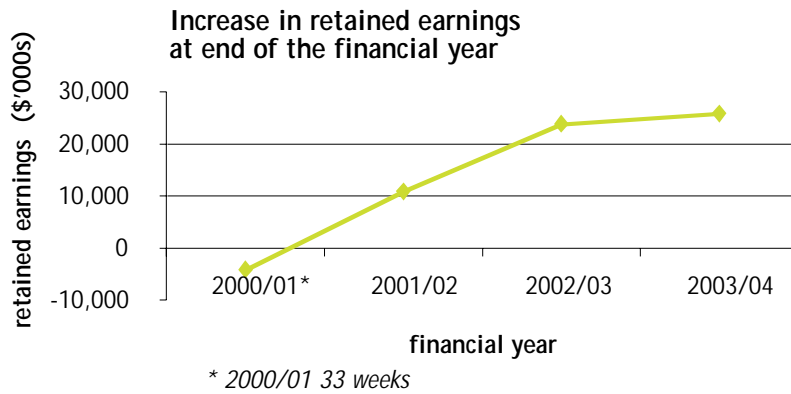
**Distributions to providers of capital:
- interest on debt & dividends to the State**



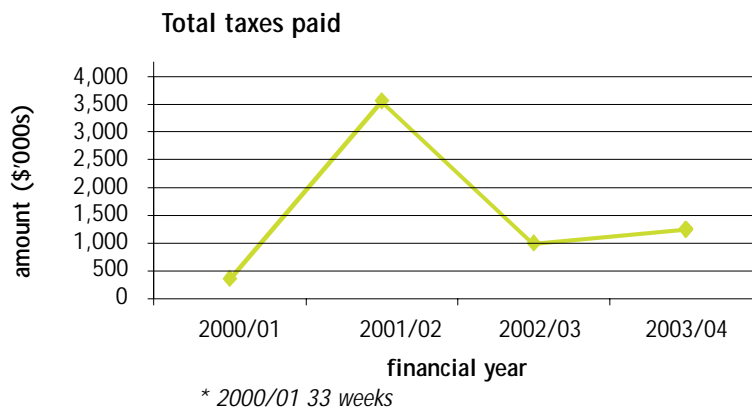
* 2000/01 33 weeks

The Commission's capital has been provided through a combination of debt and equity. The Commission pays approximately \$6m per annum in interest on its debt. While dividends were not paid in the first two years after the Commission's establishment, dividends have been declared in the 2002/03 and 2003/04 financial years.

Economic Review *cont'd*



An increase in retained earnings represents the net increase each year in Commission's assets after payments of tax and dividends. An increase in retained earnings represents an increase in the value of shareholder's funds.



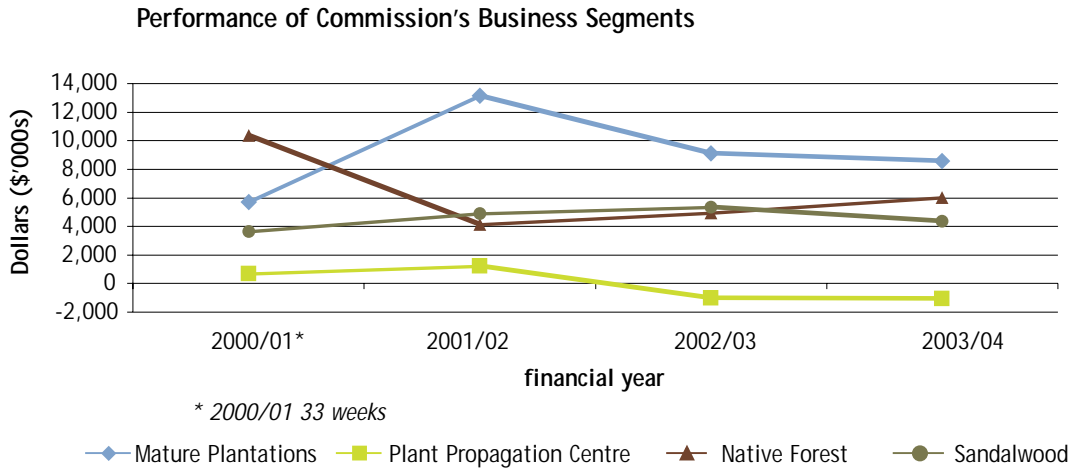
The Commission paid \$1.3 million in taxes this financial year, made up of the following:

National Tax Equivalent Regime	\$0.5 million
Payroll	\$0.7 million
Fringe Benefits Tax (FBT)	\$0.1 million

The Commission has not provided for the payment of National Tax Equivalent Regime (NTER) this financial year, due to the timing differences in the recognition of expenses for NTER and accounting purposes.

Economic Review *cont'd*

Profit from Operations ◇



Operating profit from Native Forest operations has continued to improve subsequent to the bedding down the effects on the industry on the 'Protecting Our Old Growth Forests' policy.

The Commission's Plant Propagation Centre is an integral part of the infrastructure and service requirements for the operation of both the plantations and native forests activity. While reduced levels of activity resulted in losses, the facilities are being maintained to ensure the Commission meets its objectives.

Operating profit is measured prior to the impact of standing timber SGARA operations.

Economic Review *cont'd*

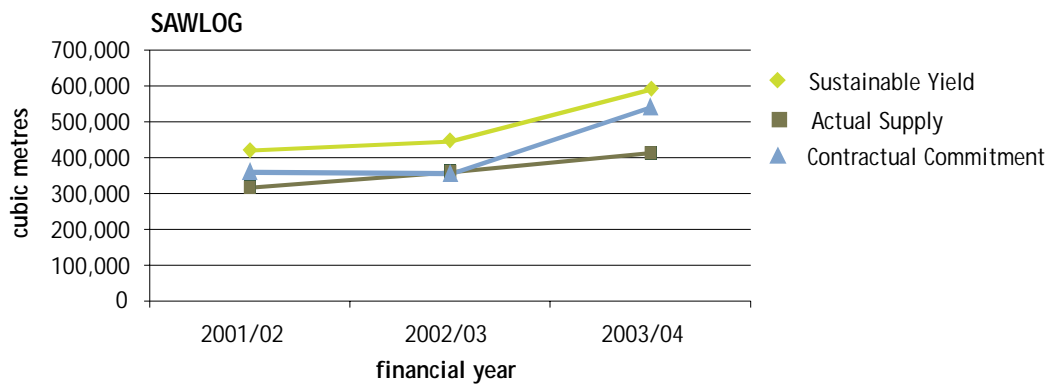
PLANTATION LOG PRODUCTION IS CONSISTENT WITH CONTRACTED LEVELS OF SUPPLY TO INDUSTRY.

The 'contracted level' is the quantity of timber of a particular specification that has been supplied under various contracts, including State Agreements, in the current year, consistent with achieving the planned long-term supply to industry. As the plantations mature, increasing quantities of logs become available and annual supply increases. Actual annual intake by industry will vary in accordance with the prevailing markets during that year.

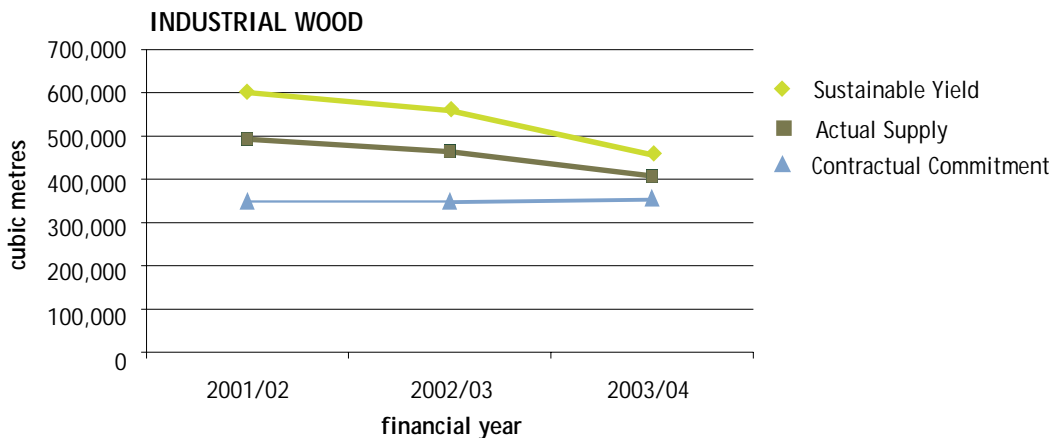
Contractual supply levels indicate the current commitments. Log production to each customer varies on an annual basis in accordance with the prevailing market conditions for their products.

Measure:

A comparison between actual production levels compared to Commission's contractual commitments to supply:



Note: the reduction in the sustainable yield in industrial wood is due to completion of harvesting of bluegum plantations.



Audited key performance indicator

Economic Review *cont'd*

NATIVE FOREST OPERATIONS

The Native Forest Operations is responsible for the planning, harvesting and sale of forest products from re-growth indigenous forest on State-owned land. The output of this division is the harvesting of native forest hardwood and sandalwood.

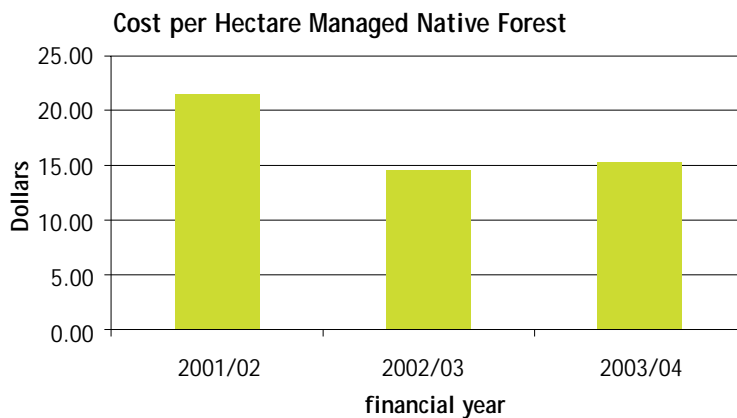
1. COST OF HARVESTING - NATIVE FOREST HARDWOOD

The major elements of this cost relate to payments to contractors for harvesting and delivery, the road construction and maintenance.

Measure:

The cost per tonne harvested was \$38.28 (2002/03 \$35.19), an increase of \$3.10 (9 per cent) per tonne .

This increase reflects the changes in product mix and increased level of processing of marri chiplogs.



Audited key performance indicator

Economic Review *cont'd*

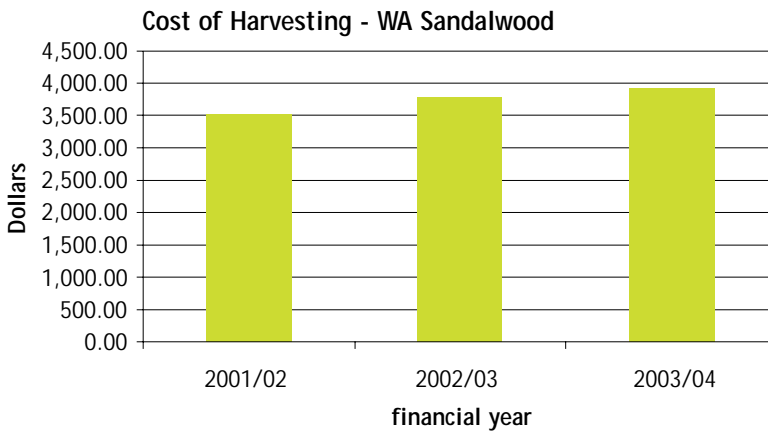
2. COST OF HARVESTING - WA SANDALWOOD

The gross cost per tonne of harvesting sandalwood includes greenwood and deadwood. The major elements of this cost relate to payments to contractors for harvesting, delivery, regeneration and associated research.

Measure:

The cost per tonne harvested was \$3,920.34 (2002/03 \$3,788.70), an increase of \$132.24 per tonne (3 per cent) .

This increase reflects increased expenditure on regeneration in harvested areas and processing costs.



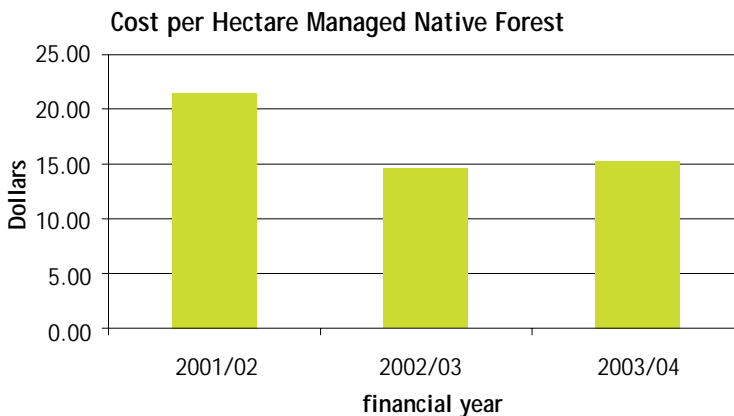
3. SILVICULTURAL COST PER HECTARE MANAGED OF NATIVE FOREST

The Commission has access rights to a total State forest estate of 848,380, hectares (2002/03 987,190 hectares).

Measure:

The cost per hectare managed was \$15.29 per hectare (2002/03 \$14.60 per hectare) an increase of 5 per cent .

The increase in cost per hectare reflects the reduction in accessible State forest estate.



Audited key performance indicator



Economic Review *cont'd*

PLANTATION OPERATIONS

The Plantation Operations has three main operating arms:

- the Plantation Branch, which covers State-owned plantations;
- the Share farms Branch, which has the responsibility of share farming agreements with landowners; and
- the Propagation Branch, which produces seedlings for internal needs as well as for external customers.

The outputs of this division are:

- (a) the harvest of all species of plantation timber; and
- (b) management of plantations.

