

Annual Report 2009-2010



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The Hon. Terry Redman, Minister for Forestry

In accordance with the provisions of the *Financial Management Act 2006*, we hereby submit for your information and presentation to State Parliament the Annual Report of the Forest Products Commission for the financial year ended 30 June 2010.



Eva Skira
Chair



David Hartley
Acting General Manager

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A Year of Change

The Forest Products Commission undertook a program of profound change during 2009/10. Pressures on financial sustainability with operating losses in 2008/09 required FPC to seriously consider its future business model.

Financial pressures stemmed from two areas. Firstly, soft demand following gas supply restrictions in 2008 in Western Australia, the global financial crisis, severe bush fires and the closure of timber processing plants lead to downward pressure on harvesting revenues.

Secondly, the funding for new plantations expired with the finalisation of the National Action Plan for Salinity and Water Quality in 2009 and the failure of the carbon emission scheme to materialise. This was compounded with difficult capital investment markets in the private sector.

In this context, over 2009/10 the Forest Products Commission conducted an extensive review of its operations and structure. In the first half of the year, at the direction of commissioners, management embarked on a 'reshaping' programme. This targeted all expenditure items and over the year substantial progress was made in reducing costs, such that a very small operating deficit for the year eventuated.

In January 2010, the government announced that FPC will no longer offer fee for service reforestation but will facilitate the development of, rather than invest in, wood resources on farm land. Any associated activities would be exited, including parts of the sharefarm estate over the next 2-4 years, the new plantations division closed, and where possible, assets disposed of.

Following the departure of the General Manager in March, an acting General Manager, Mr David Hartley was appointed. He was given a clear mandate to restructure the FPC with the aim of establishing an agency that is financially sustainable into the medium term. Subsequent to the balance date of this report, the Minister for Forestry has announced a major restructure. The key elements are:

- that FPC continues to function as an independent statutory authority with the General Manager reporting to the Board, but 'hosted' by Department of Agriculture and Food of Western Australia (DAFWA),
- the transfer of science and industry branch into DAFWA, and

- a reduced administrative structure with services purchased from DAFWA as required.

With a restructure of this nature which will take some 2-4 years to implement, significant job losses across the organisation, particularly in sharefarming and corporate services will be inevitable.

However, with the implementation of the restructure, together with encouraging signs on the business front with sales of pine logs picking up towards the end of the year, I am confident that FPC will progressively return to a sustainable financial situation and provide a triple bottom line return to government.

I would like to recognise the previous General Manager, Dr Paul Biggs, who energetically led the organisation for some ten years from its inception in 2000, and Mr David Hartley who stepped in as Acting General Manager during a very difficult time.

I would like to thank the Commissioners, the Executive and particularly the staff for their contribution during this challenging period. During the year, two Commissioners completed their terms, Messrs Ray Curo and Nick Oaks, and I thank them for their long years of service. Subsequently, Ms Karen Gadsby was appointed to the Board. I would also like to acknowledge my predecessor Mr David Taylor whose term as Chairman expired on 30 June 2009. On behalf of the Board, I would also like to thank the Hon. Terry Redman, Minister for Forestry, for his guidance and support throughout the year.



Eva Skira
Chair

Executive summary

As outlined in the Chairman's Report, there has been a confluence of factors that have created a difficult operating environment for the Forest Products Commission (FPC).

During 2009/10 difficult conditions for some of FPC's customers saw the closure of two major processing plants in Western Australia which impacted negatively on revenue.

In the mature softwood plantations business, recovery from the Varanus Island gas shutdown, the wildfires and the GFC has been slow although by the end of 2009/10, production had returned to previous levels for some of FPC's main customers.

Following the GFC, the recovery of the South West hardwood sawmill industry is still progressing. The GFC brought to a head a number of adverse trends which have resulted in higher costs of production for the end product, as well as the decline of some markets. The FPC has sought to play its part in improving the financial viability of the native forest industry, including exploring options for new products and investment by which more of the available timber resource can be utilised.

The Sandalwood business has met expectations in 2009/10 and, with new international customers entering the market, there are positive pressures on prices.

The change in government policy has provided much needed clarity for staff and customers on the role of the Commission and its focus in the future. A decision was made in early 2010 by the government for FPC to exit from its sharefarm activities. A new structure and a sharefarm exit strategy have been developed and implementation is anticipated to commence in the coming year.

The Forest Products Commission will focus on its core business activities in the areas of native timber, plantation pine and wild sandalwood. A business manager will be appointed to each of the business units to ensure that they retain their focus on customer service and related commercial priorities.

In order to reduce the cost of overheads and corporate services, FPC will be hosted by the Department of Agriculture and Food. The Rivervale head office will be relocating to the Department of Agriculture and Food's Headquarters in South Perth and offices in country locations will co-locate where appropriate.

In another significant move the science and industry development unit will be transferred to the Department of Agriculture and Food where there will be synergies from a close working relationship with a large primary production research organisation. This unit will provide a service to the

industry as a whole with FPC purchasing science services as required.

I recognise that this has been a very difficult period for staff. In my short time with FPC, I have been impressed by the high level skills, knowledge and commitment of staff. This augers well for the future of the organisation as the change we are embarking on can only be successfully achieved with the commitment of skilled staff. I would like to thank all staff for their patience and support and to assure everyone that the changes, both financial and operational, will create a more resilient and robust organisation.

A handwritten signature in black ink, appearing to read 'David Hartley', with a large, stylized flourish at the end.

David Hartley
Acting General Manager



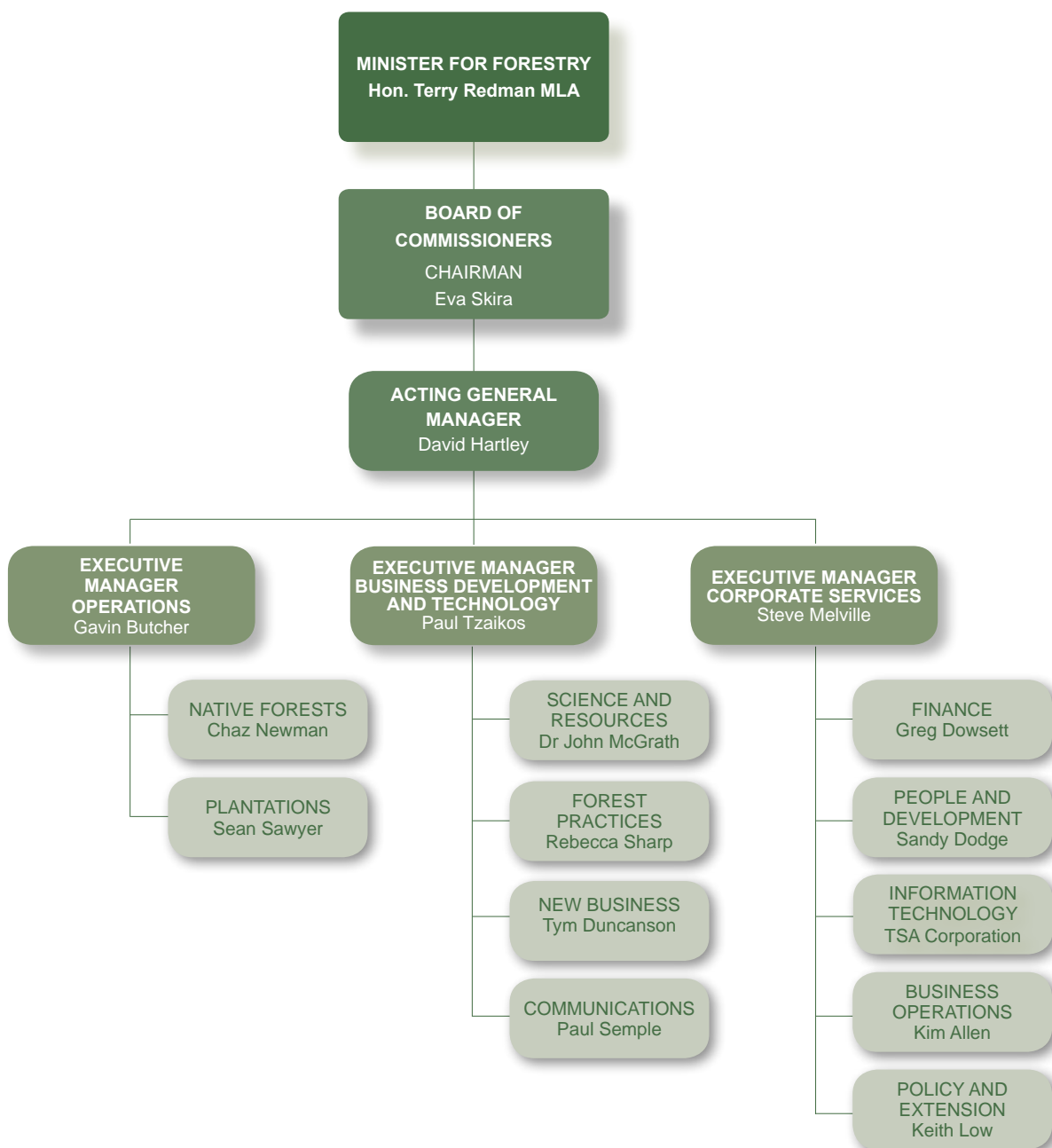
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Organisational chart



Commissioners

The seven-member Board of Commissioners is responsible to the Minister for Forestry and is the governing body of the FPC. The Commission is currently operating with five members due to two vacant positions.

In accordance with the *Forest Products Act 2000*, the role of the Commission is to determine strategic direction, monitor performance and control the agency's business affairs. The names of those currently serving on the Board are;

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

Chairman from 1 July 2009. Deputy Chair from 16 November 2007 – 30 June 2009. Term expires 15 November 2012.

Ms. Skira has experience in banking, stockbroking and financial markets. She has served as non-executive director for a number of government, business and not-for-profit organisations across a range of industries.

Mr. Michael Gurry BSc, FAIM, FAICD, SF Fin.

Commissioner from 16 November 2007. Deputy Chairman from 1 July 2009. Term expires 15 November 2012.

Mr. Gurry has extensive commercial experience in Australia and internationally. He was Managing Director of HBF until January 2007, prior to which he was President Asia Pacific for DMR Group Limited, an international information technology and consulting firm. Mr. Gurry is a past National President of the Australian Institute of Management and Senior Vice President of the Asian Association of Management Organisations.

He has considerable experience in corporate governance, having served on numerous boards. Mr. Gurry is the current Chairman of Foundation Housing Limited and Reignite Pty Ltd. In addition, he is a non-executive Director and Chair of Audit for Joyce Corporation Ltd.

Ms. Zelinda Bafile LLB, FAICD, FCIS, SF Fin.

Commissioner from 16 November 2007. Term expires 15 November 2010

Ms. Bafile has practiced as a lawyer for almost 30 years and as a former Executive at Home Building Society Ltd, has over 20 years commercial experience and governance expertise in the banking and finance industry. She has served on a number of Boards and her current appointments include the Water Corporation, Corporations and Markets Advisory Committee, Curtin University and Community First International Ltd.

Mr. Bob Smith BScFor (Hons), MBA, MSc, PhD

Commissioner from 16 November 2007. Term expires 15 November 2012

A forester whose knowledge of sustainable and profitable use of natural resources spans more than forty years, Mr. Smith has held senior management positions in NSW and Victorian government agencies in forestry, natural resource management and finance, including Managing Director of State Forests (NSW) and Director-General NSW Department of Land and Water Conservation.

Mr. Smith has worked at all levels of the timber industry and has been a part of Ministerial Councils for forestry, natural resources and agriculture, as well as a member of the Murray Darling Basin Commission. Mr. Smith is currently a Director of VicForests, First Superannuation Pty Ltd, LeafCarbon Pty Ltd, and Acting Commissioner, NSW Land and Environment Court.

Ms. Karen Gadsby B.Comm (UWA); FICAA; MAICD

Commissioner from 11 August 2009. Term expires 15 November 2012

Ms. Gadsby is a qualified chartered accountant who has worked in an executive role for a multi-national resources company for ten years in the roles of GM Finance, CFO and company secretary.

Ms. Gadsby has been involved with Boards for 16 years. She has held non-executive director positions as Deputy Chair, Chair of Finance, Audit and Risk Management Committees; member of Remuneration Committee; member Nomination Committee and member Infrastructure Committee. She is currently a non-executive director of Talisman Mining Limited (also chair of audit and risk management committee); Perth Home Care Services and Community First International (also chair of audit & risk management committee). Ms Gadsby has previously held directorships in Melbourne with GMHBA, Western Health & AMES.

Mr Ray Curo

Commissioner from 16 November 2000. Term expired 31 July 2009.

A self-employed cabinetmaker, Mr Curo has considerable knowledge of the Western Australian hardwood timber industry through more than 25 years of bush work, contract management, training and management of harvesting operations. His comprehensive skills also include 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.

Mr Nick Oaks

Commissioner from 16 November 2000. Term expired 31 July 2009.

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

Board Meetings

The Commissioners met 13 times during the year, at which time they were furnished with detailed monthly reports to assist in monitoring the performance of the agency.

	Meetings attended	Eligible to Attend
Ms. Eva Skira	13	13
Mr. Michael Gurry	11	13
Ms. Zelinda Bafile	10	13
Mr. Bob Smith	10	13
Ms. Karen Gadsby *	10	11
Mr. Ray Curo *	1	1
Mr. Nick Oaks *	1	1

* The terms of Mr. Oaks and Mr. Curo expired on 31 July 2009. Ms. Gadsby's term commenced on 11 August 2009.