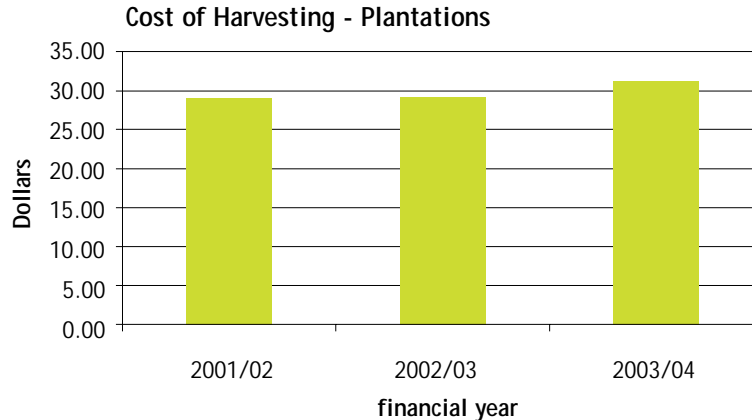
1. COST OF HARVESTING

Gross cost per tonne harvested for all species of plantation timber. The major elements of the costs comprise payments to contractors for harvesting, delivery, and roading.

Measure:

The average cost per tonne harvested (all products) from 1 July 2003 to 30 June 2004 was \$31.27 (2002/03 \$29.13), an increase of \$2.14 (7.35 per cent)

The increase is mainly due to product mix.



Audited key performance indicator

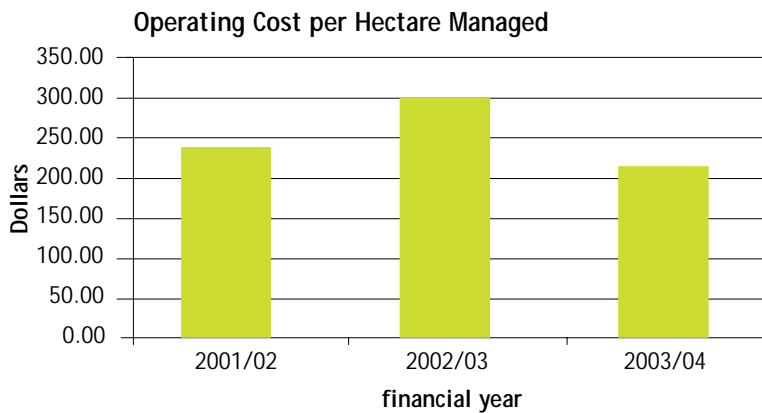
Economic Review *cont'd*

2. OPERATING COST PER HECTARE MANAGED

Measure:

The average cost for the year ending 30 June 2004 was \$216.19 (2002/03 \$301.56) per hectare managed .

The unit cost includes interest charges, rent and corporate overheads. The favourable change in cost per hectare managed is mainly due to correction to cost of seedlings accounting treatment.



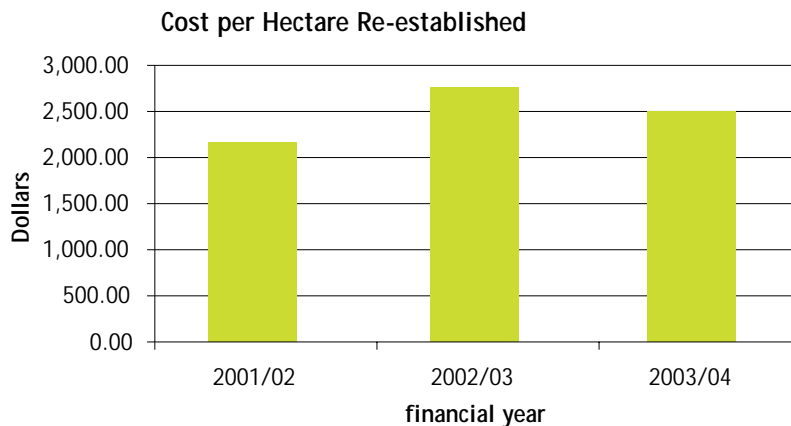
3. COST PER HECTARE RE-ESTABLISHED

The Commission planted 1,479 hectares of new plantations to the end of December 2003 (721 hectares to the end of December 2002). The afforestation program establishment areas for the 2003/04 period was 1,568 hectares (846 hectares in 2002/03) however, the direct costs associated with the afforestation program have been capitalised and therefore do not form part of this measure.

Measure:

The establishment cost was \$2,502.58 per hectare (2002/03 \$2,758.00 per hectare) a decrease of 9 per cent .

This decrease reflects timing differences between costs associated with planting years. Costs incurred in 2003/04 financial year relate to planting areas which will be reported in 2004/05.



Audited key performance indicator



Economic Review *cont'd*

EXTERNAL INVESTMENT ◇

The SCI target is 75 per cent of new investment funded externally by 2007. External investment funding of \$600,000 was received from BP Australia to establish a plantation in Katanning.

PROPORTION OF AREA OF PLANTATION ESTATE PRIVATELY FUNDED ◇

The SCI target is to achieve 25 per cent of privately funded re-investment by 2005.

In 2003/04 the Commission entered into an arrangement with a customer for prepayment of stumpage at beneficial interest rates. The Commission therefore has access to these funds for plantation investment and enhancement. These arrangements will continue to 2015 at approximately \$1m per annum.

INDUSTRY DEVELOPMENT ◇

The Commission contributed \$2 million to the timber industry through ministerial advisory committees and research and development. These non-commercial activities are undertaken for the social, economic and regional development benefits for WA.

RESEARCH AND DEVELOPMENT ◇

The SCI target was that five per cent of investment directed to research and development. This KPI is monitored against a target of five per cent of the agreed investment into new plantations. The current investment into plantations is \$4.4 million (not including land purchase) against an investment into research and development of \$1,050,000. This equals 23.8 per cent which is significantly higher than the five per cent target.

◇ SCI Indicator

Financial Review

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Financial Review

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 Administration and Audit Act 1985, from proper accounts and records, to present fairly the financial transactions for the financial year ending 30 June 2004 and the financial position as at 30 June 2004.

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



Murray Jorgensen
CHAIRMAN

20 August 2004



Dr Marilyn Clark-Murphy
COMMISSIONER



Derek Oelofse
A/CHIEF FINANCIAL OFFICER

Statement of Financial Performance for the year ended 30 June 2004

	Note	2004 (\$'000)	2003 (\$'000)
REVENUE			
Revenues from ordinary activities			
<i>Revenue from operating activities</i>			
Revenue from natural resource assets	3.1	117,768	121,143
Revenue from commercial share farm operations	4	477	1,494
Grants & contributions from Commonwealth Government	5	12	55
Other revenue from ordinary activities	6	1,368	2,605
Grants and subsidies from State Government	7.1	1,300	1,570
<i>Revenue from non-operating activities</i>			
Other revenue from non-operating activities	6	135	121
Total revenue from ordinary activities		121,060	126,988
EXPENSES			
Expenses from ordinary activities			
Expenses from natural resource assets	3.2	63,378	60,167
Employee expenses	8	12,100	13,012
Supplies and services	9	23,939	23,491
Write off of assets	10	3,822	-
Depreciation	11	2,234	1,974
Borrowing costs expense	12	5,661	6,331
Administration expenses	13	716	1,337
Accommodation expenses	14	580	554
Total expenses from ordinary activities		112,430	106,866
Profit from ordinary activities before income tax equivalent expense		8,630	20,122
Income tax equivalent expense	35	2,592	5,622
Profit from ordinary activities after income tax equivalent expense		6,038	14,500
Total change in equity other than from transactions with WA State Government as owners	27	6,038	14,500

The statement of financial performance should be read in conjunction with the accompanying notes.

Statement of Financial Position as at 30 June 2004

	Note	2004 (\$'000)	2003 (\$'000)
Current Assets			
Cash assets	28.1	1,569	4
Receivables	17	10,824	13,219
Inventories	16	6,610	11,455
Other assets	18	2,445	3,417
Total Current Assets		21,448	28,095
Non - Current Assets			
Land and buildings	19.1	6,460	3,316
Plant, equipment and vehicles	19.2	6,713	11,373
Forest infrastructure	20	16,592	19,969
Natural resource assets	21	320,130	293,351
Deferred tax assets	35	8,122	4,265
Total Non - Current Assets		358,017	332,274
Total Assets		379,465	360,369
Current Liabilities			
Payables	22	3,590	4,684
Interest bearing liabilities	23	2,874	3,831
Tax liabilities	35	-	508
Provisions	24	3,035	2,564
Other liabilities	25	9,604	11,348
Total Current Liabilities		19,103	22,935
Non - Current Liabilities			
Interest bearing liabilities	23	79,767	71,732
Provisions	24	1,045	1,014
Other liabilities	25	2,431	-
Deferred tax liabilities	35	16,989	10,541
Total Non - Current Liabilities		100,232	83,287
Total Liabilities		119,335	106,222
NET ASSETS		260,130	254,147
Equity			
Contributed equity	26	231,699	230,309
Reserves	27	25	-
Retained profits	27	28,406	23,838
TOTAL EQUITY		260,130	254,147

The statement of financial position should be read in conjunction with the accompanying notes.

Statement of Cash Flows for the year ended 30 June 2004

	Note	2004 (\$'000)	2003 (\$'000)
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts			
Sale of goods and services		97,555	100,788
Recoupable works		4,556	13,450
Interest received		42	28
GST receipts on sales of goods and services		6,824	7,440
GST received from Taxation Authority		1,655	568
Other receipts		2,981	2,605
Payments			
Employee expenses		11,394	11,953
Supplies and services		26,558	23,046
Borrowing expenses		4,208	7,696
Harvesting expenses		55,079	51,362
Recoupable works		5,206	12,380
GST payments on purchases		7,611	7,450
GST payments to Taxation Authority		116	828
Taxation equivalents paid		508	192
Net cash provided by operating activities	28.3	2,933	9,972
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of non-current assets:			
~ Land & Buildings	19	(3,290)	(454)
~ Plant and equipment	19	(334)	(741)
~ Plantation Afforestation Programme investment costs	21	(4,431)	(3,409)
Net cash used in investing activities		(8,055)	(4,604)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings		(1,954)	(6,480)
Proceeds from borrowings		11,000	-
Net cash provided by/(used in) financing activities		9,046	(6,480)
CASH FLOWS FROM/(TO) GOVERNMENT & OTHER INSTITUTIONS			
Grants & Subsidies	7.1	1,300	1,570
Commonwealth grants and contributions	5	12	55
Repayment of Treasurer's liability	25	(1,436)	(1,436)
Peel B land sale proceeds	28.2	1,289	1,270
Dividends Paid	27	(1,557)	-
Net cash (to)/from Government & other institutions		(392)	1,459
Net increase in cash		3,532	347
Cash liability at the beginning of the financial year	28.1	(1,963)	(2,310)
Cash Assets / (Liabilities) at the end of the financial year	28.1	1,569	(1,963)

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

Notes to the Financial Statements for the year ended 30 June 2004

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Notes to the Financial Statements for the year ended 30 June 2004

1 COMMISSION'S MISSION AND FUNDING

The Forest Products Commission (the Commission) is the Western Australian trading enterprise responsible for the allocation and sale of forest products from the State's native forests and from State-owned and State-managed plantations. The Commission is principally a self funded entity.

The Commission's mission is to contribute to Western Australian economic and regional growth by developing the sustainable use of the State's native and plantation timber resources, promoting local value adding for these resources and achieving appropriate returns to the State for the use of publicly-owned and Commission-managed timber resources.

The Commission came into existence on 16 November 2000 as a consequence of the *Forest Products Act 2000*, having previously existed as a division of the Western Australian Government's Department of Conservation and Land Management (CALM).

2 SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been adopted in the preparation of the financial statements. These policies are consistent with those adopted in the previous financial period.

2.01 General statement

The financial statements constitute a general purpose financial report which has been prepared in accordance with Australian Accounting Standards, Statements of Accounting Concepts, other authoritative pronouncements of the Australian Accounting Standards Board, and Urgent Issues Group (UIG) Consensus Views 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 Administration and Audit Act and the Treasurer's Instructions are legislative provisions governing the preparation of financial statements and take precedence over Australian Accounting Standards, Statements of Accounting Concepts and other authoritative pronouncements of the Australian Accounting Standards Board and UIG Consensus Views. The modifications are intended to fulfil the requirements of general application to the public sector, together with the need for greater disclosure and also to satisfy accountability requirements.

If any such modification has a material or significant financial effect upon the reported results, details of that modification and where practicable the resulting financial effect, are disclosed in individual notes to these financial statements.

The statements have been prepared on the accrual basis of accounting using the historical cost convention, with the exception of certain non-current assets which subsequent to initial recognition, have been measured on the fair value basis in accordance with the option under AASB1041(5.1). Additions to non-current physical assets since valuation are stated at cost.

Forestry assets and inventories have been valued in accordance with AASB1037 Self-Generating and Regenerating Assets (SGARA).

2.02 Grants and other contributions revenue

Grants, donations, gifts and other non-reciprocal contributions are recognised as revenue when the Commission obtains control over the assets comprising the contributions.

Contributions are recognised at their fair value. Contributions of services are recognised only when a fair value can be reliably determined and the services would be purchased, if not donated.

2.03 Depreciation of non-current assets

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

Depreciation is provided for on the straight line basis using rates which are reviewed annually. Useful lives for each class of depreciable asset are:

	2004	2003
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	4 years	4 years

Notes to the Financial Statements for the year ended 30 June 2004

2.04 Acquisition of assets

The cost method of accounting is used for all acquisitions of assets. Cost is measured as the fair value of the assets given up or liabilities undertaken at the date of acquisition plus incidental costs directly attributable to the acquisition. Assets acquired at no cost or for nominal consideration, are initially recognised at their fair value at the date of acquisition.

Assets costing less than \$1,000 are expensed in the year of acquisition (other than where they form part of a group of similar items which are significant in total).

2.05 Valuation of non-current assets

The Commission has adopted by resolution the valuations ascribed to all non-current assets.

Natural resource assets

Natural resource assets have been valued in accordance with the Australian Accounting Standards Board's Accounting Standard 1037 (AASB1037) applicable to self-generating and regenerating assets.

Increments/decrements in natural resource assets values have been taken to account as revenue/expenses in the Statement of Financial Performance, as required by AASB1037.

Natural resource assets located on land vested in the Commission by way of the *Forest Products Act 2000* or by way of share farm contracts are accounted for in accordance with the provisions of AASB 1037.