Board Committees during 2009/10

Audit and Risk Committee

Ms. Eva Skira - (Chair until 20 August 2009)

Ms. Karen Gadsby (Chair from 21 August 2009)

Ms. Zelinda Bafile

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

Contracts Committee

Mr. Michael Gurry - Chair

Mr. Bob Smith

The Contracts Committee provides decision support to the Commission by reviewing and assessing submissions from Executive in relation to new and existing customer sales and procurement contracts and supply.

Appointment of Commissioners

On the Minister's recommendation, Commissioners are appointed by the Governor for a term of up to three years. Individuals are nominated for a position on the Board based on expertise and business acumen relevant to the core functions of the Commission. Commissioners are eligible for reappointment.

Board Remuneration

Remuneration, travelling expenses and other allowances of the Commissioners are determined by the Minister for Forestry on the recommendation of the Minister for Public Sector Management.

Disclosure of interests

The *Forest Products Act 2000* (the *Act*) requires Commissioners to disclose the nature of all material personal interests in a matter being considered, or about to be considered, by the Commissioners, as soon as possible after the relevant facts have come to the knowledge of the Commissioners.

Executive Management

Meetings of Executive Management are held fortnightly and are attended by the General Manager, Executive Manager Operations, Executive Manager Business Development and Technology, and Executive Manager Corporate Services.

David Hartley

Acting General Manager (appointed March 2010)

Mr. Hartley's background is in agriculture and economics where he has more than 30 years experience.

After commencing his career in New South Wales, Mr. Hartley worked for the Western Australian Department of Agriculture for 11 years as Executive Director, Natural Resource Management which also included seven years as the Commissioner for Soil and Land Conservation. Prior to joining the Forest Products Commission, Mr. Hartley was Executive Director for the Murray-Darling Basin Authority, advising on the development of a whole-of-basin plan for the sustainable management of natural resources.

Dr. Paul Biggs BScFor (Hons), EMBA, PhD

General Manager (resigned March 2010)

Appointed in 2000 as FPC's inaugural General Manager, Dr Biggs trained in forestry at the Australian National University and Melbourne University, and also holds business qualifications from UWA. He worked for 10 years in the South West on yield regulation and planning for Western Australia's forests, followed by five years of strategic policy roles in Ministerial and departmental offices.

Gavin Butcher BScFor

Executive Manager Operations

With a career in plantation and native forest management spanning more than 25 years, Mr. Butcher's particular strengths are in the strategic, analytical and financial fields of forestry management. Mr. Butcher holds a Bachelor of Science in Forestry and has lectured at Edith Cowan University. His previous position was Executive Manager Plantation Operations, prior to which he was Plantations Group Manager with the Department of Conservation and Land Management.

Paul Tzaikos BCom, FCPA, MAICD

Executive Manager Business Development and Technology

A Certified Practising Accountant with a 28-year career in the public sector, Mr. Tzaikos has extensive experience in audits; corporate and securities regulation; change management; emerging technologies; science and innovation; policy; and business development. He is a Fellow of the Financial Services Institute of Australia, member of the Australian Institute of Company Directors and is the Honorary Chairman of Wanslea Family Services Inc.

Steve Melville BBus, FCPA, MAICD

Executive Manager Corporate Services

Mr. Melville joined the Commission in 2004. He has acquired comprehensive financial, marketing and management experience in the government and private energy sectors. His focus has been in strategic planning, financial management and analysis and implementing major IT systems. Mr. Melville holds a Bachelor of Business degree, and is a Fellow of CPA Australia. He is also a director of the Police and Nurses Credit Society Ltd.

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The Forest Products Commission was established in 2000 as a Statutory Authority with responsibility for developing, marketing and renewing Western Australia's timber resources.

Since its inception, the Commission's core business has consisted of harvesting, marketing and regenerating timber in South West forests, arid forests and mature softwood plantations.

Vision

To be a leader in our State's environmentally-sustainable and commercially-viable forest products industry while providing economic and social benefits to the people of Western Australia.

Mission

To contribute to Western Australia's economic and regional growth through;

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

Objectives

The *Forest Products Act 2000* establishes two principles under which the FPC operates:

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

The *Act* also defines the principle that the Commission must endeavour to deliver a profit from the sale of forest products, consistent with planned targets while ensuring the aforementioned principles are met.

The Commission's Statement of Corporate Intent (SCI) further develops these broad objectives and the principle relating to profit to provide clear goals, strategies, objectives and performance targets.

The SCI has also been aligned to be consistent with the Government's forest policy.

Performance Management Framework

The Commission's operational targets are established in the Statement of Corporate Intent at a corporate level, and by customer delivery schedules and project deadlines at the operational level.

Delivery of products and revenue from log sales are tracked through the Commission's financial systems and reported through executive to the Commissioners on a monthly basis. Annual and half-yearly reports to Treasury and Parliament are completed in accordance with legislated requirements.

The Commission also operates and maintains management systems for environmental, operational and safety performance which are accredited under the Australian Forestry Standard and ISO14001.

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The Commission operates in a dynamic environment, influenced by domestic and global market forces. Timber availability and quality, sale price, consumer preferences, customer demand and a progressive shift to plantation-based raw material, are all factors significant to the FPC's corporate performance and ultimately to the Commission's success as a commercial entity.

As a Statutory Authority, the Commission works with industry, the community and other government agencies to help ensure a robust, long term future for the forest products industry.

The Commission's core business is to deliver forest products under existing timber supply contracts to local industries and within the regulatory guidelines which enable the forest industry to develop. The Commission continues to work hard to establish new markets for native forest and plantation residue material.

South West Forests

The South West Forest section supplies jarrah, karri and marri to sawmills throughout the South West of Western Australia. The Commission operates within the regulatory framework of the *Forest Management Plan 2004-2013*, which provides for the sustainable management of 2.48 million hectares of native timber species in South West forests.

The sawmilling industry is experiencing difficult operating conditions and is continuing to undergo transformation as it deals with the current economic climate.

The FPC is actively pursuing new markets for all low-grade resource which is currently uncommitted and notes the keen interest from a number of businesses wishing to utilise this resource in downstream processing.

During the year, FPC successfully arranged for a trial shipment of low-grade jarrah and karri logs to China where their suitability for use in plywood and veneer products was assessed.

The FPC continued to support its joint venture with the University of Western Australia, the Advanced Timber Concepts Research Centre, which is researching the improved utilisation of short-length jarrah and additional uses for regrowth karri.

Mature Plantations

This business segment relates to the established pine plantations from Wanneroo to Manjimup, where both the resource and the processing industry are well established. The Commission employs comprehensive strategies to optimise the utilisation of the State's pine resources and to develop new opportunities for industrial wood and residue products.

The State's biggest sawmill, Wespine at Dardanup took delivery of almost 360,000m³ of pine logs from FPC, a record volume for Wespine. Countering this success was Laminex's closure of its Medium Density Fibreboard (MDF) plant at Welshpool, consolidating its MDF production operations in Queensland. This plant previously took large volumes of industrial pine logs harvested from FPC's Gngangara and Pinjar plantations. An overdue plantation thinning program in and around Albany was completed in 2010 with the logs successfully exported through the port of Albany.

Worldwide demand for pine resources is increasing, demand which FPC is helping to meet through its advanced negotiations with a range of potential customers. FPC continues to work with proponents of two planned bioenergy power stations proposing to use FPC pine plantation residue material to fuel the power stations.

The FPC continues to invest in improving its knowledge of the pine plantation resource. New

systems have been introduced to model alternative harvest strategies designed to find the optimum combination of log products to harvest to maximise value recovery and to satisfy customer requirements. These new modelling and forecasting systems have improved FPC's knowledge of future growth projections necessary to assist in planning for the future needs of industry.

Sandalwood

WA native sandalwood remains a highly sought after product both domestically and in Asia. Sandalwood oil extracted from the wood is highly regarded as a base note ingredient in the finest perfumes and it has a range of therapeutic uses. WA native Sandalwood is also popular in Asia where it is used in incense sticks and in aromatherapy.

Native sandalwood is harvested from the rangelands of Western Australia and because of its high value, FPC continues to develop improved utilisation and recovery from all parts of the sandalwood tree. For example sandalwood products are now being recovered from the previously disused sandalwood bark. The FPC expects to recover an additional 100 tonnes of sandalwood product through these means in 2010/11.

Developments associated with FPC sandalwood regeneration research has led to a significant transformation of sandalwood silvicultural practices. The FPC has implemented a dedicated sandalwood seeding system (Operation Woylie) to substantially increase the rate of sandalwood seed germination and establishment in the State's rangelands.

During the year the FPC made its first substantial sale of WA sandalwood into the Japanese market. In addition, the FPC's sandalwood product range was further developed to include "Status Trees". Status Trees are whole sandalwood trees with character that are debarked and sold in tree form.

New Plantations

FPC's new plantation group completed two major projects during 2009/10. The FPC's Strategic Tree Farming (STF) project was completed in the winter of 2009. This joint State and Federal government funded program has seen the establishment of 18,000 hectares of tree plantations in low to medium rainfall zones in the WA wheat belt.

The FPC also completed a 5,000 hectare tree planting program to produce tradeable carbon credits for WA energy retailer, Synergy. These trees will not only assist in reducing Western Australia's overall greenhouse footprint, but also help to address other environmental issues such as salinity.

Research and Development

FPC's active research and development program continued throughout 2009/10 with a focus on improving scientific knowledge and commercial outcomes. Major studies included:

- Genetic research into the gene responsible for the production of sandalwood oil in sandalwood trees,
- Flood irrigated tropical timber plantations trials in the north of Western Australia,
- Collaborative work in researching new and existing chemical use in forestry applications, designed to improve the efficacy of chemical weed control and reducing the amount and cost of chemicals in plantation management,

- Continued to work with the national Research Working Group (Forest Health) and the Industry Pest Management Group, on a range of biodiversity and forest health issues, including working to prevent the introduction of a rust species, recently discovered in NSW, from WA, and
- The re-evaluation of the durability rating of jarrah and other WA hardwood species giving potentially greater market access for WA timber products through a revision of their durability rating.

Significant Issues Impacting the Agency

Over the past two decades the forest industry in Australia has undergone significant transformation. In Western Australia, some industry participants have reduced the scale of their operations while others are developing new opportunities.

The issues confronting the broader economy and the forest industry more specifically have also impacted the FPC. The FPC has seen revenues decline as some customers have closed operations and others have reduced demand, contributing to a reduction in FPC revenue. Coupled with this is the impact on the FPC business arising from the finalisation of funding for new plantation expansion projects which when combined, have necessitated a major change to its business model.

The settings which hitherto encouraged the recent expansion and investment in the plantation industry have become more difficult. The uncertainty as to the timing and form of a possible Emissions Trading Scheme has in a postponement of private sector investment in new plantations as a source of carbon offsets.

While hardwood saw millers continue to adjust to economic conditions and consumer demand for native forest products, the industry's limited new investment in processing infrastructure has resulted in difficult operating conditions which has therefore added pressure on FPC's financial settings.

As covered in the Chairman's report, the FPC's core business functions have been redefined to improve operational efficiencies. A major organisational restructure, which includes significant job losses, is part of the blueprint for returning the FPC to a sound financial position.

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Statement of compliance with public sector standards

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 2009/10.

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

A handwritten signature in black ink, appearing to read 'David Hartley', with a large, stylized flourish at the end.

David Hartley
Acting General Manager

17 September 2010

Certification of Performance Indicators

We hereby certify that the performance indicators of the Forest Products Commission marked with the following symbol [Y], 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 2010.



Eva Skira
Chair



Mike Gurry
Deputy Chair

16 September 2010

Compliance with relevant written laws

The Commission must comply with a number of written laws.

In financial administration, the Commission has complied with the requirements of the *Financial Management Act 2006* and other relevant written law.

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

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



Eva Skira
Chair



David Hartley
Acting General Manager

16 September 2010

Governance Disclosures

Contracts with Senior Officers

At the date of reporting, other than normal contracts of employment of service, no senior officers, or firms of which senior officers are members, or entities in which senior officers have substantial interests, had any interests in existing or proposed contracts with the Forest Products Commission.

Financial administration

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

Governing legislation

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

The Commission is bound by the following legislation:

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

Freedom of Information Act

The Commission complies with the requirements of the *Freedom of Information Act* and maintains its own information statement which provides data about the nature of documents held and the procedures to be followed in obtaining those documents. The Information Statement is available on the Commission's website, www.fpc.wa.gov.au.

Statistics about FOI applications are provided to the Information Commissioner's Office as required by Section 111(3)(a) of the *Freedom of Information Act (1992)* and published in that agency's annual report and publicly available from the FOI Commissioner's website; www.foi.wa.gov.au.

Information Management

The Commission complies with the requirements of the *State Records Act 2000* and is dedicated to improving record-keeping practices to achieve and maintain optimum business efficiency.

Publications

The following publications from the Forest Products Commission are available on request. Those marked with an asterisk (*) can be downloaded from the Commission's website, www.fpc.wa.gov.au.