Non-commercial values inherent in natural resource assets are not accounted for in the calculation of net market values.

Forestry infrastructure

Current forestry infrastructure expenditure is written off as expenditure is incurred - refer to accounting policy note on Roads and Bridges expenditure below. Due to the absence of a practicable net market value for forestry infrastructure, forestry infrastructure in use at year-end is valued at written down replacement cost. This value is deducted from the net present value of the natural resource assets which it supports, to allow for separate disclosure of self generating and non-self generating assets, as required by AASB 1037.

Land, buildings and infrastructure

The Commission values land, buildings and infrastructure at fair value as per AASB 1041 (Revaluation of Non-Current Assets). Buildings and infrastructure are revalued every four years.

During the 2003/04 financial year Valuation Services conducted valuations on all the Commission owned land and buildings in the southwest district of WA.

2.06 Inventories

Inventories have been valued at the lower of cost and net realisable value as per AASB1019. The cost of inventories is deemed to be the net market value immediately after it becomes non-living.

2.07 Receivables

Accounts receivable are recognised at the amounts receivable by the Commission, as they are due for settlement 30 days from the date of recognition.

Collectability of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful debts is raised where some doubt as to collection exists.

2.08 Research and development costs

Research and development costs are charged against revenue in the Statement of Financial Performance as incurred.

2.09 Revenue recognition

The Commission recognises revenue when it is probable that the inflow or other enhancement or saving in outflows of future economic benefits has occurred and this inflow or other enhancement or savings in outflows can be measured reliably.

A revenue accrual is made for services supplied to share farming investors who are invoiced on a three monthly basis.

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax payable to the taxation authority.

Other revenues, such as proceeds from the sale of motor vehicles and miscellaneous revenues, are recognised when control of the goods has passed to the purchaser. Interest revenue is recognised when it accrues.

Notes to the Financial Statements for the year ended 30 June 2004

2.10 Employee benefits

Compensated Absences - Annual leave

This entitlement is recognised at current remuneration rates including on-costs and is measured at the amount unpaid at the reporting date in respect to employees' service up to that date.

Compensated Absences - Long service leave

The liability for long service leave expected to be settled within 12 months of the reporting date is recognised in the provisions for employee benefits and is measured at the nominal amounts expected to be paid when the liability is settled. The liability for long service leave expected to be settled more than 12 months from the reporting date is recognised in the non-current provisions for employee benefits and is measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given, when assessing expected future payments, to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted to identify the estimated present value of future cash outflows. In determining the present value of future cash outflows, the discount rate used in both the 2002/03 and 2003/04 financial years was 6 per cent.

Superannuation

Staff may contribute to the Pension Scheme, a defined benefits pension scheme now closed to new members, or to the Gold State Superannuation Scheme, a defined benefit lump sum scheme now also closed to new members. All staff who do not contribute to either of these schemes become non-contributory members of the West State Superannuation Scheme, an accumulation fund complying with the Commonwealth Government's *Superannuation Guarantee (Administration) Act 1992*.

The liabilities for superannuation charges under the Gold State Superannuation Scheme and West State Superannuation Scheme are extinguished by fortnightly payments of employer contributions to the Government Employees Superannuation Board.

Accrued superannuation represents the Commission's liability at the end of year for employer superannuation contributions to the Government Employees Superannuation Board's Gold State Fund. The Commission receives fortnightly invoices in arrears.

The disclosure note required by paragraph 6.10 of AASB 1028 (being the employer's share of the difference between employees' accrued superannuation benefits and the attributable net market value of plan assets) has not been provided, as State scheme deficiencies are recognised by the State in its 'Whole of Government' reporting. Given the above, the Commission has adopted paragraph 6.10.1 of AASB 1028 which allows non-disclosure if the relevant amounts are not provided.

2.11 Accrued logging costs

Accrued Logging Costs represents the amount owing to harvesting and delivery contractors for timber delivered to sawmills but not yet recorded in the Commission's Accounts Payable system.

2.12 Accrued salaries

Accrued salaries represent the amount due to staff but unpaid at the end of the financial year, where the end of the last pay period for the financial year does not coincide with the end of the financial year.

2.13 Payables

Payables, including accruals not yet billed, are recognised in the accounts payable system when the Commission becomes obliged to make future payments as a result of a purchase of assets or services. Payables are generally settled within 30 days.

2.14 Treasurer's liability

The Treasurer's liability is in respect of a liability incurred in constructing the Manjimup Plant Propagation Centre, which is being repaid over a four year period in equal instalments, repayment having commenced in June 2001. No interest is being charged. The final payment was made in the 2003/04 financial year.

2.15 Interest-bearing liabilities and borrowing costs

Western Australian Treasury Corporation loans are recorded at an amount equal to the outstanding balances owing at the end of each reporting period. Borrowing costs associated with these loans have been recognised on an accruals basis. Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings and amortisation of ancillary costs incurred with arrangement of borrowings. These are expensed as incurred.

Interest payments in respect of financial instruments classified as liabilities are included in borrowing costs.

Notes to the Financial Statements for the year ended 30 June 2004

2.16 Leases

The Commission has no finance leases.

The Commission has entered into a number of operating lease arrangements for buildings, motor vehicles, plant and office equipment where the lessors effectively retain all of the risks and benefits incidental to ownership of the items held under the operating leases. Equal instalments of the lease payments are charged to the Statement of Financial Performance over the lease term as this is representative of the pattern of benefits to be derived from the leased property.

2.17 Roads and bridges expenditure

Forestry road and bridge expenditure is expensed as it is incurred. These costs form part of the ongoing operations of the Commission and are incurred regularly.

2.18 National Tax Equivalent Regime

Section 43 of the *Forest Products Act 2000* makes the Commission liable for all duties, rates and taxes prescribed by law. Although the Commission is exempt from income tax under section 23(d) of the Income Tax Assessment Act, as a result of section 5 of the *State Enterprises (Commonwealth Tax Equivalents) Act 1996*, the Commission is subject to the National Tax Equivalent Regime (Income Tax). This in effect requires the Commission to account for income tax as if it were not exempt.

2.19 Income tax

The Commission adopts the liability method of tax-effect accounting, as a result of the effect of the National Tax Equivalent Regime. Income tax attributable to operating profit shown in the Statement of Financial Performance is based on the profit from ordinary activities adjusted for any permanent differences. The provision for deferred income tax liability and the future income tax benefit represent the effect of timing differences in the treatment of items for income taxation and accounting purposes.

Permanent differences are those differences between taxable income and operating profit before income tax which arise and will not reverse. Timing differences are those differences between taxable income and operating profit which arise as a result of the different periods in which items are deductible or assessable for income tax purposes. A future income tax benefit is an amount of income tax recoverable by the Commission in future reporting periods, whereas a deferred income tax liability is an amount of income tax to be settled in a future period.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt or if relating to tax losses when realisation is virtually certain.

2.20 Recognition of transferred assets and liabilities

Transfers between the West Australian State Government and the Commission are regarded as equity adjustments as per Urgent Issues Group Abstract 38 'Contributions by Owners Made to Wholly-Owned Public Sector Entities'.

2.21 Comparative figures

Certain comparative figures are, where appropriate, reclassified so as to be comparable with the figures presented in the current financial year.

2.22 Fair value

As defined by AASB 1041, fair value is regarded as the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arms length transaction.

2.23 Goods and Services Tax

The Commission accounts for the Goods and Services Tax (GST) as required by UIG 31. This states that all revenues, expenses and assets must be recognised net of the amount of GST, except for receivables and payables which are stated inclusive of GST. The Commission accounts for GST on an accruals basis and accounts for the net amount of GST recoverable from or payable to the taxation authority as a part of receivables or payables in the Statement of Financial Position.

2.24 Segment reporting

Segment information is prepared in conformity with the accounting policies of the entity as set out under 'Significant Accounting Policies' in these accounts, and the segment reporting Accounting Standard AASB 1005 'Segment Reporting'.

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

Notes to the Financial Statements for the year ended 30 June 2004

2.25 Rounding

Amounts in the financial statements have been rounded to the nearest thousand dollars, or in certain cases, to the nearest dollar.

2.26 Agency share farming revenue and expenses

The Commission operates two types of share farm arrangements - as principal and as agent. Where the Commission operates as agent, revenues and expenses associated with the share farm arrangement are not recognised as revenues and expenses of the Commission, as these revenues and expenses do not comply with the recognition requirements of revenues and expenses set out in SAC4 'Definition and Recognition of the Elements of Financial Statements' prepared by the Public Sector Accounting Standards Board of the Australian Accounting Research Foundation and by the Australian Accounting Standards Board.

2.27 Cash

For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks, net of outstanding bank overdrafts.

Bank overdrafts are carried at the principal amount. Interest is recognised as an expense as it accrues.

2.28 Foreign Currency

Foreign currency monetary items that are outstanding at the reporting date (other than monetary items arising under foreign currency contracts where the exchange rate for that monetary item is fixed in the contract) are translated using the spot rate at the end of the financial year.

A monetary item arising under a foreign currency contract outstanding at the reporting date where the exchange rate for the monetary item is fixed in the contract is translated at the exchange rate fixed in the contract.

Except for certain specific hedges, all resulting exchange differences arising on settlement or restatement are recognised as revenues and expenses for the financial year. Any gains or costs on entering a hedge are deferred and amortised over the life of the contract.

2.29 Hedges

Transactions are designated as a hedge of the anticipated specific sale of goods only when they are expected to reduce exposure to the risks being hedged, are designated prospectively so that it is clear when an anticipated transaction has or has not occurred and it is probable the anticipated transaction will occur as designated. Gains or losses on the hedge arising up to the date of the anticipated sale, together with any costs or gains arising at the time of entering into the hedge, are deferred and included in the measurement of the anticipated transaction when the transaction has occurred as designated. Any gains or losses on the hedge transaction after that date are included in the statement of financial performance.

The net amounts receivable or payable under forward foreign exchange contracts and the associated deferred gains or losses are recorded on the statement of financial position from the date of inception of the hedge transaction. When recognised, the net receivables or payables are revalued using the foreign currency current at reporting date.

The above is in accordance with AASB 1012 and UIG 33.

2.30 Provisions

A provision is recognised when there is a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions or other past events and it is probable that a future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of the obligation.

2.31 Provision for dividend

A provision for dividends payable is recognised in the reporting period in which the dividends are declared, for the entire undistributed amount, regardless of the extent to which they will be paid in cash.

2.32 Use and revision of accounting estimates

The preparation of the financial report requires the making of estimations and assumptions that affect the recognised amounts of assets, liabilities, revenues and expenses and the disclosure of contingent liabilities. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Notes to the Financial Statements for the year ended 30 June 2004

2.33 Onerous contracts

A provision for onerous contracts is recognised after impairment losses on assets dedicated to the contract are recognised and when expected benefits are less than the unavoidable costs of meeting the contractual obligations. A provision is recognised to the extent that contractual obligations exceed unrecognised assets.

		2004 m ³ harvested	2004 (\$'000)	2003 m ³ harvested	2003 (\$'000)
3 Revenue and expenses from natural resource assets					
3.1 Revenue from natural resource assets					
Revenue from commercial harvesting operations:					
Native Forests:					
- Harvesting operations	a ¹	537,778	20,371	534,083	20,423
- Recovery of harvesting costs			29,309		26,614
- Inventory valuations			928		-
- Revaluation of forest infrastructure			-		6,681
- Standing timber valuation adjustments			22,831		18,648
- Total Native Forest revenue			73,439		72,366
Plantations:					
- Revenue from harvesting operations	a ¹	826,909	16,256	827,361	17,861
- Recovery of harvesting costs			26,514		26,091
- Inventory valuations			10		2,762
- Plant Propagation Centre revenue			936		946
- Contributions to Afforestation Program			613		1,117
Total Plantation revenue			44,329		48,777
Total revenues from natural resource assets			117,768		121,143
a ¹ refer to appendix 5					
3.2 Expenses from natural resource operations					
Native Forests:					
- Native Forest harvesting costs			29,745		27,749
- Devaluation of forest infrastructure			2,414		-
- Write down of inventory to net realisable value			2,579		-
- Decrease in inventory valuation			2,077		10
Total expenses from Native Forest natural resource operations			36,815		27,759
Plantations:					
- Plantation harvesting costs			25,195		24,348
- Write down of inventory to net realisable value			806		584
- Devaluation of forest infrastructure			81		2,507
- Standing timber valuation adjustments			481		4,969
Total expenses from Plantations natural resource operations			26,563		32,408
Total expenses from natural resource operations			63,378		60,167

Notes to the Financial Statements for the year ended 30 June 2004

	2004 (\$'000)	2003 (\$'000)
4 Revenue from commercial share farm operations		
Revenue from commercial share farm operations	477	1,494
	477	1,494
Revenue from commercial share farm operations is comprised of management fees from the operation of share farm agency agreements. A revenue accrual is made for services supplied to share farming investors who are invoiced on a three monthly basis.		
5 Grants & contributions from Commonwealth Government		
Commonwealth grant for RIRDC ¹ research	12	55
	12	55
¹ Rural Industry Research and Development Corporation Expenses associated with this contribution are included in expenses from ordinary activities.		
6 Other revenue from ordinary activities		
Other revenues from operating activities		
Revenue from cost recovery operations	1,368	2,605
Total other revenue from operating activities	1,368	2,605
Other revenues from non-operating activities		
Treasurer's contribution to unfunded superannuation liability	86	53
Interest received	49	68
Total other revenue from non-operating activities	135	121
7 Grants and subsidies		
7.1 Grants and subsidies from State Government		
Community Service Obligations / Forest Enhancement Program	1,300	1,570
	1,300	1,570
7.2 Grants and subsidies from State Government expenditure		
Salaries, training, overheads, vehicle, operational materials and interest ¹ .	1,300	1,570
¹ These expenses are included in expenses from ordinary activities.		
8 Employee expenses		
Wages and salaries	8,189	8,604
Superannuation (refer note 2.10)	964	1,026
Annual leave	917	1,097
Other leave	486	396
Long service leave ¹	533	746
Payroll tax	682	746
Workers' compensation	293	352
Fringe Benefits Tax	36	45
	12,100	13,012

¹ The decrease in this expense this financial year reflects an adjustment for on-costs in 2002/03 to comply with AASB 1028.

Notes to the Financial Statements for the year ended 30 June 2004

	2004 (\$'000)	2003 (\$'000)
9 Supplies and services		
Consultants and contractors		
~ Management and other consultants	178	211
~ Other contractors	18,540	17,935
Materials	2,416	2,275
Repairs and maintenance	128	126
Travel	536	497
Operating lease rentals	2,141	2,447
	23,939	23,491
10 Write off of assets		
Nursery infrastructure at cost	9,484	
Accumulated depreciation	(1,658)	
Net book value prior to write down	7,826	
Write down	(3,822)	
Residual value	4,004	
Write off of assets	3,822	-
	3,822	-
<p>During the current financial period the Commission wrote down its Nursery infrastructure to reflect a level of production activity aligned with current forestry activity projections. The written down value represents the estimated future recoverable amount as per AASB 1010.</p> <p>The discount rate used was 9.48%</p>		
11 Depreciation		
Plant, equipment, vehicles, office equipment and nursery infrastructure	1,224	1,015
Buildings	128	127
Forest infrastructure	882	832
	2,234	1,974
12 Borrowing costs expense		
Interest on WA Treasury Corporation loans	5,654	6,301
Interest on overdraft	7	30
	5,661	6,331
13 Administration expenses		
Telephone, postage, communications	419	384
Audit fees	45	64
Provision for doubtful debts	20	634
Bad debts written off	-	11
Carrying amount of non-current assets disposed of (note 19.3)	29	7
Asset revaluation movements:		
- Land	63	66
Other administration costs	140	171
	716	1,337
14 Accommodation expenses		
Lease rentals and travel accommodation	452	384
Other property	128	170
	580	554

Notes to the Financial Statements for the year ended 30 June 2004

	2004 (\$'000)	2003 (\$'000)
15 Net loss on disposal of non-current assets		
Loss on disposal:		
Office equipment	8	3
Plant & equipment	-	4
	8	7
16 Inventories		
<i>Current</i>		
Inventories held for resale:		
- Plant Propagation Centre	3,623	4,722
- Sandalwood	2,322	4,359
- Timber on forest landings	541	263
- Timber technology stocks	124	163
- Marri chip	-	1,948
	6,610	11,455
At cost ¹	6,610	11,455
At net realisable value	-	-
	6,610	11,455
¹ Cost is the net market value of inventories at the time inventories become non-living. The aggregate carrying amount of inventories recognised and included in the financial statements is as follows:		
- Current	6,610	11,455
	6,610	11,455
17 Receivables		
Trade debtors	11,729	14,561
Provision for doubtful debts	(905)	(1,342)
	10,824	13,219
18 Other assets		
<i>Current</i>		
Prepayments	345	572
GST refundable	440	1,191
Accrued revenue	1,660	1,654
	2,445	3,417

Notes to the Financial Statements for the year ended 30 June 2004

	2004 (\$'000)	2003 (\$'000)
19 Property, plant, equipment and vehicles		
19.1 Land and buildings		
Freehold land at fair value ¹	4,274	1,071
	4,274	1,071
Buildings at cost	434	399
Accumulated depreciation	(80)	(44)
	354	355
Buildings at fair value	2,190	2,155
Accumulated depreciation	(358)	(265)
	1,832	1,890
Total land and buildings	6,460	3,316
¹ Commission owned land is revalued in June each year in accordance with an independent valuation by Valuation Services. The valuations are based on 'fair value' as per AASB 1041 Revaluation of Non-Current Assets. Market value is equal to fair value where an active and liquid market exists.		
Valuation Services has provided the Commission with a valuation at 30 June 2004 that indicates that the Commission's buildings have increased in value by \$1.8m. This amount has not been booked, as the Commission is of the opinion that the increase is excessive.		
This issue is currently under investigation with Valuation Services.		
19.2 Plant, equipment and vehicles		
Nursery infrastructure at cost	9,484	9,484
Write down of infrastructure (refer note 10)	(3,822)	-
Accumulated depreciation	(1,658)	(1,184)
	4,004	8,300
Plant, equipment and vehicles at cost	3,286	3,055
Accumulated depreciation	(1,232)	(772)
	2,054	2,283
Office equipment at cost	1,369	1,230
Accumulated depreciation	(714)	(440)
	655	790
Total plant, equipment and vehicles	6,713	11,373

Notes to the Financial Statements for the year ended 30 June 2004

19.3 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.

2004						
	Freehold land	Buildings	Nursery infr'cture	Plant equipment and vehicles	Office equipment	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Carrying amount at start of period	1,071	2,245	8,300	2,283	790	14,689
Transfers from CALM	-	35	-	33	33	101
Reclassifications	(13)	-	-	17	(3)	1
Additions	3,255	35	-	208	126	3,624
Disposals	-	-	-	(12)	(18)	(29)
Infrastructure written off	-	-	(3,822)	-	-	(3,822)
Revaluation decrement	(39)	-	-	-	-	(39)
Depreciation	-	(129)	(474)	(476)	(274)	(1,353)
Carrying amount at end of period	4,274	2,186	4,004	2,054	655	13,173

2003						
	Freehold land	Buildings	Nursery infr'cture	Plant equipment and vehicles	Office equipment	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Carrying amount at start of period	728	2,340	8,775	2,114	590	14,547
Transfers from CALM	-	5	-	161	2	168
Additions	427	27	-	343	406	1,203
Disposals	-	-	-	(4)	(3)	(7)
Revaluation decrement	(84)	-	-	-	-	(84)
Depreciation	-	(127)	(475)	(331)	(205)	(1,138)
Carrying amount at end of period	1,071	2,245	8,300	2,283	790	14,689

	2004 (\$'000)	2003 (\$'000)
20 Forest infrastructure		
Native Forests	14,937	17,975
Plantations	1,655	1,994
	16,592	19,969

A reconciliation of the carrying amounts of forest infrastructure at the beginning and end of the financial period is set out below.

Carrying amount at the start of the period	19,969	16,627
Revaluation (decrement) / increment	(2,495)	4,174
Depreciation	(882)	(832)
Carrying amount at the end of the period	16,592	19,969

Due to the absence of a practicable net market value for forestry infrastructure, the written down replacement cost of forestry infrastructure is deducted from the net present value of the natural resource assets as a whole, to provide separate disclosure of forest infrastructure.

Infrastructure was subject to a Commission's valuation in the 2003/04 financial year in accordance with the policy set out under Note 2.05.

Notes to the Financial Statements for the year ended 30 June 2004

21 Natural resource assets	2004 Ha under management ¹	2004 (\$'000)	2003 Ha under management ¹	2003 (\$'000)
<i>Natural resource assets at valuation</i>				
<i>Native Forest</i>				
Native forest standing timber	n/a	72,464	n/a	65,527
Standing sandalwood	n/a	64,336	n/a	48,443
Native forest natural resource assets at valuation		136,800		113,970
<i>Plantations</i>				
Plantations standing timber ¹	76,644	166,931	70,401	172,504
Plantations Reforestation program ¹	12,371	8,559	12,371	3,468
Plantations natural resource assets at valuation	89,015	175,490	82,772	175,972
Total natural resource assets at valuation		312,290		289,942
<i>Natural resource assets at cost</i>				
<i>Plantations</i>				
Plantations Afforestation program ²	2,414	7,840	846	3,409
Total natural resource assets at cost		7,840		3,409
Total natural resource assets at valuation and cost		320,130		293,351

¹ Area under management as at 31 December - refer appendix 2

² The Commission's Afforestation program, commenced in the 2002 planting year, is carried at cost due to the unreliability of estimated future cash-flows

A reconciliation of the carrying amounts of natural resource assets at the beginning and end of the financial period is set out below.

	2004 (\$'000)	2003 (\$'000)
Carrying amount at the start of the period	293,351	276,263
Additions	4,431	3,409
Revaluation increments	22,348	13,679
Carrying amount at the end of the period	320,130	293,351

Discount rates:

The following (pre-tax, real) discount rates have been applied in the calculation of net market values:

Native Forest

Native forest standing timber	9.25%	10.00%
Standing sandalwood	8.00%	7.00%

Plantations

Plantations standing timber	8.00%	7.00%
Plantations Reforestation Program	9.75%	10.00%

Discount rates are based on the Commission's weighted average cost of capital. Discount rates were updated this financial year after being reviewed by independent experts.

Details of the timber volumes data and the net present value calculations upon which these valuations are based, are contained in the Commission's working papers.

21.1 Source of valuation of natural resource assets

The net market value of the natural resource assets has been determined in accordance with a Commission's valuation.

Notes to the Financial Statements for the year ended 30 June 2004

21.2 Sensitivity analysis

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

		2004 (\$'000) Increase/ (decrease)	2003 (\$'000) Increase/ (decrease)
Discount rate:	+ 3% Total natural resource assets at valuation	(79,259)	(81,325)
	- 3% Total natural resource assets at valuation	145,248	139,975
Future costs:	+ 3% Total natural resource assets at valuation	(3,866)	(7,922)
	- 3% Total natural resource assets at valuation	10,931	7,535
Future income:	+ 3% Total natural resource assets at valuation	20,819	16,826
	- 3% Total natural resource assets at valuation	(13,838)	(17,214)
		2004 (\$'000)	2003 (\$'000)
22 Payables			
<i>Current</i>			
Trade payables		3,590	4,684
		3,590	4,684
23 Interest bearing liabilities			
<i>Current</i>			
Bank overdraft ¹		-	1,967
Western Australian Treasury Corporation loan		2,874	1,864
Total current		2,874	3,831
<i>Non-Current</i>			
Western Australian Treasury Corporation loan		79,767	71,732
Total non-current		79,767	71,732
Total interest bearing liabilities²		82,641	75,563

¹ Operating overdraft facility with the Commonwealth Bank of Australia.

² Refer note 34 for interest rate analysis.

Notes to the Financial Statements for the year ended 30 June 2004

	2004 (\$'000)	2003 (\$'000)
24 Provisions		
<i>Current</i>		
Compensated Absences - Annual leave	1,522	1,311
Compensated Absences - Long service leave	1,513	1,253
	3,035	2,564
<i>Non-current</i>		
Compensated Absences - Long service leave	1,045	1,014
	1,045	1,014
<i>Employee Benefits (refer note 2.10)</i>		
The aggregate employee benefit liability recognised and included in the financial statements is as follows:		
Provision for employee benefits:		
Current:		
- Provisions	3,035	2,564
- Accrued salaries and wages (refer note 25)	413	297
Non-current:		
- Provisions	1,045	1,014
	4,493	3,875

The Commission considers the carrying amount of employee benefits to approximate fair value - refer note 2.10.

The following assumptions have been made in calculating the non-current provision:

Rate of increase of salaries and wages	3.50%	2.69%
Discount rate	6.00%	6.00%

Settlement terms are based on the Government Employees Superannuation Fund analysis.

25 Other liabilities

<i>Current</i>		
Payroll tax accrual	60	99
Net hedge contract payable	80	-
Accrued expenses		
~ Accrued logging costs	1,979	2,567
~ Other commitments	3,689	4,130
Accrued interest	1,198	-
Accrued salaries and wages	413	297
Provision for deferred liabilities	182	-
Unearned revenue†		
~ Manjimup nursery	134	188
~ Southwest share farm project	399	1,074
Statutory dividend	1,470	1,557
Treasurer's liability ¹	-	1,436
	9,604	11,348

¹ Treasurer's liability for funding the construction of the Manjimup Plant Propagation Centre

Less: Repayment during the period	(1,436)	(1,436)
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Total Treasurer's liability **-** **1,436**

† Unearned revenue is attributable to cash having been received or risk having passed, while the service/product has not yet been invoiced - refer Note 2.09.

Non-Current

Unearned revenue		
~ Wesfi contract ²	2,000	-
Provision for deferred liabilities	431	-
	2,431	-

² \$1m received in 2002/03 was treated as revenue rather than as deferred income as the terms of this contract had not yet been finalised.

In the current financial year this has been corrected by reducing revenue by \$1m and increasing non-current liabilities by \$1m.

Notes to the Financial Statements for the year ended 30 June 2004

	2004 (\$'000)	2003 (\$'000)
26 Contributed equity		
Contribution by owners, the Western Australian State Government, represents amounts transferred on establishment of the Commission and net contributions since establishment, transferred from the Department of Conservation and Land Management.		
The following assets and liabilities have been contributed to equity:		
<i>Contributions since formation of the Commission</i>		
Assets transferred	101	168
Reappropriation from Consolidated Funds ¹	1,289	1,269
Total contribution by owners²	1,390	1,437
Reconciliation:		
Contribution by owners at the beginning of the financial period	230,309	228,872
Amounts contributed during the financial period	1,390	1,437
Contribution by owners at the end of the financial period	231,699	230,309
¹ Reappropriation from the Consolidated Funds arising out of the sale of Peel 'B' Baldivis plantation land sale proceeds.		
² The amounts recorded above represent the fair value of assets and liabilities transferred from the Western Australian Government. The fair values of these assets and liabilities may have changed during the period to yield values accounted for at the financial period end. The amounts transferred have been treated as equity as per Urgent Issues Group (UIG) Abstract 38 - Contributions by Owners Made to Wholly-Owned Public Sector Entities - paragraph (7) (b) and (c).		
27 Reserves		
Asset Revaluation Reserve		
Opening balance	-	18
Net revaluation increments / (decrements) ¹ :		
Land	25	(18)
Closing balance	25	-
Retained profits		
Opening balance	23,838	10,895
Net profit for the period	6,038	14,500
Provision for statutory dividend	(1,470)	(1,557)
Closing balance	28,406	23,838

¹ Revaluations as per Valuation Services.