- Managing Timber Production in Western Australia's South West forests *
- Manual of Management Guidelines for Timber Harvesting in Western Australia
- Sandalwood: The Good Oil *
- Sandalwood (*Santalum spicatum*)
- Seed Technologies catalogue *

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Environmental Policy

In setting objectives and implementing strategies to achieve its vision and in accordance with State and national standards, the Commission applied the principles of sustainable forest management in all native forest operational activities.

The Commission implemented and maintained comprehensive environmental management systems, compatible with internationally recognised standards, including a continuous improvement approach, monitoring and audit system, regular reviews of environmental performance and an effective reporting system.

The Commission identifies environmental impacts of its operations and instigates objectives and standards to keep potentially significant impacts to acceptable levels, including pollution prevention, waste minimisation and by reducing energy consumption.

Environmental Management

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

Environmental Incidents

An integral aspect of the environmental management system (EMS) is continuous improvement. Where environmental incidents or audit findings arise, they are dealt with through the Commission's incident reporting procedures. These procedures require an investigation of the incident and its cause, followed by implementation of appropriate corrective and preventative actions. Incidents are rated into low, moderate and high categories. A summary of the two high level incidents for the Commission in 2009/10 is outlined below.

The first was in relation to insufficient regeneration at a number of sandalwood regeneration sites, due to a combination of factors including insufficient winter rainfall and seed viability. This incident has maintained the focus on 'Operation Woylie', a research program focussed on improving sandalwood regeneration in arid areas. Retrospective work in failed areas has also been recommended as a preventative action.

The second incident involved a sandalwood harvesting contractor who collected approximately three tonnes of dead sandalwood in an area outside of the operation boundary. Once detected, the collected sandalwood was returned to the place of origin. Subsequent weekly contact between FPC staff and contractors was scheduled to mitigate future harvesting issues.

No high level incidents were recorded for FPC's mature plantations, South West forests, seed technologies, tree breeding, corporate or science and resources operations.

Compliance with Forest Management Plan 2004-2013

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

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

The full compliance report is available from the Commission's website at www.fpc.wa.gov.au.

Australian Forestry Standard

To further validate sustainable forest management and substantiate continuous improvement practices, the Commission has acquired the '*Australian Forestry Standard*' (AFS) Certification for its native timber and plantation operations in Western Australia.

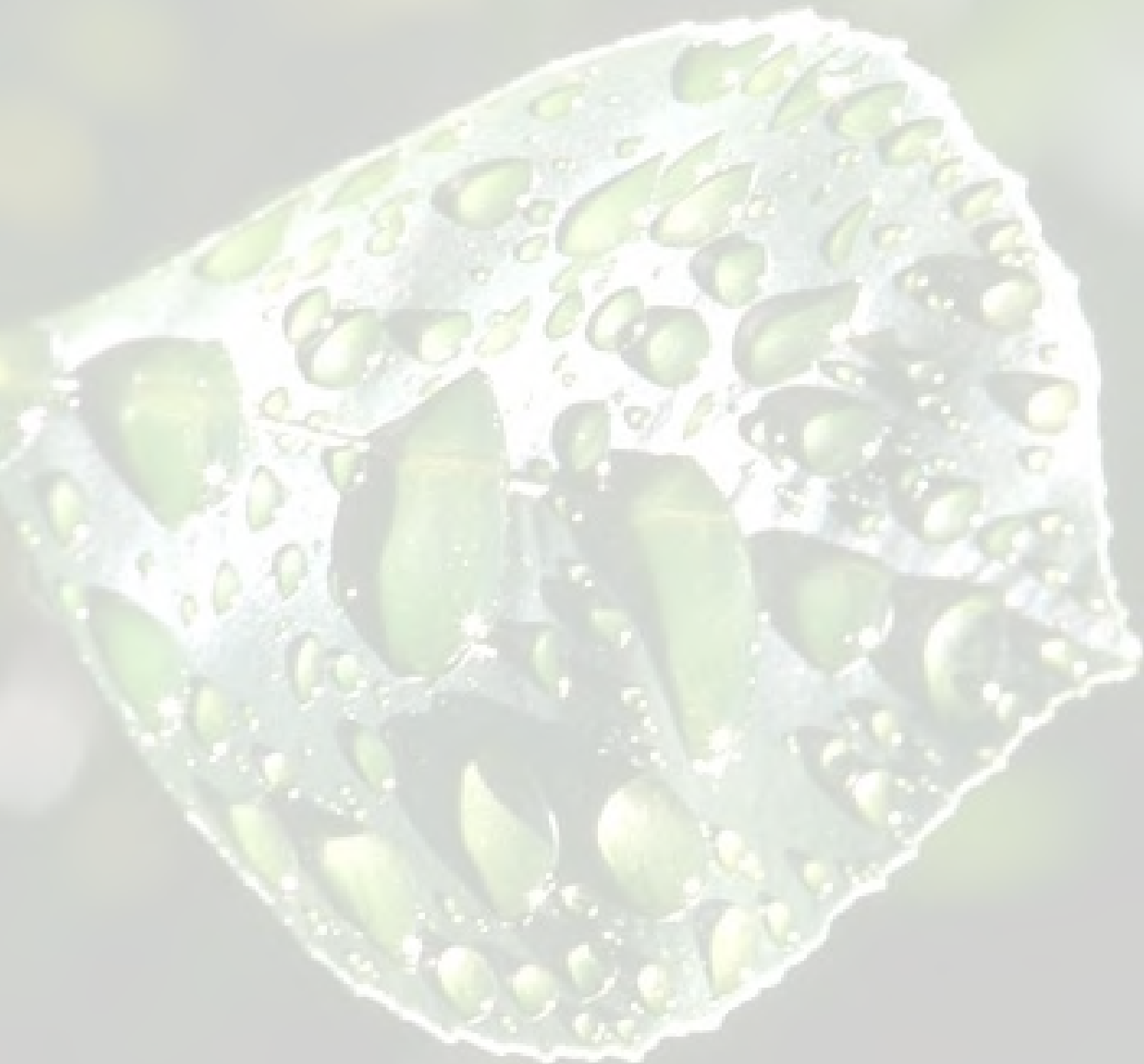
The criteria demands that all aspects of forest management activities are properly planned, expertly conducted, closely monitored and regularly reviewed before AFS Certification is awarded.

AFS Certification now applies to the entire forest area available for timber harvesting under the *Forest Management Plan 2004-13*. It delivers a guarantee to consumers that wood and wood products covered by the code were harvested responsibly and in accordance with strict environmental and sustainable forest management practices.

Commitment to Sustainability

The Commission provides leadership in the development and maintenance of sustainable land use systems. In particular, the Commission provides environmental stewardship for its native forest and plantation operations, undertaken with an accredited EMS which applies to the whole organisation.

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

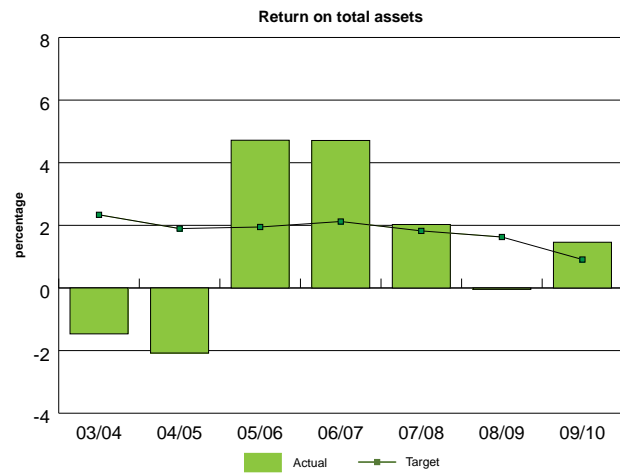


Key performance indicators

Ratio of earnings before interest and tax to total assets (return on total assets)	31
Earnings before interest and tax	31
Total payments to Government - dividend and taxes	32
Stumpage revenue	32
Plantation log production consistent with contracted supply to industry	33
Silvicultural cost per managed hectare of native forest	33
Plantation management cost per hectare	34
Quantity of native forest hardwood harvested compared with sustainable yields & targets	34
Quantity of 'greenwood' sandalwood harvested compared with sustainable yield	35
Proportion of sandalwood harvested	35
Area of plantation established against target	36
Area of native forest regenerated	36

The Commission measures its effectiveness and operational efficiency through Key Performance Indicators, detailed below.

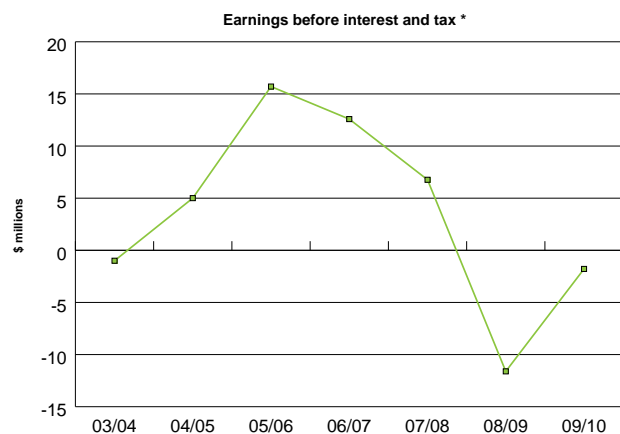
Ratio of earnings before interest and tax to total assets (return on total assets) [Y]



This indicator measures the financial efficiency of the Commission's operations expressed as the percentage return on total assets.

Expenditure control has seen this percentage increase from just below zero in 2008/09 to 1.4% of total assets in 2009/10.

Earnings before interest and tax [Y]



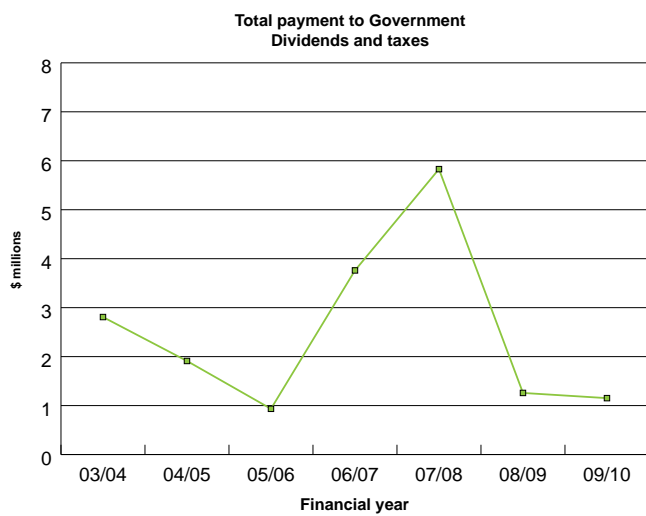
* Earnings calculated on profit and loss before income tax less change in natural resource assets, onerous contracts, commonwealth grants & contributions, adjustments in doubtful debts and change in provision for native forest regeneration.

The 2008/09 year was characterised by adverse financial impacts of the global financial crisis, Varanus Island gas explosion and the January 2009 bushfires.

Difficult trading conditions have still continued however expenditure control has seen an improvement on financial performance.

Total payments to Government - dividend and taxes

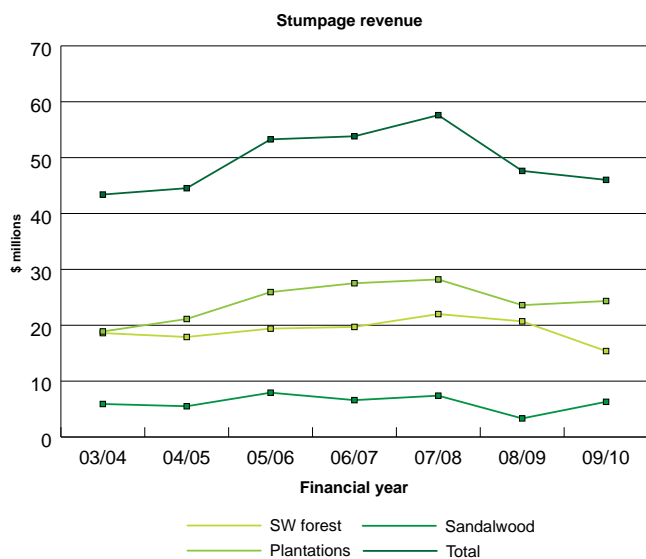
[Y]



This measure highlights the direct financial return to the Government in the form of dividends and taxes. The commission paid tax of \$1.15 million in 2009/10 (\$1.26 million 2008/09) however, no dividend was paid.

Stumpage revenue

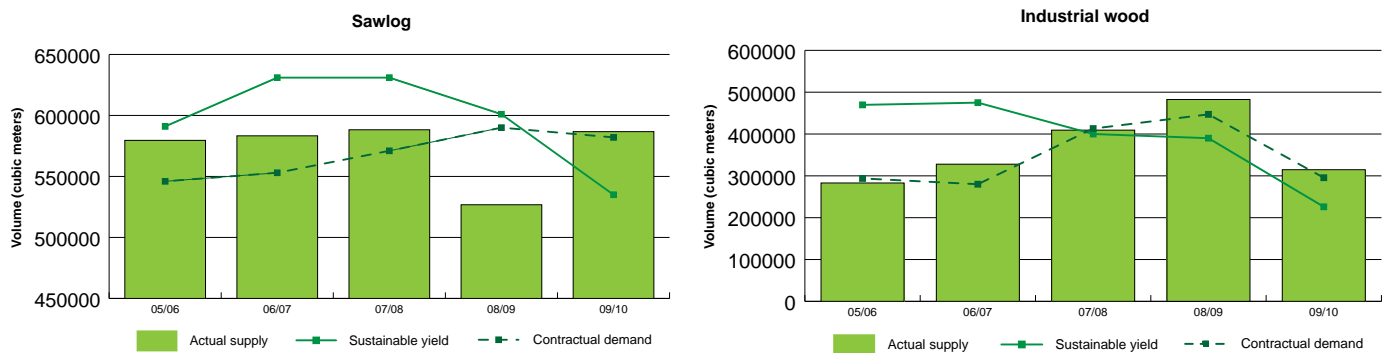
[Y]



In 2009/10 total stumpage revenue declined from 2008/09. Increased sales from sandalwood due to an improved export market and higher selling prices offset a decline in sales of native forest products due to a decline in karri chip exports.

Plantation log production consistent with contracted supply to industry

[Y]

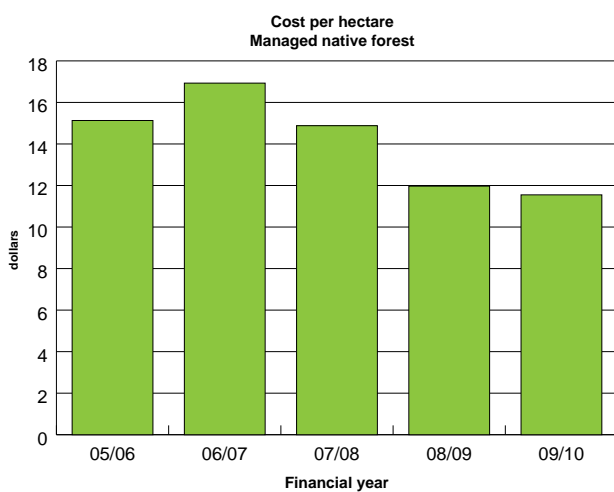


The contractual demand for sawlog is the total volume the Commission is required to supply its customers. Actual supply is the volume delivered by the Commission against those contracts. Sawlog production in 2009/10 was on target with contractual demand.

The contractual demand for industrial wood represents the year budget for likely customer orders. 2009/10 actual supply decreased due to mill closures and reduced deliveries to Particleboard and Bioenergy customers.

Silvicultural cost per managed hectare of native forest

[Y]

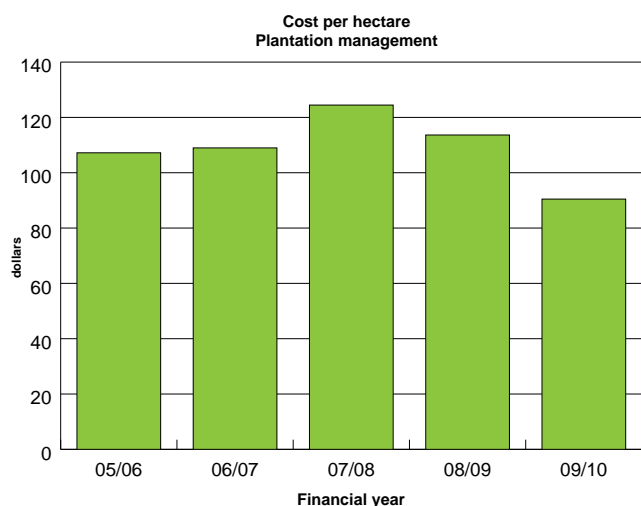


The Commission has access to a total State forest estate of approximately 850,000 hectares and is responsible, with other agencies, for the management of that forest following harvest. This indicator measures the cost efficiency of the Commission's silvicultural activities in the post-harvest management of the forest in each period.

The cost per hectare managed is broadly consistent with 2008/09 levels reflecting continued cost containment in silvicultural expenditures.

Plantation management cost per hectare

[Y]



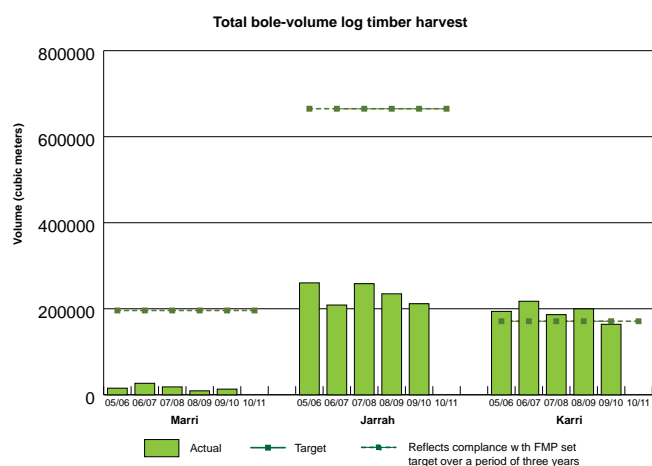
This indicator demonstrates the Commission's cost-efficiency in managing the various plantations for which it is responsible.

Quantity of native forest hardwood harvested compared with sustainable yields & targets

[Y]

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

Bole volume for marri, jarrah and karri



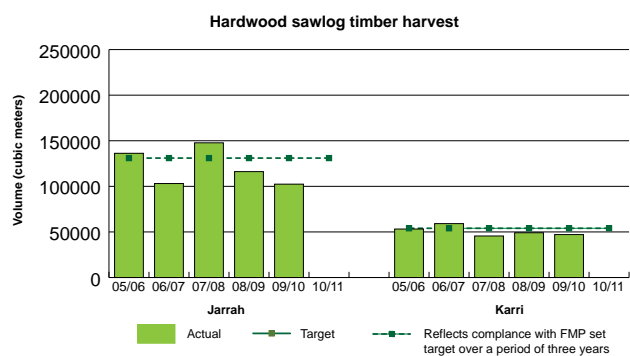
For the period 2004-13, the annual sustainable yield of bole volume (including first and second grade sawlogs) for jarrah and karri is 665,000m³ and 171,000m³ respectively. For all marri bole logs the total is 196,000m³.

The target is the average allowable harvest over the 10 years of the FMP.

The reduced actual harvest levels for jarrah and marri are due to a lack of markets for low-grade logs, although several entities are expressing interest in the purchase of low-grade native forest logs for energy purposes.

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

First and second grade sawlogs



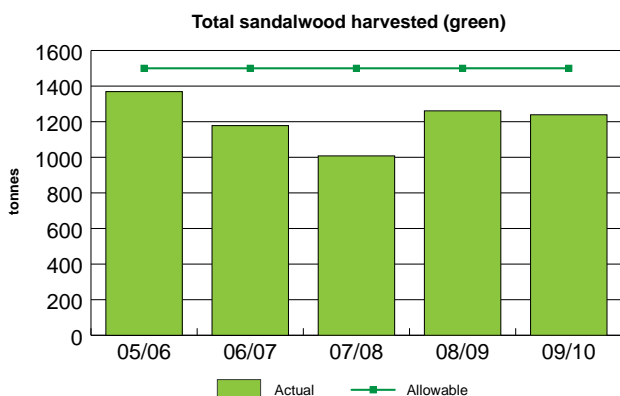
The annual sustainable yield level of first and second grade sawlogs for jarrah and karri is 131,000 m³ and 54,000 m³ respectively. (Marri sawlogs are part of the 196,000 m³ identified for marri bole logs).

Note: The target is the average allowable harvest over the 10 years of the FMP.

The average annual level of sawlogs harvested is consistent with the allowable quantities in the FMP. The quantity of jarrah sawlogs harvested in

2009/10 was below the allowable cut reflecting reduced customer demand for sawlog during the year.

Quantity of 'greenwood' sandalwood harvested compared with sustainable yield [Y]

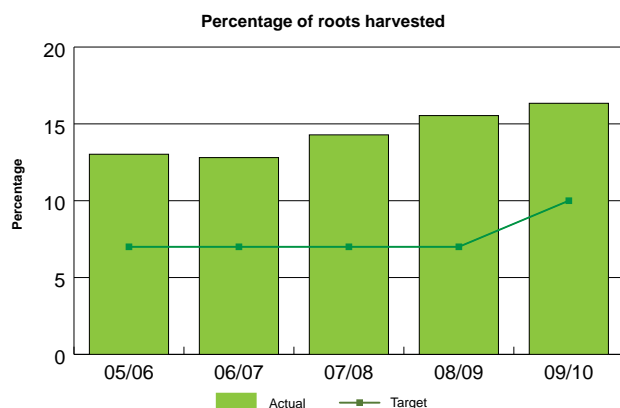


The annual sustainable level of harvest for green sandalwood is set in accordance with relevant legislation and ISO 14001. (In addition to the sustainable green sandalwood harvest, dead wood is also harvested)

Graph shows the actual harvested green sandalwood based on green sandalwood quantities harvested compared with the permissible green harvest level of 1,500 tonnes per annum.

The total green harvested volume for 2009/10 was 1,239 tonnes. In addition, harvested volumes included; dead wood 786 tonnes, roots 242 tonnes, and 3rd-grade green wood 304 tonnes.

Proportion of sandalwood harvested



The Commission has an internal minimum target percentage of total sandalwood harvest from the roots of the trees.

Area of plantation established against target

[Y]

Plantation establishment straddles the financial year, therefore areas of establishment reported in this Annual Report are those established during winter 2009.

	hectares (ha)				
	Second and third rotation pine species	First rotation pine species	Eucalypt species	Sandalwood	Total
Target	2,000	456	6,908	610	9,974
Area established	2,112	516	6,899	689	10,216

Note

1

¹ Targets for NAP and Synergy were met or exceeded, with variance due to the challenge of negotiating individual properties with suitable conditions for each target species.

Area of native forest regenerated

Regeneration treatments in any one year may include parts of areas harvested over a number of preceding years. Annually, the amount of area regenerated may alter and could be above or below the total area harvested. This could be due to unsuitable site conditions or sites that are scheduled for imminent mine-site clearing activities.

The figures reported cover the 2009 calendar year.

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

Jarrah regeneration

The area of jarrah forest harvested for regeneration was 4,462 hectares, excluding areas cleared for mining or utilities such as roads and power lines.

Treatments to achieve regeneration were completed for 1,404 hectares. Regeneration was higher than previous years, in line with higher harvested hectares.

Karri regeneration

The area of karri forest clear-felled or partially harvested was 744 hectares. A total of 921 hectares was thinned.

Regeneration was completed on 607 hectares which was harvested in either the current or previous years.

Wandoo regeneration

No wandoo forest was harvested for regeneration, nor thinned.



Regional development and employment

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Our People

The Commission has 214 employees who work closely with industry, local communities and other stakeholders to explore and develop initiatives with the potential to contribute significantly to the sustainable management of our environment and forest resources.

Staff numbers and locations as at 30 June 2010

Location	By employment type		Total	Casual employees	Gender breakdown	
	Full-time salaried staff	Part-time salaried staff			Male	Female
Albany	15		15	2	12	3
Bunbury	25	6	31	2	19	12
Carnarvon	1		1		1	
Collie	8	3	11	1	6	5
Esperance	3	1	4		3	1
Gnangara	13		13		9	4
Harvey	24	2	26		20	6
Kalgoorlie	3		3		3	
Katanning	2	1	3	1	2	1
Kununurra						
Mandurah	1		1		1	
Manjimup	13	5	18		12	6
West Manjimup	14	4	18	72	11	7
Nannup	11		11	1	9	2
Rivervale	50	9	59	1	31	28
Totals	183	31	214	80	139	75

Organisational Restructure

In December, the Commission undertook a major organisational restructure to redefine core business operations and return the agency to operational efficiency. As a result of the restructure, the number of officers required to meet challenges associated with the Commission's revised business model was significantly less than the number of existing employees.

Severance packages were offered and the 18 staff who chose to accept redundancy have received their entitlements in full and are no longer in the employ of the Commission.

Training

The prime focus of the training program during 2009/10 was the formal recognition of FPC's employees' competencies and skills. The successful entry-level training program for new recruits is now in its sixth year. Fourteen existing staff graduated with a Certificate III in Forest Growth and Management awarded by Great Southern TAFE in November 2009.

Three years ago, the Commission developed an Operational Training Framework which aligned

job-related competencies required for each operational position to the national training package at Certificate III, IV and Diploma levels. In conjunction, a skills recognition program was implemented for operations staff. In 2009, the existing skills of 11 Commission staff were recognised when they were awarded the Certificate III, IV or Diploma in Forestry.

In 2009/10, the Commission developed a skills recognition program for administration staff. Under the program, 23 staff were awarded qualifications in either Certificate III or Certificate IV in Business.

The Commission, in association with Great Southern TAFE, completed the development of a curriculum for a Certificate IV in Forestry Operations and developed a formal mentoring program for operational staff.

The Commission was selected as a finalist in the 2009 State Training Awards in the Employer of the Year category for its demonstrated commitment to the ongoing development of its staff.

Occupational safety and health

The Commission's *Occupational Safety and Health Policy* requires employees to be cognisant of and practise thorough and systematic safety and health management.

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

Appropriate Workplace Behaviour training and awareness is provided to all new employees as part of a corporate induction program. The Commission has established formal networks of Peer Supporters and Grievance Officers to assist in managing workplace issues which may arise. The decision to redefine the Commission's theatre of core business through an organisational restructure and the subsequent voluntary severances has created a considerable increase in peer support activity.