Notes to the Financial Statements for the year ended 30 June 2004

	2004 (\$'000)	2003 (\$'000)
28 Notes to the Statement of Cash Flows		
28.1 Reconciliation of cash		
Cash assets		
Petty Cash	4	4
Commonwealth Bank	326	-
Commonwealth Bank - USD Bank Account	1,239	-
Commonwealth Bank (Overdraft) - refer note 23	-	(1,967)
	1,569	(1,963)
28.2 Financing and investing activities		
During the financial period assets and liabilities were either transferred or assumed - refer note 26.		
Assets acquired - non cash:		
Assets transferred	101	168
Other - cash:		
Peel B land sale proceeds	1,289	1,269
Equity contributed by owners	1,390	1,437
28.3 Reconciliation of profit from ordinary activities after income tax equivalents to net cash flows provided by/(used in) operating activities		
Profit from ordinary activities after income tax equivalents	6,038	14,500
<i>Non-cash items:</i>		
Depreciation expense	2,234	1,974
Doubtful debt expense	20	634
Amounts from Commonwealth grants and contributions	(12)	(55)
Disposal of non-current assets	(29)	(7)
Amounts for income tax equivalents	2,592	5,622
Revaluation of land and buildings	63	66
Revaluation of timber assets, land and infrastructure	(19,853)	(17,853)
Write down of Nursery infrastructure	3,822	-
<i>Decrease / (increase) in assets:</i>		
Current inventories	4,845	2,002
Current receivables ¹	2,395	1,200
Other current assets	972	(470)
<i>Increase/(decrease) in liabilities:</i>		
Current payables	(1,094)	1,240
Provisions	502	1,011
Unearned Revenue - Wesfi Contract	2,000	-
Other liabilities	246	1,868
Grants and Subsidies from Government	(1,300)	(1,569)
Taxation equivalents paid	(508)	(191)
Net cash provided by operating activities	2,933	9,972

¹ Australian Taxation Office amounts receivable/payable in respect of GST and amounts receivable/payable in respect of the sale/purchase of non-current assets are not included in these items as they are not cash transactions and do not form part of the Statement of Cash Flows.

28.4 Borrowing facilities

At 30th June 2004 the Commission had undrawn financing facilities of \$2.8m (2003 \$9.2m) available from the WA Treasury Corporation.

Notes to the Financial Statements for the year ended 30 June 2004

2004 (\$'000)	2003 (\$'000)
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29 Resources provided free of charge

In the financial year to 30 June 2004, no resources were provided to other agencies free of charge for functions outside the normal operations of the Commission. Non-commercial activities and associated costs are disclosed under note 42.

30 Commitments for expenditure**30.1 Expenditure commitments**

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

Within one year	5,220	100
Later than one year and not later than five years	16,660	22,280
	21,880	22,380

The commitments are largely in support of the Wood Processing (WESFI) Agreement Act 2000 - Plantations Afforestation program, to be funded by way of loans from Western Australian Treasury Corporation.

30.2 Lease commitments

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

Within one year	1,663	2,018
Later than one year and not later than five years	5,934	7,031
Later than five years	15,671	8,649
	23,268	17,698
Non-cancellable operating leases	23,268	17,698

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.

30.3 Guarantees and undertakings

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

31 Contingent assets and liabilities**31.1 Liabilities**

The Commission has no contingent liabilities as at 30 June 2004 (nil at 30 June 2003).

31.2 Assets

The Commission has a contingent asset relating to sequestered carbon. The value of this asset is dependent upon the Australian Government ratifying the Kyoto Protocol and/or the establishment of a carbon trading regime within Australia.

32 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, with the exception of building revaluations, that will have a material effect on the Statement of Financial Position or Statement of Financial Performance as at 30 June 2004. Refer also note 2.05 and 19.1 (Land, buildings and infrastructure) for disclosure details.

Notes to the Financial Statements for the year ended 30 June 2004

33 Explanatory statement

Explanations on any line item with a variance of greater than ten percent have been provided.

33.1 Explanation of significant variations between current and prior year actual results

	2004 (\$'000)	2003 (\$'000)	Variance %	Notes:
Note 3 to the statement of financial performance				
Revenue and expenses from natural resource assets				
3.1 Revenue from natural resource assets				
- Native Forests revenue	73,439	72,366	1%	1
- Plantations revenue	44,329	48,777	(9%)	2
Total revenues from natural resource assets	117,768	121,143	(3%)	
3.2 Expenses from natural resource operations				
- Native Forests	36,815	27,759	33%	3
- Plantations	26,563	32,408	(18%)	4
Total expenses from natural resource operations	63,378	60,167	5%	

	2004 (\$'000)	2003 (\$'000)	Variance %	Notes
Statement of financial performance				
REVENUE				
<i>Revenues from ordinary activities</i>				
<i>Revenue from operating activities</i>				
Revenue from natural resource assets	117,768	121,143		Refer to note 3.1 within 33.1
Revenue from commercial share farm operations	477	1,494	(68%)	5
Grants & contributions from Commonwealth Government	12	55	(78%)	6
Other revenue from ordinary activities	1,368	2,605	(47%)	7
Grants and subsidies from State Government	1,300	1,570	(17%)	8
<i>Revenue from non-operating activities</i>				
Other revenue from non-operating activities	135	121	12%	9
Total revenue from ordinary activities	121,060	126,988	(5%)	

Notes to the Financial Statements for the year ended 30 June 2004

	2004 (\$'000)	2003 (\$'000)	Variance %	Notes
EXPENSES				
Expenses from ordinary activities				
Expenses from natural resource assets	63,378	60,167	5%	Refer to note 3.2 within 33.1
Employee expenses	12,100	13,012	(7%)	10
Supplies and services	23,939	23,491	2%	
Write off of assets	3,822	-	(100%)	11
Depreciation	2,234	1,974	13%	12
Borrowing costs expense	5,661	6,331	(11%)	13
Administration expenses	716	1,337	(46%)	14
Accommodation expenses	580	554	5%	
Total expenses from ordinary activities	112,430	106,866	5%	
Profit from ordinary activities before income tax equivalent expense	8,630	20,122	(57%)	
Income tax equivalent expense	2,592	5,622	(54%)	15
Profit from ordinary activities after income tax equivalent expense	6,038	14,500	(58%)	

Notes:

- 1 Previous financial year has been significantly impacted by Native Forest standing timber revaluation of \$18m.
- 2 Current financial year has been positively impacted by standing timber revaluation of \$6m.
- 3 Reflects higher level of harvesting activity (marri) as well as standing timber revaluation expenses in 2003/04.
- 4 Reflects standing timber revaluation expenses in 2002/03.
- 5 Reflects reduction in level of share farming agency services.
- 6 Reflects lower level of research activity funded by Commonwealth Government in 2003/04.
- 7 Reduction of contribution to Afforestation Program in 2003/04.
- 8 Reduction is due to the Jarrah Enhancement Program funding program finishing in 2003/04. The monies received during the current financial year represent the balance (\$230k) of the agreed program.
- 9 Reduction of minor revenue receipts in 2003/04.
- 10 Proportion of current year employee costs which have been capitalised (Afforestation program) are higher than the previous financial year.
- 11 Write off of assets - refer note 10.
- 12 Depreciation increased in line with fixed assets increase.
- 13 Reflects proactive cash management and loan portfolio mix changes during 2003/04.
- 14 Reduction in administration expenses relate to lower level of share farming agency services and higher capitalisation of these costs which relate to the Afforestation Program.
- 15 Prior year accounting profit before tax higher than current financial year

Notes to the Financial Statements for the year ended 30 June 2004

Notes:

- 1 Variance due to business activity being higher than anticipated. Estimates were framed on the basis that the Forest Management Plan 2004-2013 was to apply from July 2003 (came into effect January 2004) and no marri harvesting activities were factored into the estimates.
- 2 The actual has been favourably impacted upon by the significant improvement of the Reforestation Program standing timber valuation of \$6m. This improvement had not been factored into the estimates.
- 3 Cost increase reflects business activity being higher than estimated. Higher costs associated with natural resource assets activities are offset by higher revenues related to cost recovery and stumpage.
- 4 As per note 3 above.
- 5 Variance due to share farm business activity levels being lower than anticipated.
- 6 Minor contribution from Commonwealth to research activities not factored into estimates.
- 7 Contribution to Afforestation Program was higher than estimated.
- 8 Minor miscellaneous revenue not factored into estimates.
- 9 Actuals have internal sales net off against internal purchases.
- 10 Write off of assets, not included in estimates - refer note 10.
- 11 Increase in fixed assets and associated depreciation not factored into estimates.
- 12 Judicious cash management enabled the Commission to defer borrowings drawdowns estimated for the early part of the year into the later part of the year. Changes in the loan portfolio structure have also contributed to improved result.
- 13 Variance mainly due to audit fees and processing costs estimated for under services and contracts being reported under administration expenses.
- 14 Income tax equivalent expense not factored into estimates.

Notes to the Financial Statements for the year ended 30 June 2004

34 Financial instruments

34.1 Interest rate risk exposure

The following table details the Commission's exposure to interest rate risk as at the reporting date.

	2004							Total \$'000
	USD Balance as at 30-Jun-04 \$'000	Weighted Average Effective Interest Rate %	Fixed Interest Rate - Maturity:			Non Interest Bearing \$'000		
			Variable Interest Rate \$'000	Less than 1 Year \$'000	1 to 5 Years \$'000			
Financial Assets								
Commonwealth Bank Cash Management Account		4.94%	326					326
Commonwealth Bank USD Account	854	0.04%	1,239					1,239
Receivables - USD held in trust on behalf of FPC	202	0.04%	292					292
Receivables		-					10,824	10,824
Accrued revenue		-					1,660	1,660
	1,056		1,857	-	-	-	12,484	14,341
Financial Liabilities								
Payables		-					3,590	3,590
WA Treasury Corporations		6.96%		2,874	15,352	64,415		82,641
Deferred income		3.68%	2,000					2,000
Accrued interest		-					1,198	1,198
	-		2,000	2,874	15,352	64,415	4,788	89,429

	2003							Total \$'000
	Average Effective Interest Rate %	Fixed Interest Rate - Maturity:			Non Interest Bearing \$'000			
		Variable Interest Rate \$'000	Less than 1 Year \$'000	1 to 5 Years \$'000			More than 5 Years \$'000	
Financial Assets								
Financial Assets								
Receivables		-					13,219	13,219
WA Treasury Corporation prepayments		4.66%	249				-	249
Accrued revenue		-					1,654	1,654
Financial Assets			249	-	-	-	14,873	15,122
Financial Liabilities								
Payables							4,684	4,684
Bank overdraft		8.35%	1,967					1,967
WA Treasury Corporation		7.55%		1,864	10,484	61,248		73,596
Treasurer's liability				1,436				1,436
Financial Liabilities			1,967	3,300	10,484	61,248	4,684	81,683

Notes to the Financial Statements for the year ended 30 June 2004

	2004 (\$'000)	2003 (\$'000)
Summary		
Financial assets	14,341	15,122
Financial liabilities	89,429	81,683

34.2 Credit risk exposure

Accounts receivable largely consists of timber debtors, for which deposits and securities equivalent to an average of 6 weeks deliveries are required to be lodged in favour of the Commission under the supply of timber contracts of sale. These deposits and securities are held in trust until the expiry or default of contracts. However, as at 30 June 2004, the value of overdue accounts exceeded deposits and securities by \$1.7m (2003 \$1.1m).

In addition to securities, protection of the Commission's interest is provided in that forest produce is the property of the Crown until forest produce charges are paid. In the instance of default of payment, forest produce may be seized and disposed of under a statutory retention right.

The Commission's credit risk exposure at 30 June 2004 is illustrated by the aged debtors table below:

	2004 Number of customers	2004 Value overdue ¹ : (\$'000)	2003 Number of customers	2003 Value overdue ¹ : (\$'000)
1 to 30	14	525	24	1,781
31 to 60	13	668	12	271
Greater than 60	31	1,352	36	1,182
All overdue accounts	58	2,545	72	3,234

¹ Overdue beyond the Commission's agreed trading terms.

The likelihood of recovery as at 30 June 2004 was estimated and factored into the amount of \$904,812 (2003 \$1,342,000) provided for doubtful debts (refer note 17).

34.3 Fair values

The carrying amount of financial assets and financial liabilities recorded in the financial statements are not considered materially different from their fair values, determined in accordance with the accounting policies disclosed in Note 2 to the financial statements, in particular Note 2.22.

The Commission's borrowings of \$82.642m (2003 \$73.596m) from the Western Australian Treasury Corporation (WATC) have been assessed by the WATC to have a net fair value of \$85.158m (2003 \$79.498m) as at 30 June 2004. 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.

Notes to the Financial Statements for the year ended 30 June 2004

	2004 (\$'000)	2003 (\$'000)
35 Taxation equivalent		
The prima facie income tax equivalent on pre-tax accounting profit reconciles to the income tax equivalent in the statement of financial performance as follows:		
Profit from ordinary activities before income tax equivalent expense	8,630	20,122
Income tax equivalent expense calculated at 30% of operating profit	2,589	6,037
<i>Permanent differences: (refer Note 2.18)</i>		
Non-deductible travel expenses	-	11
Research and development concession	-	(89)
Entertainment	3	-
Revaluation of natural resource assets	-	1,717
Depreciation of forest infrastructure	-	210
Employee provisions - opening balance	-	(659)
Unrealised revaluation in forest assets - prior year	-	(4,207)
Capitalised Plantations afforestation program expenditure	-	2,602
Income tax equivalent expense attributable to profit from ordinary activities	2,592	5,622
Income tax equivalent expense comprises movements in:		
Provision for tax equivalent expense	-	589
Provision for deferred tax equivalent expense	6,448	8,275
Future tax equivalent expense benefit	(3,857)	(3,242)
Total income tax equivalent expense	2,591	5,622
Deferred tax assets		
Future income tax benefit - timing differences	8,122	4,265
Reconciliation:		
Reconciliations of the carrying amounts of future income tax equivalent benefits at the beginning and end of the current financial period are set out below.		
Carrying amount at start of period	4,265	1,023
Amount arising during the period	3,857	3,242
Carrying amount at end of period	8,122	4,265
Deferred Tax Assets include an amount of \$2.417 million due to tax losses of \$8.057 million carried forward.		
Deferred tax liabilities		
Provision for deferred income tax equivalent liabilities	16,989	10,541
Reconciliation:		
Reconciliations of the carrying amounts of deferred income tax equivalent liabilities at the beginning and end of the current financial period are set out below.		
Carrying amount at start of period	10,541	2,266
Amount arising during the period	6,448	8,275
Carrying amount at end of period	16,989	10,541
Provision for income tax equivalent expense		
Provision for income tax equivalent at start of period	508	109
Income tax equivalent expense paid in period	(508)	(191)
Income tax equivalent expense for the period	2,591	5,622
Effect of future income tax equivalent benefit arising in the period	3,857	3,242
Effect of provision for deferred income tax equivalent arising in the period	(6,448)	(8,275)
Provision for income tax equivalent expense at end of period	-	508

Notes to the Financial Statements for the year ended 30 June 2004

	2004 (\$'000)	2003 (\$'000)
36 Provision for dividend		
Provision for declared dividend	1,470	1,557
Dividend provision as at 30 June 2003 was paid to WA Treasury within time limit stipulated in part 6 section 44.4(b) of the <i>Forest Products Act 2000</i> .		
37 Remuneration of Members of the Accountable Authority and Senior Officers		
Remuneration of Members of the Accountable Authority		
The number of Members of the Accountable Authority (Commissioners) whose total of fees, salaries, superannuation ¹ and other benefits received, or which are due and receivable, for the financial year which fall within the following bands, is as follows:		
\$		
5,000 - 10,000	-	-
10,000 - 20,000	6	3
20,000 - 30,000	-	3
30,000 - 40,000	-	-
40,000 - 50,000	-	-
50,000 - 60,000	1	1
	7	7
The total remuneration of Members of the Accountable Authority for the financial period was:	171	185
¹ No Commissioner is a member of the Pension Scheme.		
<i>Remuneration of Senior Officers</i>		
The number of Senior Officers (members of the Commission's Corporate Executive), 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:		
\$		
90,000 - 100,000	2	1
100,001 - 110,000	-	-
110,001 - 120,000	2	2
120,001 - 130,000	-	1
130,001 - 140,000	1	-
140,001 - 150,000	-	-
150,001 - 160,000	-	-
160,001 - 170,000	-	-
170,001 - 180,000	-	1
180,001 - 190,000	1	-
	6	5
The total remuneration of Senior Officers for the financial period was:	735	617
38 Related/affiliated bodies		
The Commission has no 'related' or 'affiliated' bodies as defined by TI 951 (3) to (6).		
39 Remuneration of auditor		
The total fees due and payable to the Auditor General for the financial period is as follows:		
Auditing the accounts, financial statements and performance indicators	62	64
Provision for remuneration of auditor		
Opening Balance	64	65
Payments made during the period	(47)	(65)
Amounts provided during the period	45	64
Closing Balance	62	64

Notes to the Financial Statements for the year ended 30 June 2004

	2004 (\$'000)	2003 (\$'000)
40 Funds held in trust		
Funds held in trust ¹ as security for contract obligations. These funds are repayable on completion of contracts.		
Opening Balance	874	885
Receipts	73	357
Payments	(75)	(368)
Closing Balance	872	874

¹ 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 accumulate for the benefit of security providers.

41 Supplementary information**41.1 Write-offs:**

Nursery infrastructure (refer note 10)	3,822	-
Inventory ¹	1,948	-
Debtors ²	457	-
Seedlings ³	427	-
Other	-	11
Total	6,654	11

¹ Inventory written down in the financial year due to the lack of a readily identifiable market.

² \$457,000 of unrecoverable debt was written-off in the financial period and was fully provided for in the 2002/03 financial year. All requisite approvals as stipulated in the Treasury Instructions were complied with.

³ \$427,000 of seedlings were disposed of during the financial period due to reduction in planting levels.

41.2 Losses through theft, defaults and other causes	-	-
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41.3 Gifts of public property	2	-
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42 Segment information

Segment information has been disclosed by 'main business segment', based on the Commission's management reporting system.

Southwest Forest - Responsible for all harvesting and regeneration activities associated with Native Forest other than Sandalwood.

Arid Forest - Responsible for all 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 - This sector is responsible for the establishment and maintenance of plantations in the low rainfall zone. This arm of the Commission's objective is not only aimed at producing timber to sustain the timber industry, but also to ameliorate salinity and address soil degradation.

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

Business Development - Provides marketing intelligence and expert services in the exploration and analysis of business opportunities and provides public relations and corporate affairs support services to the Commission.

Corporate & Support Services - This sector provides corporate management, business administration (contracts, finance) support and specialised services to the operating arms of the business.

Non-Commercial Revenue and Expenses - This segment isolates and quantifies the Commission's non-commercial activities such as those associated with delivery of services that in the Commission's opinion would not be undertaken were the Commission to be focused purely on generating commercial returns in line with similar enterprises in the private sector.

The Commission operates within one geographical segment (Western Australia).

Notes to the Financial Statements for the year ended 30 June 2004

2003/04

	Southwest Forest Centre (\$' 000)	Arid Forest Services (\$' 000)	Plant Propagation Expenditure (\$' 000)	New Plant- ations (\$' 000)	Mature Plant- ations (\$' 000)	Business Develop- ment (\$' 000)	Corporate & Support (\$' 000)	Non Commercial Revenue & Expenses (\$' 000)	Total (\$' 000)
REVENUE									
Revenue from ordinary activities									
Revenue from natural resource assets	37,345	12,894	937	661	42,964		82	-	94,883
Revenue from commercial share farm operations	-	-	-	477	-		-	-	477
Internal sales transferred from Supplies & Services			1,937						1,937
Commonwealth grants & contributions	-	-	12	-	-		-	-	12
Other revenue from ordinary activities	244	-	147	320	105		488	64	1,368
Grants and subsidies from State Government	-	-	-	-	-		-	1,300	1,300
Other revenue from non-operating activities	-	-	-	-	-		135	-	135
Total revenue from ordinary activities	37,589	12,894	3,033	1,458	43,069	-	705	1,364	100,112
EXPENSES									
Expenses from ordinary activities									
Expenses from natural resource assets	22,748	6,987	-	694	24,438		10	-	54,877
Employee expenses	2,120	589	1,946	625	1,049	812	4,289	670	12,100
Supplies and services	5,168	877	1,296	1,303	10,630	546	4,517	1,539	25,876
Write off of assets			3,822						3,822
Depreciation expense	731	16	748	102	270		248	119	2,234
Borrowing costs expense	-	-	-	4,591	-		-	1,070	5,661
Administration expenses	145	27	56	15	47	11	407	8	716
Accommodation expenses	19	34	56	12	8	3	430	18	580
Total expenses from ordinary activities	30,931	8,530	7,924	7,342	36,442	1,372	9,901	3,424	105,866
Profit/(loss) from ordinary activities before income tax equivalents and SGARA valuations	6,658	4,364	(4,891)	(5,884)	6,627	(1,372)	(9,196)	(2,060)	(5,754)
Revenue from SGARA valuations	7,240	15,894	(35)	6,193	(6,888)	-	-	-	22,404
Expenses from SGARA valuations	(4,993)	(2,038)	(805)	-	(145)	(39)	-	-	(8,020)
Net Revenue / (expenses) from SGARA valuations	2,247	13,856	(840)	6,193	(7,033)	(39)	-	-	14,384
Profit/(loss) from ordinary activities before income tax equivalents	8,905	18,220	(5,731)	309	(406)	(1,411)	(9,196)	(2,060)	8,630
Income tax equivalent expense	-	-	-	-	-	-	2,592	-	2,592
Profit/(loss) from ordinary activities after income tax equivalents	8,905	18,220	(5,731)	309	(406)	(1,411)	(11,788)	(2,060)	6,038

Notes to the Financial Statements for the year ended 30 June 2004

2003/04

	Southwest Forest Centre (\$' 000)	Arid Forest Services (\$' 000)	Plant Propagation Expenditure (\$' 000)	New Plant- ations (\$' 000)	Mature Plant- ations (\$' 000)	Business Develop- ment (\$' 000)	Corporate & Support (\$' 000)	Non Commercial Revenue & Expenses (\$' 000)	Total (\$' 000)
ASSETS									
Current Assets									
Cash Assets	-	-	-	-	-		1,569		1,569
Inventories	527	2,322	3,623	-	138		-		6,610
Receivables	-	-	-	-	-		10,824		10,824
Other Assets	-	1,393	-	267	234		551		2,445
	527	3,715	3,623	267	372		12,944		21,448
Non Current Assets									
Land and buildings	621	-	1,279	3,458	550		-	552	6,460
Plant, equipment and vehicles	-	-	4,004	-	-		2,709		6,713
Forest Infrastructure	14,937	-	-	-	1,655		-		16,592
Natural resource assets	72,464	64,336	-	16,399	166,931		-		320,130
Deferred tax assets	2,453	-	-	-	5,669		-		8,122
	90,475	64,336	5,283	19,857	174,805		2,709	552	358,017
Segment Assets	91,002	68,051	8,906	20,124	175,177			552	363,812
Unallocated Assets	-	-	-	-	-		15,653		15,653
Total Assets	91,002	68,051	8,906	20,124	175,177		15,653	552	379,465
LIABILITIES									
Current Liabilities									
Payables	-	-	-	-	-		3,590		3,590
Interest Bearing Liabilities	632	-	-	2,242	-		-		2,874
Tax Liabilities	-	-	-	-	-		-		0
Provisions	-	-	-	-	-		3,035		3,035
Other Liabilities	1,708	539	134	399	5,092		1,732		9,604
	2,340	539	134	2,641	5,092		8,357		19,103
Non Current Liabilities									
Interest Bearing Liabilities	17,548	-	-	-	62,219	-	-		79,767
Provisions	-	-	-	-	-	-	1,045		1,045
Other Liabilities	-	-	-	-	2,000		431		2,431
Deferred tax liabilities	19,971	-	-	-	(2,982)		-		16,989
	37,519	-	-	-	61,239		1,476		100,232
Segment Liabilities	39,859	539	134	2,641	66,329				109,502
Unallocated Liabilities	-	-	-	-	-		9,833		9,833
Total Liabilities	39,859	539	134	2,641	66,329		9,833		119,335
Operating Return on total assets (excluding SGARA valuations)	7.32%	6.41%	(54.92%)	(6.43%)	3.78%				(0.02%)

Notes to the Financial Statements for the year ended 30 June 2004

2002/03

	Southwest Forest Centre (\$' 000)	Arid Forest Services (\$' 000)	Plant Propagation Expenditure (\$' 000)	New Plantations (\$' 000)	Mature Plantations (\$' 000)	Business Development (\$' 000)	Corporate & Support (\$' 000)	Non Commercial Revenue & Expenses (\$' 000)	Total (\$' 000)
REVENUE									
Revenue from ordinary activities									
Revenue from natural resource assets	33,340	13,661	2,684	2,644	43,443	-	42	-	95,814
Revenue from commercial share farm operations	-	-	-	1,494	-	-	-	-	1,494
Internal sales transferred from Supplies & Services	-	-	756	-	-	-	-	-	756
Commonwealth grants & contributions	-	-	55	-	-	-	-	-	55
Other revenue from ordinary activities	317	53	90	685	693	-	535	232	2,605
Grants and subsidies from State Government	-	-	-	-	-	-	-	1,570	1,570
Other revenue from non-operating activities	-	-	-	-	-	-	121	-	121
Total revenue from ordinary activities	33,657	13,714	3,585	4,823	44,136	-	698	1,802	102,415
EXPENSES									
Expenses from ordinary activities									
Expenses from natural resource assets	20,691	7,042	-	648	23,701	-	16	-	52,098
Employee expenses	2,186	595	2,282	1,443	1,052	507	4,425	522	13,012
Supplies and services	4,415	664	1,409	1,785	9,730	814	5,175	255	24,247
Depreciation expense	1,222	12	710	83	488	-	(658)	117	1,974
Borrowing costs expense	-	-	-	4,981	-	-	-	1,350	6,331
Administration expenses	154	22	123	11	46	13	951	17	1,337
Accommodation expenses	21	36	90	(2)	13	2	359	35	554
Total expenses from ordinary activities	28,689	8,371	4,614	8,949	35,030	1,336	10,268	2,296	99,553
Profit/(loss) from ordinary activities before income tax equivalents and SGARA valuations	4,968	5,343	(1,029)	(4,126)	9,106	(1,336)	(9,570)	(494)	2,862
Revenue from SGARA valuations	5,674	19,655	-	-	-	-	-	-	25,329
Expenses from SGARA valuations	(3,144)	3,145	669	1,673	5,717	-	9	-	8,069
Net Revenue / (expenses) from SGARA valuations	8,818	16,510	(669)	(1,673)	(5,717)	-	(9)	-	17,260
Profit/(loss) from ordinary activities before income tax equivalents	13,786	21,853	(1,698)	(5,799)	3,389	(1,336)	(9,579)	(494)	20,122
Income tax equivalent expense	-	-	-	-	-	-	5,622	-	5,622
Profit/(loss) from ordinary activities after income tax equivalents	13,786	21,853	(1,698)	(5,799)	3,389	(1,336)	(15,201)	(494)	14,500