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

Occupational Safety and Health Performance

Measure	2007/08	2008/09	2009/10
Number of Lost Time Injuries (LTIs)	8	3	4
Frequency rate (number LTIs per 1 million hours worked)	14	5	8

A new Occupational Safety and Health Management Framework, based on *AS/NZS 4801 - Occupational Health and Safety Management Systems*, is comprised of six key elements:

- Management commitment;
- Planning;
- Consultation;
- Training;
- Hazard management and;
- Injury management.

Implementation of the framework should be achieved by December 2010. The new framework is integrated into other standards and systems governing the Commission's operations. A key initiative of the framework has been the appointment of a Senior Manager at each major work centre to assume the role of Safety Manager. A new safety award system based on positive

performance indicators replaced the previous method of measuring safety performance primarily on lost time injuries.

The Commission now participates in quarterly OSH teleconference meetings with other equivalent State Government Forestry agencies.

Code of Conduct

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

Promotion and consultation

Strategic Tree Farming project completion.....	43
Forestry Education Tour.....	43
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Australian School of Fine Wood.....	43
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The Commission is the lead agency for educating the public about forestry and the role it has played in sustaining Aboriginal and European societies for thousands of years.

Through vigorous promotion of the distinctive qualities of Western Australia's native forest timbers and value-added products, the Commission actively promotes industry events and activities throughout the year.

Strategic Tree Farming project completion

Launched in 2005, the project was the initiative by which 25 million trees were integrated into rural farmland to deliver environmental, economic and social benefits to Western Australia's low-to-medium rainfall regions.

While the primary focus of the project was on addressing issues related to dry land salinity, the trees provided farmers with many other significant on-farm benefits such as shelter for livestock and income diversification.

Forestry Education Tour

In August, several Members of State Parliament participated in a familiarisation tour to gain first-hand knowledge of sustainable forestry practices. Conducted jointly by the Commission and the Department of Agriculture and Food WA, the field trip demonstrated aspects of timber operations and their importance to country communities.

WA Wood Show

The Commission again sponsored the Tertiary Student Awards in the 'Out of the Woods' fine woodworking competition at the 2009 WA Wood Show. First prize was awarded to student Brianna Russell for her ergonomic folding chair made from Western Australian Jarrah.

WA Landcare Awards

In October, the Commission and the Australian Forest Growers Association co-sponsored the WA Tree Farmer of the Year Award.

Great Southern nurseryman Bill Hollingworth, received the award at the WA Landcare Awards in Geraldton.

Australian Furniture of the Year Awards

In 2009, the Commission reduced its support from 'Platinum' sponsor to 'Gold' sponsor. Held at the Perth Convention and Exhibition Centre in October, the prestigious 'Best of the Best' award went to Western Australian company, Jahroc Furniture, for its West Kimberley Collection project which enhanced the unique qualities of jarrah.

Australian School of Fine Wood

The Commission continued its ongoing sponsorship of the ASFW's final year student awards and annual exhibition entitled 'Reveal'. Held at the Forest Heritage Centre at Dwellingup in December, the ceremony was an acclaimed success.

Community Education

Reaffirming a commitment to educate the wider community about Western Australia's native timbers and the various value adding uses of timber products, the Commission participated in the following events;

- UWA Agricultural open day at Pingelly.
- WA Wood Show.
- Harvey Agricultural School careers open day.
- Dowerin Field Days.
- Perth Royal Show.
- Albany Agricultural Show.
- Esperance Agricultural Show.
- Manjimup Cherry Festival.
- Wagin Woolorama.
- Arbor Day plantings with school students.
- industry tours.

Arbor Day

The Commission celebrated Arbor Day 2010 with the launch of the '*re-Leaf WA*' program, conceived by a need to help the public make important connections between WA's sustainable forestry industry and our shared environmental future.

The '*re-Leaf WA*' initiative cuts through complex terminology to explain forestry's most important messages, such as the concept of sustainability, how forestry addresses salinity issues and protects precious water resources.

In the lead-up to Arbor Day, 5,000 seedlings were given away to householders, schools and community-based organisations.

Advertising and Promotion

Expenditure was incurred in the following areas:

Supplier	Service	2010
		\$000
Advertising expenditure		
Adcorp Australia	Advertising	11
Daniel Hill	Web Environment	4
Dessein Graphics Pty Ltd	Graphic Design, Poster Production	7
Discus Digital Printing	Signage and printing	1
Jason Signmakers	Signage and printing	2
Marketforce	Tender and Auction Advertising	5
Platinum AFGC Sponsorship	Sponsorship Advertising	10
Sensis	Advertising	17
Snap Printing	Printing	1
Advertising expenditure total		58
Consultancy		
Media Decisions WA	Media planning	3
RARE Creative Thinking	Marketing and strategy	3
Consultancy total		6
Total		64

Financial review

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Certification of the financial statements

The accompanying financial statements of the Forest Products Commission have been prepared in compliance with the provisions of the *Financial Management Act 2006*, from proper accounts and records, to present fairly the financial transactions for the financial year ending 30 June 2010 and the financial position as at 30 June 2010.

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



Eva Skira
Chair



Mike Gurry
Deputy Chair



Steve Melville
Executive Manager, Corporate
Services

17 September 2010



Auditor General

INDEPENDENT AUDIT OPINION

To the Parliament of Western Australia

FOREST PRODUCTS COMMISSION FINANCIAL STATEMENTS AND KEY PERFORMANCE INDICATORS FOR THE YEAR ENDED 30 JUNE 2010

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

The financial statements comprise the Statement of Financial Position as at 30 June 2010, and the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, a summary of significant accounting policies and other explanatory Notes.

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

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

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

Summary of my Role

As required by the Auditor General Act 2006, my responsibility is to express an opinion on the financial statements, controls and key performance indicators based on my audit. This was done by testing selected samples of the audit evidence. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion. Further information on my audit approach is provided in my audit practice statement. This document is available on the OAG website under "How We Audit".

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

Forest Products Commission
Financial Statements and Key Performance Indicators for the year ended 30 June 2010

Audit Opinion

In my opinion,

- (i) the financial statements are based on proper accounts and present fairly the financial position of the Forest Products Commission at 30 June 2010 and its financial performance and cash flows for the year ended on that date. They are in accordance with Australian Accounting Standards and the Treasurer's Instructions;
- (ii) the controls exercised by the Commission provide reasonable assurance that the receipt, expenditure and investment of money, the acquisition and disposal of property, and the incurring of liabilities have been in accordance with legislative provisions; and
- (iii) the key performance indicators of the Commission are relevant and appropriate to help users assess the Commission's performance and fairly represent the indicated performance for the year ended 30 June 2010.



COLIN MURPHY
AUDITOR GENERAL
17 September 2010

Statement of comprehensive income for the year ended 30 June 2010

	Note	2010	2009
		\$000	\$000
Income			
Revenue			
Revenue from the sale of goods and services	7.1	103,694	103,792
Commonwealth grants and contributions	8.0	5,507	12,619
Other revenue	10.0	3,599	7,330
Interest revenue	17.0	1,731	1,560
Gains			
Profit from joint venture	24.0	6	58
Embedded derivatives valuation increment	11.0	-	1,809
Gain on disposal of assets		-	257
Total Income		114,537	127,425
Expenses			
Cost of sales	7.5	59,600	62,029
Employee benefits expense	12.0	20,682	21,751
Supplies and services	13.0	24,679	40,819
Depreciation and amortisation expense	14.0	1,427	1,413
Accommodation expenses	15.0	1,278	1,055
Other expenses	16.0	1,464	2,340
Finance costs	18.0	5,869	4,128
Loss on disposal of assets		152	-
Total Expenses		115,151	133,535
Loss before change in natural resource assets valuation, onerous contracts, and grants and subsidies from State Government		(614)	(6,110)
Natural resource asset (decrement)/increment	7.2	(10,122)	4,867
Onerous Contracts	7.4	(13,856)	-
Loss before Grants and Subsidies from State Government		(24,592)	(1,243)
Grants and Subsidies from State Government	9.0	1,542	1,772
(Loss)/Profit before income tax equivalent benefit		(23,050)	529
Income Tax equivalent benefit	42.0	11,783	32
(Loss)/Profit after Tax equivalent expense		(11,267)	561
Other Comprehensive Income			
Changes in asset revaluation surplus	34.2	(226)	1,832
Changes in cashflow hedge reserve	34.2	(253)	(519)
Income tax on items of other comprehensive income	34.2	144	(394)
Total other comprehensive income		(335)	919
Total Comprehensive Income For The Period		(11,602)	1,480

The Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Statement of changes in equity for the year ended 30 June 2010

	Note	Contributed Equity	Reserves	Accumulated Surplus/(Deficit)	Total equity
		\$000	\$000	\$000	\$000
Balance at 1 July 2008		238,542	7,034	9,892	255,468
Reappropriation from consolidated funds	34.1	16,199	-	-	16,199
Total comprehensive income for the year	34.0	-	919	561	1,480
Balance at 30 June 2009		254,741	7,953	10,453	273,147
Balance at 1 July 2009		254,741	7,953	10,453	273,147
Reappropriation from consolidated funds	34.1	1,270	-	-	1,270
Total comprehensive income for the year	34.0	-	(335)	(11,267)	(11,602)
Closing balance at 30 June 2010		256,011	7,618	(814)	262,815

The Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Statement of financial position as at 30 June 2010

	Note	2010	2009
		\$000	\$000
Assets			
Current assets			
Cash and cash equivalents	35.1	25,795	25,367
Trade and other receivables	19.0	23,018	29,099
Inventories	20.0	5,668	8,786
Natural resource assets	25.0	41,986	21,131
Other assets	21.0	447	1,436
Total current assets		96,914	85,819
Non-current assets			
Deferred tax assets	42.0	10,896	319
Trade and other receivables	19.0	14,662	15,948
Property, plant and equipment	22.0	29,260	24,991
Natural resource assets	25.0	288,643	339,766
Intangible assets	23.0	6,490	-
Other assets	21.0	-	8,937
Total non-current assets		349,951	389,961
Total assets		446,865	475,780
Liabilities			
Current liabilities			
Trade and other payables	27.0	21,012	18,213
Interest bearing loans and borrowings	29.0	8,277	6,994
Tax liabilities	42.0	6,793	8,142
Employee benefits	30.0	3,947	4,803
Provisions	32.0	3,685	4,130
Deferred revenue	33.0	1,178	5,530
Total current liabilities		44,892	47,812
Non-current liabilities			
Annuities payable	28.0	21,313	26,837
Interest bearing loans and borrowings	29.0	79,269	84,007
Employee benefits	30.0	1,914	1,942
Provisions	32.0	1,270	10,617
Deferred revenue	33.0	35,392	31,418
Total non-current liabilities		139,158	154,821
Total liabilities		184,050	202,633
Net assets		262,815	273,147
Equity			
Contributed equity	34.1	256,011	254,741
Reserves	34.2	7,618	7,953
Retained earnings	34.3	(814)	10,453
Total equity		262,815	273,147

The Statement of Financial Position should be read in conjunction with the accompanying notes.

Statement of cash flows for the year ended 30 June 2010

	Note	2010	2009
		\$000	\$000
Cash flows from operating activities			
Sale of goods and services		109,409	116,552
Commonwealth grants & contributions		1,211	1,126
Other receipts		4,398	7,390
Employee benefits		(21,577)	(20,329)
Supplies and services		(25,058)	(42,068)
Forest management expenditure		(65,661)	(71,102)
Interest paid		(4,699)	(5,395)
Interest received		1,731	1,560
Net cash (used in) operating activities	35.2	(246)	(12,266)
Cash flows used in investing activities			
Purchase of non-current physical assets		(110)	(487)
Sale of non-current physical assets		8	-
Receipts from investing activities		16,750	3,728
Investment in new plantations		(15,007)	(15,622)
Investment in joint venture		(325)	(325)
Net cash provided by / (used in) investing activities		1,316	(12,706)
Cash flows from financing activities			
Repayment of borrowings		(4,821)	(4,559)
Proceeds from borrowings		1,367	2,099
Net cash (used in) financing activities		(3,454)	(2,460)
Cash flows from State Government			
Grants & subsidies		1,542	1,772
State Contribution (Peel B)		1,270	1,199
State Contribution (equity injection)		-	15,000
Net cash provided by State Government		2,812	17,971
Net increase / (decrease) in cash and cash equivalents		428	(9,461)
Cash and cash equivalents at the beginning of period		25,367	34,828
Cash and cash equivalents at the end of period	35.1	25,795	25,367

The Statement of Cash Flows should be read in conjunction with the accompanying notes.

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1.0 Australian Accounting Standards

General

The Commission's financial statements for the year ended 30 June 2010 have been prepared in accordance with Australian Accounting Standards. The term 'Australian Accounting Standards' refers to Standards and Interpretations issued by the Australian Accounting Standards Board (AASB).

The Commission has adopted, any applicable, new and revised Australian Accounting Standards from their operative dates.

Early adoption of standards

The Commission cannot adopt an Australian Accounting Standard early unless specifically permitted by *Treasurers Instruction (TI) 1101 Application of Australian Accounting Standards and Other Pronouncements*. No Australian Accounting Standards that have been issued or amended but not operative have been early adopted by the Commission for the annual reporting period ended 30 June 2010.

2.0 Summary of significant accounting policies

2.1 General statement

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

The *Financial Management Act 2006* and the *Treasurer's instructions* are legislative provisions governing the preparation of financial statements and take precedence over the Australian Accounting Standards, the Framework, Statements of Accounting Concepts and other authoritative pronouncements of the Australian Accounting Standards Board.

Where modification is required and has had a material or significant financial effect upon the reported results, details of that modification and the resulting financial effect are disclosed in the notes to the financial statements.

2.2 Basis of preparation

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

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

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

The judgments that have been made in the process of applying the Commission's accounting policies that have the most significant effect on the amounts recognised in the financial statements are disclosed at note 25, Natural resource assets.

The key assumptions made concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed at note 4 Key Sources of estimation uncertainty.

2.3 Reporting entity

The reporting entity comprises the Commission and the entities listed at note 44 Related/affiliated bodies.

2.4 Contributed equity

AASB Interpretation 1038 Contributions by Owners Made to Wholly-Owned Public Sector Entities requires transfers in the nature of equity contributions, other than as a result of a restructure of administrative arrangements, to be

designated by the Government (the owner) as contributions by owners (at the time of, or prior to transfer) before such transfers can be recognised as equity contributions. Capital appropriations have been designated as contributions by owners by *TI 955 Contributions by Owners made to Wholly Owned Public Sector Entities* and have been credited directly to Contributed equity.

The transfer of net assets to/from other agencies, other than as a result of a restructure of administrative arrangements, as these are designated as contributions by owners where the transfers are non-discretionary and non-reciprocal.

2.5 Income

Revenue recognition

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

Sale of goods

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

Provision of services

Revenue is recognised on delivery of the service to the client or by reference to the stage of completion of the transaction. Payment received prior to the recognition of revenue is recorded as deferred revenue as disclosed in note 33.

Interest

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

Grants, donations, gifts and non-reciprocal contributions

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

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

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

Gains

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

2.6 Income tax

The Commission operates within the national tax equivalent regime ('NTER') whereby an equivalent amount in respect of income tax is payable to the WA Treasury. The calculation of the liability in respect of income tax is governed by NTER guidelines and directions approved by Government.

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

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

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

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

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

2.7 Property, plant and equipment, and infrastructure

Capitalisation / expensing of assets

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

The Forest Products Commission has obtained an exemption, from the Department of Treasury and Finance, from the required capitalisation threshold of \$5,000 or more. The Forest Products Commission's asset capitalisation threshold has remained at a threshold of \$1,000 or more.

Initial recognition and measurement

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

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

Subsequent measurement

Subsequent to initial recognition as an asset, the revaluation model is used for the measurement of land, buildings and infrastructure and the cost model for all other property, plant and equipment. Land, buildings and infrastructure are carried at fair value less accumulated depreciation (buildings and infrastructure only) and accumulated impairment losses. All other items of property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses.

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

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

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

Fair value of infrastructure has been determined by reference to the depreciated replacement cost (existing use basis) as the assets are specialised and no market-based evidence of value is available. Land under infrastructure is included in land reported under note 22 Property, plant and equipment. Independent valuations are obtained every 3 to 5 years.

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

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

Derecognition

Upon disposal or derecognition of an item of property, plant and equipment and infrastructure, any revaluation surplus relating to that asset is retained in the asset revaluation surplus.

Asset Revaluation Reserve

The asset revaluation reserve is used to record increments and decrements on the revaluation of non-current assets as described in note 22 Property, plant and equipment.

Depreciation

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

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

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

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

2.8 Intangible assets

Carbon Rights

The acquisition of Carbon rights are capitalised and recorded at cost less accumulated amortisation and accumulated impairment losses.

Carbon rights are amortised on a units of production basis, as determined on the quantity of carbon credits transferred.

Capitalisation / Expensing of assets

Acquisitions of intangible assets costing \$1,000 or more and internally generated intangible assets costing \$50,000 or more are capitalised. The cost of utilising the assets is expensed (amortised) over their useful life. Costs incurred below these thresholds are immediately expensed directly to the Statement of Comprehensive Income.

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

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

Software ^(a)	2.5 years
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^(a) Software that is integral to the operation of any related hardware.

Licences

Licences have a finite useful life and are carried at cost less accumulated amortisation and accumulated impairment losses.

Research and development costs

Research costs are expensed as incurred. Development costs incurred for an individual project are carried forward when the future recoverability can reasonably be regarded as assured and the total project costs are likely to exceed \$50,000. Other development costs are expensed as incurred.

Computer Software

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

Website costs

Website costs are charged as expenses when they are incurred unless they relate to the acquisition or development of an asset when they may be capitalised and amortised. Generally, costs in relation to feasibility studies during the planning phase of a website, and ongoing costs of maintenance during the operating phase are expensed. Costs incurred in building or enhancing a website, to the extent that they represent probable future economic benefits that can be reliably measured, are capitalised.

2.9 Impairment of assets

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

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

Intangible assets with an indefinite useful life and intangible assets not yet available for use are tested for impairment at the end of each reporting period irrespective of whether there is any indication of impairment.

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

2.10 Operating lease payments

The Commission holds operating leases for head office and a number of branch office buildings. Lease payments are expensed on a straight line basis over the lease term as this represents the pattern of benefits derived from the leased properties.

2.11 Financial Instruments

In addition to cash and bank overdraft, the Commission has two categories of financial instrument:

- Loans and receivables;
- Financial liabilities measured at amortised cost.

These have been disaggregated into the following classes:

Financial Assets:

- Cash and cash equivalents
- Receivables

Financial Liabilities:

- Payables
- Bank overdraft
- WATC/Bank Borrowings
- Amounts due to the Treasurer

Initial recognition and measurement is at fair value which normally equates to the transaction cost of the face value. Subsequent measurement is at amortised cost using the effective interest method.

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

2.12 Cash and cash equivalents

For the purpose of the Statement of Cash Flows, cash and cash equivalents (and restricted cash and cash equivalents) assets comprise cash on hand and short-term deposits with original maturities of three months or less that are readily convertible to a known amount of cash and which are subject to insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are included at note 35 Notes to the Statement of Cash Flows.

2.13 Accrued salaries

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

2.14 Inventories

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

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

2.15 Receivables

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

2.16 Investments and other financial assets

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

transaction costs.

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

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

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

2.17 Natural resource assets

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

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

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

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

2.18 Payables

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

2.19 Borrowings

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

2.20 Provisions

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

(i) Provisions – employee benefits

Annual leave and long service leave

The liability for annual and long service leave expected to be settled within 12 months after the reporting period is recognised and measured at the undiscounted amounts expected to be paid when the liabilities are settled. Annual and long service leave expected to be settled more than 12 months after the reporting period is measured at the present value of amounts expected to be paid when the liabilities are settled. Leave liabilities are in respect of services provided by employees up to the end of the reporting period.

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

The expected future payments are discounted to present value using market yields at the end of the reporting period on national government bonds with terms to maturity that match, as closely as possible, the estimated future cash

outflows.

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

Superannuation

The Government Employees Superannuation Board (GESB) in accordance with legislative requirements administers public sector superannuation arrangements in Western Australia.

Employees may contribute to the Pension Scheme, a defined benefit pension scheme now closed to new members, or to the Gold State Superannuation (GSS) Scheme, a defined benefit lump sum scheme also closed to new members.

Employees commencing employment prior to 16 April 2007 who are not members of either the Pension or the GSS Schemes became non-contributory members of the West State Superannuation Scheme (WSS). Employees commencing employment on or after 16 April 2007 became members of the GESB Super Scheme (GESBS). Both of these schemes are accumulation schemes. The Commission makes concurrent contributions to GESB on behalf of employees in compliance with the Commonwealth Government's *Superannuation Guarantee (Administration) Act 1992*. These contributions extinguish the liability for superannuation charges in respect of the WSS and GESBS Schemes.

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

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

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

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

(ii) Provisions – other

Employee on-costs

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

Native Forest Regeneration Provision

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

Onerous contracts

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

Dividends

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

A dividend liability is not recognised if the dividends are still to be approved (declared) at the end of the reporting period. 'Declared' is considered to mean that the dividends are appropriately authorised and no longer at the discretion of the entity. Under current Western Australian legislative arrangements, dividends (other than interim dividends) are formally approved by the Minister after the balance date and therefore would not meet the recognition criteria of a present obligation of a liability.

2.21 Resources received free of charge or for nominal cost

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

2.22 Superannuation expense

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

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

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

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

2.23 Jointly controlled operations

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

2.24 Comparative figures

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

3.0 Other policies

3.1 Segment reporting

Segment information is prepared in conformity with the accounting policies of the Commission as disclosed in note 2 and *AASB 8 Operating Segments*.

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

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

3.2 Foreign currency translation, derivative financial instrument and hedge accounting

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

Forward foreign exchange contracts are entered into as hedges to avoid or minimise possible adverse financial effects of movements in exchange rates. Such derivative financial instruments are stated at fair value. Changes in

the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in the Statement of Comprehensive Income.

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

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

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

4.0 Key Sources of estimation uncertainty

The Commission makes key estimates and assumptions concerning the future. These estimates and assumptions are based on historical experience and various other factors that have a significant risk of causing a material adjustment to the carrying amount of the assets and liabilities within the next financial year.

4.1 Long service leave

In calculating the Commission's long service leave provision, several estimations and assumptions have been made. These include expected future salary rates, salary inflation, discount rates, employee retention rates and expected future payments. Any changes in these estimations and assumptions may impact on the carrying amount of the long service leave provision.

4.2 Natural resource assets

The valuation of natural resource assets contain key estimates and assumptions made concerning the future, and other estimations of uncertainty at balance date. Variations to these estimates carry a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Calculations performed in assessing the value of the Natural resource assets incorporate uncertainty with discount rates and harvest yields. See note 26.2 for sensitivity analysis around these estimates.

5.0 Disclosure of changes in accounting policy and estimates

The Commission has applied the following Australian Accounting Standards and Australian Accounting Interpretations effective for annual reporting periods beginning on or after 1 July 2009 that impacted on the Commission:

AASB 101	<i>Presentation of Financial Statements (September 2007)</i> . This Standard has been revised and introduces a number of terminology changes as well as changes to the structure of the Statement of Changes in Equity and the Statement of Comprehensive Income. It is now a requirement that owner changes in equity be presented separately from non-owner changes in equity. There is no financial impact resulting from the application of this revised Standard.
AASB 2007-10	<i>Further Amendments to Australian Accounting Standards arising from AASB 101</i> . This Standard changes the term 'general purpose financial report' to 'general purpose financial statements', where appropriate in Australian Accounting Standards and the Framework to better align with IFRS terminology. There is no financial impact resulting from the application of this Standard.
AASB 2008-13	Amendments to Australian Accounting Standards arising from AASB Interpretation 17 - Distributions of Non-cash Assets to Owners [AASB 5 & AASB 110]. This Standard amends AASB 5 Non-current Assets Held for Sale and Discontinued Operations in respect of the classification, presentation and measurement of non-current assets held for distribution to owners in their capacity as owners. This may impact on the presentation and classification of Crown land held by the Authority where the Crown land is to be sold by the Department of Regional Development and Lands (formerly Department for Planning and Infrastructure). The Commission does not expect any financial impact when the Standard is first applied prospectively.
AASB 2009-2	<i>Amendments to Australian Accounting Standards - Improving Disclosures about Financial Instruments AASB 4, AASB 7, AASB 1023 & AASB 1038</i> . This Standard amends AASB 7 and will require enhanced disclosures about fair value measurements and liquidity risk with respect to financial instruments. There is no financial impact resulting from the application of this Standard.

6.0 Future impact of Australian Accounting Standards not yet operative

The Commission cannot early adopt an Australian Accounting Standard unless specifically permitted by *TI 1101 Application of Australian Accounting Standards and Other Pronouncements*. Consequently, the Commission has not applied early any following Australian Accounting Standards that have been issued that may impact the Commission. Where applicable, the Commission plans to apply these Australian Accounting Standards from their application date.

Standard	Title	Operative for reporting periods beginning on/after
AASB 2009-11	<i>Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12]</i> .	1 January 2013
	The amendment to AASB 7 requires modification to the disclosure of categories of financial assets. The Commission does not expect any financial impact when the Standard is first applied. The disclosure of categories of financial assets in the notes will change.	
AASB 1053	<i>Application of Tiers of Australian Accounting Standards</i>	1 July 2013
	This Standard establishes a differential financial reporting framework consisting of two tiers of reporting requirements for preparing general purpose financial statements.	
	The Standard does not have any financial impact on the Commission. However it may affect disclosures in the financial statements of the Commission if the reduced disclosure requirements apply. DTF has not yet determined the application or the potential impact of the new Standard for agencies.	

Standard	Title	Operative for reporting periods beginning on/after
AASB 2010-2	<i>Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements.</i>	1 July 2013
	This Standard makes amendments to many Australian Accounting Standards, including interpretations, to introduce reduced disclosure requirements into these pronouncements for application by certain types of entities.	
	The Standard does not have any financial impact on the Commission. However it may affect disclosures in the financial statements of the Commission if the reduced disclosure requirements apply. DTF has not yet determined the application or the potential impact of the new Standard for agencies.	