Notes to the Financial Statements for the year ended 30 June 2004

2002/03

	Southwest Forest Centre (\$' 000)	Arid Forest Services (\$' 000)	Plant Propagation Expenditure (\$' 000)	New Plant- ations (\$' 000)	Mature Plant- ations (\$' 000)	Business Develop- ment (\$' 000)	Corporate & Support (\$' 000)	Non Commercial Revenue & Expenses (\$' 000)	Total (\$' 000)
ASSETS									
Current Assets									
Cash Assets	-	-	-	-	-		4	-	4
Inventories	2,217	4,359	4,722	-	157		-	-	11,455
Receivables	-	-	-	-	-		13,219	-	13,219
Other Assets	-	708	-	-	1,518		1,191	-	3,417
	2,217	5,067	4,722	-	1,675		14,414	-	28,095
Non Current Assets									
Land and buildings	621	-	1,279	314	550		-	552	3,316
Plant, equipment and vehicles	-	-	8,300	-	-		3,073	-	11,373
Forest Infrastructure	17,975	-	-	-	1,994		-	-	19,969
Natural resource assets	65,527	48,443	-	6,877	172,504		-	-	293,351
Deferred tax assets	2,527	-	-	-	1,738		-	-	4,265
	86,650	48,443	9,579	7,191	176,786		3,073	552	332,274
Segment Assets	88,867	53,510	14,301	7,191	178,461		-	552	342,882
Unallocated Assets	-	-	-	-	-		17,487	-	17,487
Total Assets	88,867	53,510	14,301	7,191	178,461		17,487	552	360,369
LIABILITIES									
Current Liabilities									
Payables	-	-	-	-	-		4,684	-	4,684
Interest Bearing Liabilities	1,396	-	-	-	2,435		-	-	3,831
Tax Liabilities	2,145	-	-	-	(1,637)		-	-	508
Provisions	-	-	-	-	-		2,564	-	2,564
Other Liabilities	2,990	436	1,436	1,074	3,855		1,557	-	11,348
	6,531	436	1,436	1,074	4,653		8,805	-	22,935
Non Current Liabilities									
Interest Bearing Liabilities	15,491	-	-	-	56,241		-	-	71,732
Provisions	-	-	-	-	-		1,014	-	1,014
Other Liabilities	-	-	-	-	-		-	-	0
Deferred tax liabilities	14,502	-	-	-	(3,961)		-	-	10,541
	29,993	-	-	-	52,280		1,014	-	83,287
Segment Liabilities	36,524	436	1,436	1,074	56,933				96,403
Unallocated Liabilities	-	-	-	-	-		9,819	-	9,819
Total Liabilities	36,524	436	1,436	1,074	56,933		9,819	-	106,222
Operating Return on total assets	5.59%	9.99%	(7.20%)	11.89%	5.10%				2.55%

Notes to the Financial Statements for the year ended 30 June 2004

	2004 (\$'000)	2003 (\$'000)
43 Research and Development Expenditure		
43.1 Research and Development expenditure	1,046	1,187

Expenses associated with research and development are included in expenses from ordinary activities. The Forest Products Commission is a member of CRC Wood Innovations, a Cooperative Research Centre for Innovative Wood Manufacturing, based at The University of Melbourne. The Commission has a payment commitment of \$100,000 per year until 2008 together with in-kind contributions of approximately \$65,000 per year.

43.2 Plantation Industry Ministerial Advisory Committee (PIMAC)	25	17
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Expenses associated with PIMAC are included in expenses from ordinary activities. The Minister for Agriculture, Forestry and Fisheries 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.

44 Advertising and communication expenditure

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:

	2004 \$	2003 \$		
Expenditure was incurred in the following areas:				
Advertising expenditure:				
Supplier:		Service:		
Fine Finish		Advertising	-	2,268
Lasergrafix		Printing	-	3,501
Marketforce - Infnitree™ Launch		Infnitree™ Launch	-	354,206
Marketforce Productions		Productions	56,843	19,410
Media Decisions - TV Advertising		TV Advertising (Infnitree™)	340,145	14,783
Sector Vision Consulting		Classification Review	-	1,620
Sundry other (less than \$1,600 per supplier)		Various	-	9,244
Total	396,988			405,031
Consultancy:				
Supplier:		Service:		
Media Monitors WA Pty Ltd		Communication information	17,383	17,876
Total			17,383	17,876
Market Research:			-	-
Polling organisations:			-	-
Direct Mail organisations			-	-
			414,371	422,907

Notes to the Financial Statements for the year ended 30 June 2004

45 Impact of Adopting International Accounting Standards

The Commission has established a formal project, monitored by a steering committee, comprised of key Accounting staff, to achieve transition to IFRS reporting. The Commission's implementation project consists of three phases as described below:

Assessment and planning phase

The assessment and planning phase aim to produce a high level overview of the impacts of conversion to IFRS reporting on existing accounting and reporting policies and procedures, systems and processes, business structures and staff.

This phase includes:

- High level identification of the key differences in accounting policies and disclosures that are expected to arise from adopting IFRS
- Assessment of new information requirements affecting management information systems, as well as the impact on the business and its key processes
- Evaluation of the implications for staff, for example training requirements
- Preparation of a conversion plan for expected changes to accounting policies, requirement structures, systems, accounting and business processes and staff training.

The Commission considers the assessment and planning phase to have commenced as at 30 June 2004.

Design phase

The design phase aims to formulate the changes required to existing accounting policies and procedures and systems and processes in order to transition to IFRS. The design phase will incorporate:

- formulating revised accounting policies and procedures for compliance with IFRS requirements
- identifying potential financial impacts as at the transition date and for subsequent reporting periods prior to adoption of IFRS
- developing revised IFRS disclosures
- designing accounting and business processes to support IFRS reporting obligations
- identifying and planning required changes to financial reporting and business source systems
- developing training programs for staff.

The Commission is in the process of commencing its design phase, with work progressing in each of the areas described above. The design phase is expected to be completed by 31 October 2004.

Implementation phase

The implementation phase will include implementation of identified changes to accounting and business procedures, processes and systems and operational training for staff. It will enable the Commission to generate the required disclosures of AASB 1 as it progresses through its transition to IFRS.

Except for certain training that has been given to operational staff, the company has not yet commenced the implementation phase. However, the company expects this phase to be substantially complete by 30 December 2004.

Possible major implications:

Self generating and re-generating assets (SGARA):

Under AASB 141 Agriculture, the Commission is required to discount cash flows for the purpose of valuing its SGARAs on a real pre-tax basis, which complies with the existing accounting policy. However a potential difference arises in the discount rate determination under AASB141 as the Commission currently bases the calculation of its Weighted Average Cost of Capital (WACC) on the Commission's effective tax rate as opposed to the full Corporate Tax rate of 30%. Conversion of the discount rate to take account of the full Corporate Tax rate will increase the Commission's WACC and correspondingly decrease the value of the Commission's SGARA assets.

The provisions of AASB 141.21 require the SGARA valuation process to value SGARA assets in their 'present location and condition'. AASB 141.21 states that 'the present condition of a biological asset excludes any increases in value from additional biological transformation and future activities of the entity, such as those related to enhancing the future biological transformation'. In conformance with industry standard, the Commission's present SGARA valuation process includes cash flows that arise from future biological transformation based on estimated mean average increments and SGARA asset enhancement through the application of silvicultural management regimes. The wording of AASB 141 would therefore appear at odds with current industry practice. In response to the Commission's request, the Australian Accounting

Notes to the Financial Statements for the year ended 30 June 2004

Standards Board (AASB) has undertaken to seek clarification on this issue from the International Accounting Standards Board (IASB). The future financial effect of any potential change in accounting policy that may arise as a result of this issue has not yet been quantified.

Financial instruments:

Under AASB 139 Financial Instruments: Recognition and Measurement, financial instruments including derivatives and embedded derivatives will be required to be classified into one of five categories which will, in turn, determine the accounting treatment of the item. The classifications are loans and receivables - measured at amortised cost, held to maturity - measured at amortised cost, held for trading - measured at fair value with fair value changes charged to net profit or loss, available for sale - measured at fair value with fair value changes taken to equity and non-trading liabilities - measured at amortised cost. This will result in a change in the current accounting policy that does not classify financial instruments.

Certain embedded derivatives (as defined by AASB139) such as those that cause some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified commodity price or index of prices or rates have not been recognised on balance sheet under the currency accounting policy. Due to the complexities involved in estimating the effect of these embedded derivatives on the Commission's financial statements, independent expert advice will be sought to assist in the evaluation process.

The future financial effect of this change in accounting policy is not yet known as the classification and measurement process has not yet been fully completed.

Possible minor implications

Hedge Accounting

Under AASB 139 Financial Instruments: Recognition and Measurement in order to achieve a qualifying hedge, the organisation is required to meet the following criteria:

- Identify the type of hedge - fair value or cash flow;
- Identify the hedged item or transaction
- Identify the nature of the risk being hedged;
- Identify the hedging instrument;
- Demonstrate that the hedge has and will continue to be highly effective; and
- Document the hedging relationship, including the risk management objectives and strategy for undertaking the hedge and how effectiveness will be tested.

Preliminary investigation and independent expert advice obtained by the Commission indicates that with some system and procedural modifications the Commission will be able to comply with the above requirements. This would avoid a change in the Commission's current accounting policy which applies hedge accounting to its sale of items under forward foreign exchange contracts. Should these modifications not be practicable a change in accounting policy would be required as change in the entity's current accounting policy which applies hedge accounting to its sale of items under forward foreign exchange contracts. Should these modifications not be practicable, a change in accounting policy would be required as the forward exchange contracts would be deemed to be general hedges and may not be able to be separately denied and documented in accordance with the requirements of AASB 139. Under such an accounting policy hedge accounting will no longer be able to be applied to such forward foreign exchange contracts and all gains and losses on the contracts will be recognised in the income statement.

Reliable estimation of the future financial effect of this change in accounting policy has not yet been measured. Independent expert advice will be sought in this area.

Impairment of Assets:

Under AASB136 Impairment of Assets the recoverable amount of an asset is determined as the higher of net selling price and value in use.

Under the new policy it is likely that impairment of assets will be recognised sooner and that the amount of write-downs will be greater. Reliable estimation of the future financial effects of this change in accounting policy is impracticable because the conditions under which impairment will be assessed are not yet known. Independent expert advice will be sought in this area.

Notes to the Financial Statements for the year ended 30 June 2004

Income taxes:

Under the Australian equivalent to IAS 12 Income Taxes, the company will be required to use a balance sheet liability method which focuses on the tax effects of transactions and other events that affect amounts recognised in either the Statement of Financial Position or a tax-based balance sheet. It is not expected that there will be any material impact as a result of adoption of this standard.

Revenue:

Under AASB 108 Revenue, revenue is defined as 'the gross inflow of economic benefits [from] ordinary activities' while the current accounting policy, in compliance with AASB 1004 Revenue contains a broader definition of revenue encompassing all of an entity's inflows (i.e. it does not matter whether or not they are attributable to ordinary activities). Accordingly, AASB 118 prescribes a narrower range of accounting treatments than AASB 1004.

AASB 118.20(d) requires the costs incurred for a transaction to provide services and the costs to complete the transaction to be capable of reliable measurement before revenue arising from the transaction can be recognised by reference to the stage of completion of the transaction. This condition is not included in AASB 1004. Therefore, where an entity enters into a contract to provide services and the costs incurred or the costs to complete the transaction cannot be measured reliably at the time the other recognition criteria are satisfied, revenue recognition by reference to the stage of completion of the transaction would be deferred under AASB 118.20 until such time as the costs incurred and the costs to complete the transaction can be measured reliably.

It is not expected that there will be any material impact as a result of adoption of this standard.

Government grants:

AASB 120 Government Grants requires that government grants be recognised as revenues only once there is reasonable assurance that the entity will comply with conditions attaching to the grants and they will be received; requires government grants to be recognised as income over the periods necessary to match them with the related costs; requires government grants receivable as compensation or for immediate support to be recognised as income when receivable; and requires government grants related to assets to be presented in the balance sheet as deferred income.

The Commission is an organisation whose primary purpose includes the delivery of environmental and social outcomes and is therefore a 'not for profit' organisation, therefore this standard may be voluntarily adopted by the Commission.

46 Additional information

The following additional information is provided in terms of the requirements of AASB 1034 (5.1)

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.

Number of employees at year end:

	2004	2003
Number of employees ¹ :	202	184

¹ Refer 'Our People' report.

Auditor General's Report on the Financial Statements for the year ended 30 June 2004



AUDITOR GENERAL

INDEPENDENT AUDIT OPINION

To the Parliament of Western Australia

**FOREST PRODUCTS COMMISSION
FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2004**

Audit Opinion

In my opinion,

- (i) the controls exercised by the Forest Products Commission provide reasonable assurance that the receipt and expenditure of moneys, the acquisition and disposal of property, and the incurring of liabilities have been in accordance with legislative provisions; and
- (ii) the financial statements are based on proper accounts and present fairly in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia and the Treasurer's Instructions, the financial position of the Commission at June 30, 2004 and its financial performance and cash flows for the year ended on that date.

Scope***The Commission's Role***

The Commission is responsible for keeping proper accounts and maintaining adequate systems of internal control, preparing the financial statements, and complying with the Financial Administration and Audit Act 1985 (the Act) and other relevant written law.

The financial statements consist of the Statement of Financial Performance, Statement of Financial Position, Statement of Cash Flows and the Notes to the Financial Statements.

Summary of my Role

As required by the Act, I have independently audited the accounts and financial statements to express an opinion on the controls and financial statements. This was done by looking at a sample of the evidence.

An audit does not guarantee that every amount and disclosure in the financial statements 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.