7.0 Revenue and expenses from Natural resource assets

7.1 Revenue from the sale of goods and services

	2010	2009
	\$000	\$000
Harvesting operations	53,871	48,905
Recovery of harvesting costs	49,421	54,258
Plant Propagation Center Revenue	402	629
Total revenues	103,694	103,792

7.2 Change in natural resource assets valuation

	2010	2009
	\$000	\$000
(Decrement)/Increment from revaluations	(10,122)	4,867
	(10,122)	4,867

7.3 Reconciliation of (decrement)/increment from revaluations to Movement of Natural resource assets

	2010	2009
	\$000	\$000
Gross Movement on Natural resource assets	(30,265)	20,187
Movement in annuity liabilities	11,791	(2,703)
Onerous contracts expense	13,856	-
Capitalisation of New Plantation Expenditure	(5,504)	(12,617)
	(10,122)	4,867

7.4 Onerous contracts

	2010	2009
	\$000	\$000
Annuity obligations associated with immature share farms considered onerous	(13,856)	-
	(13,856)	-

7.5 Cost of sales

	2010	2009
	\$000	\$000
Harvesting Costs	53,642	59,074
Roading Maintenance and Construction	2,840	4,115
Write Down of Inventory to Net Realisable Value	3,118	(1,160)
Total cost of sales	59,600	62,029

8.0 Commonwealth grants and contributions

	2010	2009
	\$000	\$000
Recognition of Commonwealth Government contribution to National Action Plan for Salinity and Water Quality	5,507	12,619
	5,507	12,619

9.0 Grants and Subsidies from State Government

	2010	2009
	\$000	\$000
Grants and Subsidies from State Government	1,542	1,772
	1,542	1,772

10.0 Other revenue

	2010	2009
	\$000	\$000
Contracts and Other	794	2,880
Revenue from Cost Recovery Operations	2,805	4,450
	3,599	7,330

Revenue from cost recovery operations is due mainly to services to Department of Environment and Conservation for fire support and the Department of Agriculture and Food for services associated with pest control. Expenses associated with these contributions are included in expenses from ordinary activities.

11.0 Embedded derivatives valuation increment

	2010	2009
	\$000	\$000
Embedded derivatives valuation increment	-	1,809
	-	1,809

All embedded derivatives were closed out in the prior financial year 2008/2009.

12.0 Employee benefits expense

	2010	2009
	\$000	\$000
Wages and Salary	14,494	14,225
Fringe Benefits Tax	94	99
Leave Expense	2,712	4,260
Superannuation	1,740	1,773
Payroll Tax	1,167	1,159
Workers Compensation Insurance	491	206
Superannuation - defined benefit plans (Note 31)	(16)	29
	20,682	21,751

The employment on-costs liability is included at note 30 Employee benefits.

13.0 Supplies and services

	2010	2009
	\$000	\$000
Travel	377	711
Write-down of UWA Joint Venture	331	383
Sundry Supplies and Services	1,321	652
Operating Lease	2,474	2,741
Other Services	114	30
Legal Fees and Consultants	1,129	834
DEC Service Level Agreements	10,886	10,137
Materials	777	1,496
Forest Management Expenses	6,774	17,024
Fire Salvage and Remedial Works	78	6,363
Repairs and Maintenance	380	391
Vehicle Expenses	38	57
	24,679	40,819

14.0 Depreciation and amortisation expense

	2010	2009
	\$000	\$000
Plant, equipment, vehicles, office equipment and nursery infrastructure	1,025	953
Buildings	402	434
Amortisation of software	-	26
	1,427	1,413

15.0 Accommodation expenses

	2010	2009
	\$000	\$000
Lease rentals and travel accommodation	1,069	840
Other Property	209	215
	1,278	1,055

16.0 Other expenses

	2010	2009
	\$000	\$000
Audit fees	176	162
(Decrease)/Increase in allowance for doubtful debts	62	831
Telephone, Postage, Communications	1,054	980
Other Administration Costs	172	367
	1,464	2,340

17.0 Interest revenue

	2010	2009
	\$000	\$000
Interest Revenue	1,731	1,560
	1,731	1,560

18.0 Finance costs

	2010	2009
	\$000	\$000
Interest on WA Treasury Corporation loans	5,598	5,204
Foreign Exchange Loss/(Gain)	271	(1,076)
	5,869	4,128

19.0 Trade and other receivables

	2010	2009
	\$000	\$000
Current		
Treasury Funds Receivable	1,287	1,212
Trade and other receivables	25,146	31,285
Allowance for doubtful debts	(3,415)	(3,398)
	23,018	29,099
Reconciliation of change in the allowance for impairment of receivables		
Balance at start of year	(3,398)	(2,567)
Amounts written off during the year	45	-
Doubtful debts expense recognised in the Statement of Comprehensive Income	(62)	(831)
Balance at end of year	(3,415)	(3,398)
Non Current		
Treasury Funds Receivable	14,662	15,948

Treasury Funds Receivable are funds receivable from WA State Treasury in relation to the National Action Plan.

The National Action Plan supports the Wood Processing (WESFI) Agreement Act 2000 as well as the National Action Plan for Salinity and Water Quality.

The National Action Plan has been funded by loans from the Western Australian Treasury Corporation, State and Commonwealth Government contributions and internal funding.

20.0 Inventories

	2010	2009
	\$000	\$000
Current		
Inventories held for resale at cost ¹ :		
- Plant Propagation Centre	2,709	5,038
- Sandalwood	1,537	2,026
- Timber on forest landings	1,422	1,722
	5,668	8,786

¹ Cost is the net market value of inventories at the time inventories become non-living.

21.0 Other assets

	2010	2009
	\$000	\$000
Current		
Prepayments	82	321
Accrued Revenue	365	1,009
Hedge Contract	-	106
	447	1,436
Non Current		
Plantations Carbon Sequestration program	-	8,937
	-	8,937

22.0 Property, plant and equipment

22.1 Land and buildings

	2010	2009
	\$000	\$000
Freehold land at fair value ¹	11,229	11,503
	11,229	11,503
Buildings at fair value	7,869	8,058
Accumulated depreciation	(1,929)	(1,596)
	5,940	6,462
Total land and buildings	17,169	17,965

¹ Commission owned land was revalued as at 1 July 2009 in accordance with an independent valuation by the Western Australian Land Information Authority (Valuation Services).

22.2 Plant, equipment and vehicles

	2010	2009
	\$000	\$000
Nursery infrastructure at fair value at 30 June 2005	12,138	12,138
Accumulated depreciation	(7,503)	(7,218)
Nursery infrastructure	4,635	4,920
Plant, equipment and vehicles at cost	4,165	4,220
Accumulated depreciation	(3,337)	(3,033)
	828	1,187
Office equipment at cost	2,052	2,662
Accumulated depreciation	(1,440)	(1,743)
	612	919
Total plant, equipment and vehicles	6,075	7,026

Nursery infrastructure was revalued at 30 June 2005 on a 'written down replacement value' basis by independent valuers McGarry Associates Pty Ltd.

22.3 Carbon asset

	2010	2009
	\$000	\$000
The cost of plantation establishment for carbon sequestration	6,016	-
	6,016	-
Total Property, plant and equipment	29,260	24,991

22.4 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.

	Carbon asset	Freehold land	Buildings	Nursery infrastructure	Plant, equipment and vehicles	Office equipment	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Cost							
Balance at 1 July 2008	-	9,421	8,095	12,130	4,078	2,545	36,269
Additions	-	92	15	8	162	308	585
Disposals	-	-	(71)	-	(20)	(191)	(282)
Revaluation increment	-	1,990	19	-	-	-	2,009
Balance at 30 June 2009	-	11,503	8,058	12,138	4,220	2,662	38,581
Balance at 1 July 2009	-	11,503	8,058	12,138	4,220	2,662	38,581
Additions	6,016	-	-	-	44	72	6,132
Disposals	-	-	(189)	-	(99)	(682)	(970)
Revaluation decrement	-	(274)	-	-	-	-	(274)
Balance at 30 June 2010	6,016	11,229	7,869	12,138	4,165	2,052	43,469
Depreciation and impairment losses							
Balance at 1 July 2008	-	-	(1,179)	(6,988)	(2,562)	(1,657)	(12,386)
Depreciation	-	-	(433)	(230)	(525)	(225)	(1,413)
Disposal	-	-	16	-	54	139	209
Balance at 30 June 2009	-	-	(1,596)	(7,218)	(3,033)	(1,743)	(13,590)
Balance at 1 July 2009	-	-	(1,596)	(7,218)	(3,033)	(1,743)	(13,590)
Depreciation	-	-	(523)	(285)	(404)	(215)	(1,427)
Disposal	-	-	190	-	100	518	808
Balance at 30 June 2010	-	-	(1,929)	(7,503)	(3,337)	(1,440)	(14,209)
Carrying Amounts							
At 1 July 2008	-	9,421	6,916	5,142	1,516	888	23,883
At 30 June 2009	-	11,503	6,462	4,920	1,187	919	24,991
At 1 July 2009	-	11,503	6,462	4,920	1,187	919	24,991
At 30 June 2010	6,016	11,229	5,940	4,635	828	612	29,260

23.0 Intangible assets

23.1 Carbon rights

	2010	2009
	\$000	\$000
Carbon rights	6,490	-
	6,490	-

23.2 Software

	2010	2009
	\$000	\$000
Software		
Software - cost	488	488
Software - accumulated amortisation	(488)	(488)
	-	-
Total Intangible assets	6,490	-

Reconciliation

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

Cost	Intangible assets
	\$000
Balance at 1 July 2008	488
Additions from external sources	-
Disposals	-
Balance at 30 June 2009	488
Balance at 1 July 2009	488
Additions from external sources	6,490
Disposals	-
Balance at 30 June 2010	6,978
Amortisation and impairment losses	
Balance at 1 July 2008	(462)
Amortisation of software costs	(26)
Balance at 30 June 2009	(488)
Balance at 1 July 2009	(488)
Amortisation of software costs	-
Balance at 30 June 2010	(488)
Carrying Amounts	
At 1 July 2008	26
At 30 June 2009	-
At 1 July 2009	-
At 30 June 2010	6,490

24.0 Investment in Joint Venture

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

Entity:	UWA/FPC Joint Venture	
Principal activity:	Timber research and product development	
Reporting date:	31 December	
Ownership:	2010	50%
	2009	50%

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

	2010						
	\$000						
	Revenue	Profit/(loss)	Commission's share of profit/(loss)	Total assets	Total liabilities	Net assets reported by JV	Share of JV net assets equity accounted
	(100%)	(100%)		(100%)	(100%)	(100%)	
UWA/FPC Joint Venture	364	(103)	(52)	12	-	12	6
	2009						
	\$000						
	Revenue	Profit/(loss)	Commission's share of profit/(loss)	Total assets	Total liabilities	Net assets reported by JV	Share of JV net assets equity accounted
	(100%)	(100%)		(100%)	(100%)	(100%)	
UWA/FPC Joint Venture	377	(67)	(34)	115	-	115	58
						2010	2009
						\$000	\$000
Share of joint venture profit before income tax						6	58
Share of joint venture net profit accounted for using the equity method						6	58

Reconciliation of movement in investment in joint venture:

Balance at 1 July	-	-
Contributions to joint venture	325	325
Share of net assets equity accounted	6	58
Investment in joint venture before adjustments:	331	383
Adjustments:		
Write down of investment in joint venture to net recoverable amount	(331)	(383)
Investment in joint venture at 30 June	-	-

Commitments

The Commission has a contractual liability to fund the UWA/FPC Joint Venture for operating expenses and capital equipment of \$325,000 (2009 \$470,000).

As at 30 June 2010 the Commission has no share of liabilities or contingent liabilities associated with its investment in the UWA/FPC Joint Venture, other than as disclosed above.

Note

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

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

25.0 Natural resource assets

	2010	2009
	\$000	\$000
Current		
Natural resource assets at valuation		
<i>Native Forest</i>		
Native forest standing timber	13,837	12,983
Sandalwood standing timber	5,232	2,422
Native forest Natural resource assets at valuation	19,069	15,405
<i>Plantations</i>		
Plantations Natural resource assets at valuation	22,917	5,726
Total Natural resource assets at valuation current	41,986	21,131
Non-Current		
Natural resource assets at valuation		
<i>Native Forest</i>		
Native forest standing timber	94,972	92,912
Sandalwood standing timber	44,807	34,249
Native forest Natural resource assets at valuation	139,779	127,161
<i>Plantations</i>		
Mature standing timbers ¹	148,864	178,007
Immature standing timbers ²	-	34,598
Plantations Natural resource assets at valuation	148,864	212,605
Total Natural resource assets at valuation non-current	288,643	339,766
Total Natural resource assets at valuation	330,629	360,897
The Plantations estate is represented by:		
Commission plantations standing timber	160,452	185,500
Share farm standing timber	11,329	32,831
Total Plantations Natural resource assets at valuation	171,781	218,331

¹ Includes the previously Termed Reforestation program in 2009

² Termed Afforestation program in 2009

25.1 Hectares under management

	2010	2009
	ha	ha
Plantations		
Mature plantations	73,712	73,871
Immature plantations	32,176	27,521
Total plantation hectares under management	105,888	101,392

Hectares under management have been realigned to match the new categorisation of plantation asset.

26.0 Natural resource assets risk analysis

26.1 Discount rates

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

	2010	2009
30 year discount rate	11.90%	11.97%
50 year discount rate	12.00%	12.07%

The discount rate, which is real and pre-tax, is based on the Commission's weighted average cost of capital (WACC). The WA Treasury Corporation provided an update of the Commission's WACC as at 30 June 2010.