D D R PEARSON
AUDITOR GENERAL
September 24, 2004

Appendices 2003/04

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APPENDIX 1

TRENDS IN THE AREA OF NATIVE FOREST HARVESTED

	Jarrah Forest ha	Jarrah/ Wandoo ha	Karri Forest	
			Clearfelled or partially cut ha	Thinned ha
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

*Note: figures do not include areas cleared for mining or utilities

Appendices

APPENDIX 2

AREA OF STATE-OWNED CONIFEROUS PLANTATIONS AS AT 31 DECEMBER 2003

PYEAR	FPC - OWNED												FPC - MANAGED				TOTAL							
	Pinus Radiata				Grand				Other Pine				Grand				Pinus		Other		All Species			
	Cumulative Total						Cumulative Total						Radiata		Pine									
	First Rotation		Replanted Areas				First Rotation		Replanted Areas				All Rotations		First Rotation		Year Total		Cumulative Total					
	STATE		STATE		STATE		STATE		STATE		STATE		STATE		STATE		STATE		STATE		STATE			
+S/F	S/F	+S/F	S/F	+S/F	S/F	+S/F	S/F	+S/F	S/F	+S/F	S/F	+S/F	S/F	+S/F	S/F	+S/F	S/F	+S/F	S/F	+S/F	S/F			
1959	147	5	14	-	161	5	3250	56	33	-	3283	56	-	-	-	-	3444	61	3444	61				
1960	24	-	3	-	188	5	305	-	-	-	3588	56	-	-	-	-	332	-	3776	61				
1961	43	-	-	-	231	5	416	-	3	-	4007	56	-	-	-	-	462	-	4238	61				
1962	47	-	-	-	278	5	394	-	-	-	4401	56	-	-	-	-	441	-	4679	61				
1963	44	-	-	-	322	5	290	-	-	-	4691	56	-	-	-	-	334	-	5013	61				
1964	41	-	-	-	363	5	483	-	23	23	5197	79	-	-	-	-	547	23	5560	84				
1965	72	-	13	-	448	5	424	-	3	-	5624	79	-	-	-	-	512	-	6072	84				
1966	74	-	6	-	528	5	680	-	2	-	6306	79	-	-	-	-	762	-	6834	84				
1967	39	-	-	-	567	5	872	-	-	-	7178	79	-	-	-	-	911	-	7745	84				
1968	59	6	16	-	642	11	1205	55	3	-	8386	134	-	-	-	-	1283	61	9028	145				
1969	160	5	-	-	802	16	1334	17	9	-	9729	151	-	-	-	-	1503	22	10531	167				
1970	249	-	-	-	1051	16	1099	1	19	-	10847	152	-	-	-	-	1367	1	11898	168				
1971	451	-	1	-	1503	16	771	1	-	-	11618	153	-	-	-	-	1223	1	13121	169				
1972	570	3	4	-	2077	19	659	-	-	-	12277	153	-	-	-	-	1233	3	14354	172				
1973	653	16	51	-	2781	35	530	-	3	-	12810	153	-	-	-	-	1237	16	15591	188				
1974	1097	42	2	-	3880	77	309	-	-	-	13119	153	-	-	-	-	1408	42	16999	230				
1975	1206	92	-	-	5086	169	1173	-	-	-	14292	153	-	-	-	-	2379	92	19378	322				
1976	1470	101	5	-	6561	270	1118	-	1	-	15411	153	-	-	-	-	2594	101	21972	423				
1977	1309	9	33	-	7903	279	863	-	-	-	16274	153	-	-	-	-	2205	9	24177	432				
1978	1799	8	18	-	9720	287	495	-	-	-	16769	153	-	-	-	-	2312	8	26489	440				
1979	1372	2	402	-	11494	289	364	-	-	-	17133	153	-	-	-	-	2138	2	28627	442				
1980	1473	-	-	-	12967	289	744	-	-	-	17877	153	-	-	-	-	2217	-	30844	442				
1981	1353	-	114	-	14434	289	873	-	5	-	18755	153	-	-	-	-	2345	-	33189	442				
1982	1192	-	264	-	15890	289	463	-	5	-	19223	153	-	-	-	-	1924	-	35113	442				
1983	1256	-	36	-	17182	289	587	-	-	-	19810	153	-	-	-	-	1879	-	36992	442				
1984	1817	-	3	-	19002	289	505	-	9	-	20324	153	-	-	-	-	2334	-	39326	442				
1985	1644	48	125	-	20771	337	477	-	2	-	20803	153	-	-	-	-	2248	48	41574	490				
1986	1040	164	-	-	21811	501	481	-	-	-	21284	153	-	-	-	-	1521	164	43095	654				
1987	1404	739	155	-	23370	1240	654	-	39	39	21977	192	-	-	-	-	2252	778	45347	1432				
1988	1622	1203	135	1	25127	2444	190	-	1	-	22168	192	-	-	-	-	1948	1204	47295	2636				
1989	978	424	461	32	26566	2900	22	-	20	-	22210	192	-	-	-	-	1481	456	48776	3092				
1990	883	741	354	-	27803	3641	-	-	6	-	22216	192	-	-	-	-	1243	741	50019	3833				
1991	1277	1196	513	-	29593	4837	4	-	19	-	22239	192	-	-	-	-	1813	1196	51832	5029				
1992	1788	1781	490	-	31871	6618	118	118	344	-	22701	310	-	-	-	-	2740	1899	54572	6928				
1993	760	675	986	-	33617	7293	141	6	309	-	23151	316	-	-	-	-	2196	681	56768	7609				
1994	539	396	419	13	34575	7702	-	-	372	-	23523	316	-	-	-	-	1330	409	58098	8018				
1995	99	95	1103	1	35777	7798	279	279	145	-	23947	595	-	-	-	-	1626	375	59724	8393				
1996	16	9	1160	-	36953	7807	770	599	31	-	24748	1194	-	-	-	-	1977	608	61701	9001				
1997	3	-	1137	-	38093	7807	1121	1121	176	-	26045	2315	-	-	16	16	2453	1137	64154	10138				
1998	95	75	70	-	38258	7882	1599	1598	-	-	27644	3913	-	-	288	288	2052	1961	66206	12099				
1999	51	19	817	-	39126	7901	2271	2267	184	-	30099	6180	-	-	394	394	3717	2680	69923	14779				
2000	203	197	1182	-	40511	8098	3947	3945	13	-	34059	10125	19	19	261	261	5625	4422	75548	19201				
2001	-	-	939	-	41450	8098	3007	3007	-	-	37066	13132	-	-	326	326	4272	3333	79820	22534				
2002	181	177	740	-	42371	8275	653	653	-	-	37719	13785	-	-	217	217	1791	1047	81611	23581				
2003	629	629	945	-	43945	8904	966	966	68	-	38753	14751	-	-	312	312	2920	1907	84531	25488				
Grand Total	31229	8857	12716	47	43945	8904	36906	14689	1847	62	38753	14751	19	19	1814	1814	84531	25488	84531	25488				

Note: 1959 Planting Year row includes the sum of all previous Planting

Appendices

APPENDIX 3

AREA OF STATE-MANAGED BROADLEAVED PLANTATIONS AS AT 31 DECEMBER 2003

PYEAR	FPC-OWNED		FPC-MANAGED				ALL SPECIES				
	E.globulus		Other Eucalyptus		Owned by Other Govt.	Privately Owned		Year Total		Cumulative Total	
	STATE +S/F	STATE SF	STATE +S/F	STATE SF	E.globulus	E.globulus	Other Eucs.	E.globulus	Other Eucs.	E.globulus	Other Eucs.
1987	11	-	6616	1	-	-	-	11	6616	11	6616
1988	99	99	11	-	-	-	-	99	11	110	6627
1989	38	38	2	-	-	-	-	38	2	148	6629
1990	52	32	25	-	-	44	-	96	25	244	6654
1991	-	-	38	-	-	-	-	-	38	244	6692
1992	204	196	-	-	-	-	-	204	-	448	6692
1993	77	62	6	-	-	422	-	499	6	947	6698
1994	12	12	2	-	-	587	-	599	2	1546	6700
1995	3	-	-	-	-	688	-	691	-	2237	6700
1996	163	-	3	3	-	2636	-	2799	3	5036	6703
1997	17	-	7	7	-	2431	-	2448	7	7484	6710
1998	64	64	5	5	-	1858	-	1922	5	9406	6715
1999	-	-	10	1	-	2244	-	2244	10	11650	6725
2000	57	57	31	2	-	2583	-	2640	31	14290	6756
2001	76	76	30	30	-	1113	-	1189	30	15479	6786
2002	27	27	485	483	-	1667	-	1694	485	17173	7271
2003	31	31	334	308	-	1039	-	1070	334	18243	7605
GRAND TOTAL	931	694	7605	840	-	17312	-	18243	7605	18243	7605

Appendices

APPENDIX 4

AREA OF FPC OWNED SANDALWOOD (S.SPICATUM) PLANTATIONS AS AT 31 DECEMBER 2003

PYEAR	FPC-OWNED				FPC-MANAGED			
	S.spicatum		Cumulative Total		S.spicatum		Cumulative Total	
	STATE +S/F	STATE S/F	STATE +S/F	STATE S/F+	STATE S/F	STATE S/F	STATE +S/F	STATE S/F
1997	5	5	5	5	-	-	-	-
1998	-	-	5	5	19	19	19	19
2000	19	19	24	24	-	-	19	19
2001	48	48	72	72	-	-	19	19
2002	49	49	121	121	12	12	31	31
2003	74	74	195	195	22	22	53	53
Grand Total	195	195	195	195	53	53	53	53

Appendices

APPENDIX 5

LOG PRODUCTION FROM CROWN LAND AND PRIVATE PROPERTY 2003/04

Type	Crown Land		Private Property		Total	
	c.metres	tonnes	c.metres	tonnes	c.metres	tonnes
SAWLOG TIMBER*						
Jarrah	157,583	205,807	380	500	157,963	206,307
Karri	81,346	100,873	656	812	82,002	101,685
Marri	10,437	12,942	90	111	10,527	13,053
Blackbutt	651	841	-	-	651	841
Wandoo	411	540	-	-	411	540
Sheoak	2,599	2,599	-	-	2,599	2,599
Other	1	1	-	-	1	1
Total Native Forest Sawlogs	253,028	323,603	1,126	1,423	254,154	325,026
Globulus	-	-	-	-	-	-
Mallet	241	287	-	-	241	287
Total Plantation Hardwood Sawlogs	241	287	-	-	241	287
Pinaster	36,608	36,608	5,235	5,235	41,843	41,843
Radiata	335,682	335,682	36,994	36,994	372,676	372,676
Plantation Softwood Sawlogs and veneer logs	372,290	372,290	42,229	42,229	414,519	414,519
TOTAL SAWLOGS	625,559	696,180	43,355	43,652	668,914	739,832
OTHER LOG MATERIAL						
Native Forests						
Chiplogs	162,423	193,978	1,560	1,927	163,983	195,905
Firewood/charcoal logs	107,046	112,099	980	1,104	108,026	113,203
Sandalwood	2,170	2,170	-	-	2,170	2,170
Other **	9,445	11,452	-	-	9,445	11,452
Sub-total Native Forest Other	281,084	319,699	2,540	3,031	283,624	322,730
Plantation Hardwood						
Chiplogs***	-	-	43,520	47,496	43,520	47,496
Firewood/charcoal logs	636	636	-	-	636	636
Other **	17	20	2	2	19	22
Sub-total Hardwood Plantation Other	653	656	43,522	47,498	44,175	48,154
Plantation Softwood						
Industrial wood	233,924	234,887	26,735	27,491	260,659	262,378
Woodchips	58,845	58,580	7,800	7,462	66,645	66,042
Other	11,788	11,788	-	-	11,788	11,788
Pine rounds	28,219	28,219	663	663	28,882	28,882
Sub-total Plantation Softwood Other	332,776	333,474	35,198	35,616	367,974	369,090
Total Other Material	614,513	653,829	81,260	86,145	695,773	739,974
TOTAL LOG TIMBER	1,240,072	1,350,009	124,615	129,797	1,364,687	1,479,806

* Sawlog timber from all sources, including veneer, but not including chiplogs, particleboard, industrial wood, firewood, fencing material, poles, piles and minor forest products.

** includes poles, bridge timbers, burls, chopping logs, mining timber, pegging logs & fencing material.

*** includes woodchips.

includes logs from Crown land sold under Minor Production Contracts.

Appendices

APPENDIX 6

NATIVE FOREST SAWLOG PRODUCTION BY THE COMMISSION IN 2003/04

Product type	High Quality m ³	1st & 2nd Sawlogs m ³	Bole Sawlog m ³	Other Sawlogs m ³	TOTAL m ³
Jarrah	1,130	123,830	14,725	17,898	157,583
Karri	796	74,082	-	6,468	81,346
Marri	-	-	-	10,437	10,437
Other Species	1,098	775	20	1,769	3,662
Total	3,024	198,687	14,745	36,572	253,028
	Tonnes	Tonnes	Tonnes	Tonnes	Tonnes
Jarrah	1,415	162,836	19,364	22,192	205,807
Karri	987	91,864	-	8,022	100,873
Marri	-	-	-	12,942	12,942
Other Species	1,136	1,019	26	1,800	3,981
Total	3,538	255,719	19,390	44,956	323,603

* Includes logs from Crown Land sold under Minor Production Contracts

APPENDIX 7

NATIVE FOREST CHIPLOG PRODUCTION

	Crown land 2001 - 02		Crown land 2002 - 03		Crown land 2003 - 04	
	(m ³)	(tonnes)	(m ³)	(tonnes)	(m ³)	(tonnes)
Marri	102,618	126,662	56,237	68,153	37,750	46,077
Karri	97,279	117,540	81,728	98,049	124,673	147,901
Other	-	-	-	-	-	-
Total	199,897	244,202	137,965	166,202	162,423	193,978

Appendices

APPENDIX 8

NATIVE FOREST FUELWOOD PRODUCTION

Log Type	2001 - 02 (tonnes)	2002 - 03 (tonnes)	2003 - 04 (tonnes)
- Firewood logs	48,893	43,119	53,972
- Charcoal logs	45,659	66,627	58,127
Total	94,552	109,746	112,099

APPENDIX 9

SANDALWOOD PRODUCTION FROM CROWN LAND

	2001 - 02 (tonnes)	2002 - 03 (tonnes)	2003 - 04 (tonnes)
Green (incl. roots)	1,399	1,392	1,563
Dead	847	785	582
Bark	-	-	25
Total	2,246	2,177	2,170



ACRONYMS

AASB	Australian Accounting Standards Board
ASFW	Australian School of Fine Wood
CALM	Department of Conservation and Land Management
CO ²	Carbon dioxide
EMS	Environmental Management Systems
FHC	Forest Heritage Centre
FIAA	Furnishing Industry Association of Australia
FIFWA	Forestry Industry Federation (WA)
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
MJ	Mega joules
MTI	Medical time incident
NRM	Natural Resource Management
NTER	National Tax Equivalent Regime
OSH	Occupational Safety and Health
PIMAC	Plantation Industry Ministerial Advisory Committee
RFA	Regional Forest Agreement
RTO	Registered Training Organisation
S/F	Share Farm
SCI	Statement of Corporate Intent
SGARA	Self Generating and Regenerating Assets
UIG	Urgent Issues Group
WATC	Western Australian Treasury Corporation



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