26.2 Sensitivity analysis

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

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

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

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

			2010	2009
			\$000	\$000
			Increase/ (decrease)	Increase/ (decrease)
Discount rate:	+300 bpts	Total Natural resource assets at valuation	(71,389)	(59,425)
	- 300 bpts	Total Natural resource assets at valuation	139,368	91,500
Future prices:	+ 3%	Total Natural resource assets at valuation	7,168	12,275
	- 3%	Total Natural resource assets at valuation	(5,433)	(12,275)
Future costs:	+ 3%	Total Natural resource assets at valuation	(1,988)	(4,352)
	- 3%	Total Natural resource assets at valuation	3,722	4,352

26.3 Cash flows

(a) Cash flows are real and pre tax.

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

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

(d) Cash flows are discounted to balance date from their expected date of occurrence at rates set out under 26.1 above

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

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

26.4 Insurance

The Commission does not insure its Natural resource assets.

27.0 Trade and other payables

	2010	2009
	\$000	\$000
Current		
Trade payables	4,823	6,182
GST (receivable) / payable	29	389
Payroll tax accrual	85	95
Accrued logging costs	2,693	2,156
Other accruals	9,723	6,762
Accrued interest	1,289	1,220
Accrued salaries and wages	332	333
Land annuity obligations	1,889	1,076
Hedge Contract	149	-
	21,012	18,213

28.0 Annuities payable

	2010	2009
	\$000	\$000
Non-Current		
Land annuity obligations	21,313	26,837

29.0 Borrowings

	2010	2009
	\$000	\$000
Current		
Western Australian Treasury Corporation loans	8,277	6,994
Total current	8,277	6,994
Non-Current		
Western Australian Treasury Corporation loans	79,269	84,007
Total non-current	79,269	84,007
Total interest bearing borrowings	87,546	91,001

Refer Financial Instruments Note 41.1 for interest rate analysis.

The Commission has a provision for the unfunded liability associated with those employees who are currently members of Gold State Superannuation Scheme. Refer Note 31 below.

30.0 Employee benefits

	2010	2009
	\$000	\$000
Current		
Compensated absences - Annual leave	2,135	2,393
Compensated absences - Long service leave	1,812	2,410
	3,947	4,803
Non-current		
Compensated Absences - Long service leave	1,832	1,806
Provision for unfunded superannuation liability ¹	82	136
	1,914	1,942

31.0 Gold State Superannuation Scheme

31.1 Scheme information

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

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

Reconciliation of the Present Value of the Defined Benefit Obligation

	\$000	\$000
	30-Jun-10	30-Jun-09
(Gold State Super)		
Present value of defined benefit obligations at the beginning of the year	136	106
(+) Interest costs	7	7
(+) Actuarial (gains)/losses	(16)	29
(-) Benefits paid	(45)	(6)
Present value of defined benefit obligations at the end of the year	82	136

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

Reconciliation of the Fair Value of Scheme Assets:

Financial year ending	30-Jun-10	30-Jun-09
Fair value of Scheme Assets at the beginning of the year:	-	-
(+) Employee contributions	45	6
(-) Benefits paid	(45)	(6)
Fair value of Scheme Assets at the end of the year	-	-

Reconciliation of the Assets and Liabilities recognised in the Statement of Financial Position:

Financial year ending	30-Jun-10	30-Jun-09
Defined Benefit Obligation	82	136
Net Liability	82	136

Expense recognised in the Statement of Comprehensive Income

Financial year ending	30-Jun-10	30-Jun-09
Interest cost	7	7
Actuarial loss / (gain)	(16)	29
Superannuation expense / (income)	(9)	36

Scheme Assets

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

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

Principal Actuarial Assumptions Used

Financial year ending	30-Jun-10	30-Jun-09
(Gold State Super)		
Discount rate (active members)	5.48%	5.34%
Discount rate (pensioners)	5.48%	5.34%
Expected salary increase rate	4.50%	4.50%
Expected pension increase rate	2.50%	2.50%

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

Historical information

Financial year ending	30-Jun-10	30-Jun-09	30-Jun-08	30-Jun-07	30-Jun-06
(Gold State Super)					
Present value of defined benefit obligation	82	136	106	144	138
Fair value of Scheme assets	-	-	-	-	-
Deficit in Scheme	82	136	106	144	138
Experience adjustments (gain)/loss - Scheme liabilities	(15)	9	(57)	(36)	45

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

Expected contributions	30-Jun-11
(Gold State Super)	\$000
Expected employer contributions	2

32.0 Provisions

	Note	2010	2009
		\$000	\$000
Current			
Provision for regeneration of Native Forest	a	2,530	2,819
Provision for deferred rental		-	311
Unearned revenue	b	1,155	1,000
		3,685	4,130
Non-Current			
Provision for regeneration of Native Forest	a	1,270	3,848
Provision for deferred rental		-	6,769
		1,270	10,617

Explanations:

a) The Commission has an obligation under the Forest Management Plan (2004 to 2013) to ensure that Re-growth Native Forest harvested are restored.

b) Unearned Revenue received by the FPC for the delivery of forestry services to be delivered in the future.

Net movement in provisions

	2010	2009
	\$000	\$000
Opening balance at 1 July 2009	14,747	16,196
Provisions utilised		
Regeneration	1,132	1,447
	1,132	1,447
Provisions reversed		
Embedded Derivatives	-	1,809
Regeneration	1,735	-
Deferred rental	7,080	156
	8,815	1,965
Provisions raised		
Regeneration	-	1,963
Deferred income	155	-
	155	1,963
Closing balance at 30 June 2010	4,955	14,747

33.0 Deferred revenue

	2010	2009
	\$000	\$000
Current		
National Action Plan for Salinity Revenues	1,178	5,530
	1,178	5,530
Non-Current		
Forward Sold Carbon Sequestration Certificates	20,477	17,128
National Action Plan for Salinity Revenues	5,856	7,011
Forward Sold Log Supply	9,059	7,279
	35,392	31,418

34.0 Equity

Equity represents the residual interest in the net asset of the Commission. The Government holds the equity interest in the Commission on behalf of the community. The asset revaluation surplus represents that portion of equity resulting from the revaluation of non-current assets.

34.1 Owners contributed equity

	2010	2009
	\$000	\$000
Balance at the start of the period	254,741	238,542
2009 Wildfire losses capital appropriation	-	15,000
Sale of 'Peel B' Baldivis	1,270	1,199
Balance at the end of period	256,011	254,741

34.2 Reserves

	2010	2009
	\$000	\$000
Asset Revaluation Surplus		
Balance at start of year	7,880	6,598
Net land revaluation (decrements)/increments:	(226)	1,832
Income tax	68	(550)
Balance at end of year	7,722	7,880

Land revaluations are supplied by the Department of Land Information (Valuation Services) and are net of tax.

	2010	2009
	\$000	\$000
Balance at start of year	73	436
Net movement in reserve	(253)	(519)
Income tax	76	156
	(104)	73
Reserves total	7,618	7,953

34.3 Accumulated surplus/(deficit)

	2010	2009
	\$000	\$000
Balance at the start of year	10,453	9,892
Result for the period	(11,267)	561
Dividend paid	-	-
Balance at end of year	(814)	10,453

35.0 Notes to the Statement of Cash Flows

35.1 Reconciliation of cash and cash equivalents

	2010	2009
	\$000	\$000
Petty Cash	4	4
Commonwealth Bank - Cash Management Account	22,774	23,257
Commonwealth Bank - USD Bank Account	3,017	2,106
	25,795	25,367

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

	2010	2009
	\$000	\$000
Profit from ordinary activities after income tax	(11,267)	561
Non-cash items		
Depreciation and amortisation expense	1,427	1,413
Movement in provision for doubtful debts	17	831
Revaluation of land and buildings	-	(178)
Change in fair value of Natural resource assets	(10,122)	(4,565)
Grants and subsidies from State Government	(1,542)	(1,772)
Decrease / (increase) in assets		
Current inventories	3,118	(1,161)
Current receivables	(10,686)	(12,529)
Other current assets	(19,866)	(8,829)
Write down of investment in joint venture	331	325
Other assets	63,816	1,213
Increase/(decrease) in liabilities		
Payables	2,799	6,647
Employee benefits	(884)	1,405
Unearned revenue and deferred income	223	5,855
Other liabilities	(16,261)	(1,450)
Movement in tax balances	(1,349)	(32)
Net cash (used in) operating activities	(246)	(12,266)

35.3 Borrowing facilities

The Commission had access to the following lines of credit as at reporting date:

	2010	2009
	\$000	\$000
Credit cards	750	750
Bank overdraft facility	9,000	9,000
Short term lending facility with WATC	3,538	2,317
WA Treasury Corporation - Portfolio Lending Arrangement	84,008	88,684
	97,296	100,751
Facilities in use as at reporting date		
Credit cards	81	148
Short term lending facility with WATC	3,538	2,317
WA Treasury Corporation - Portfolio Lending Arrangement	84,008	88,684
	87,627	91,149
Available facilities not in use as at reporting date		
Credit cards	669	602
Bank overdraft facility	9,000	9,000
	9,669	9,602

36.0 Commitments for expenditure

36.1 Lease commitments

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

	2010	2009
	\$000	\$000
Within 1 year	780	548
Later than 1 year and not later than 5 years	582	630
Later than 5 years	-	177
	1,362	1,355
Non-cancellable operating leases	1,362	1,355

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.

36.2 Guarantees and undertakings

The Commission has no guarantees and/or undertakings that have not been provided for in the Statement of Financial Position.

37.0 Contingent assets

During 2008/2009 the Forest Products Commission experienced bushfires which impacted the plantation estate in the Yanchep and Bridgetown regions. No value has been attributed to the net compensation benefit that may flow to the Commission as a result of these fires.

38.0 Contingent liabilities

The Commission has identified a potential shortfall of current pine resources that would be available to meet future contracted supply commitments. As at the date of the financial statements, there is a high degree of uncertainty regarding the likelihood, timing and amount of any potential shortfall and the Commission is therefore unable to determine a reliable estimate of the amount of any potential obligation that may arise in the future.

The Commission is undertaking further feasibility studies and inventory analysis in order to develop and implement mitigation strategies if necessary and will continue to monitor the need for further disclosure, or a provision, at future reporting dates.

39.0 Events occurring after reporting date

On the 2nd of August 2010, the Minister of Forestry announced a restructure plan for the Commission. FPC will stop investing in lower rainfall plantation development and focus on its core business of native hardwoods, mature pine plantations and sandalwood. FPC will also be hosted by the Department of Agriculture and Food to save on accommodation and administrative costs. As a result, up to 75 positions will be made redundant over the next two financial years. The WA State government have undertaken to fund costs of the restructure plan.

At the date of this report an estimate of the financial effect of the restructuring cannot be made.

40.0 Explanatory

This statement provides details of significant variations between estimates and actuals for 2010 and between the actual results for 2010 and 2009.

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

	2010	2009	Variance	Explanation
	\$000	\$000	\$000	
Income				
Commonwealth grants and contributions	5,507	12,619	(7,112)	a
Other revenue	3,599	7,330	(3,731)	b
Expense				
Supplies and services	24,679	40,819	(16,140)	c
Natural resource asset (decrement)/increment	(10,122)	4,867	(14,989)	d
Onerous contacts	(13,856)	-	(13,856)	d

Explanation:

a) Reduction in recognised revenue from the NAP (National Action Plan for Salinity) project reflecting lower activity during the 2009/2010 planting season.

b) 2009 included \$2.0 mill receipt of Fire Insurance proceeds (2010 nil). Additionally in 2010 there has been a reduction in amounts received as recoups for European House Borer expenditures as this project winds down.

c) 2009 Supplies and Services expense included \$6.4 million in Fire Salvage and Remedial works (2010 nil). Additionally the Commission has reduced expenditures on Forest Management, incurring \$7.3 million 2010 (2009 \$17.0 million). See note 13.0 for an analysis of Supplies and Services.

d) The 2010 decrement arising from the revaluation of the Natural Resource asset reflects an impairment to the Immature Share farm estate arising from the State Governments decision for the Commission to withdraw from continued participation in the development of this resource. This decrement has been partially off set by an increase to the valuation of the Sandalwood natural resource asset reflecting the increased value of this resource in Western Australia.

e) Additionally, as a consequence of the impairment of the Immature share farm estate, annuities arising from share

farm agreements entered into as part of the National Action Plan for Salinity and Water Quality and other projects have become onerous and are expensed accordingly. The Commission liability to pay these annuities remains and the fair value of this liability recorded in the Statement of Financial Position - see note 28 and note 27.

40.2 Comparison of 2009/10 actual results to estimated results

	2010	2009	Variance from estimate	Explanation
	Actual	Estimate ¹		
	\$000	\$000	\$000	
Income				
Revenue from the sale of goods and services	103,694	103,054	640	a
Expenses				
Employee benefits expense	20,682	27,116	6,434	b
Supplies and services	24,679	31,715	7,036	c

Explanation:

a) Sale of products from Native Forests were below expectations for 2010 but were offset by increased sales from the Commission Plantations and Sandalwood resources.

b) During 2010 the Commission reduced staff numbers.

c) Expenditure planned to be incurred in Forest Management were reduced during the year.

¹ Estimates are sourced from the 2009/10 budget

41.0 Financial instrument

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

Credit Risk

Credit risk arises when there is the possibility of the Commission's debtors defaulting on their contractual obligations resulting in financial loss to the Commission. The Commission measures credit risk on a fair value basis and monitors risk on a regular basis. The maximum exposure to credit risk at balance date in relation to each class of recognised financial assets is the gross carrying amount of those assets inclusive of any provisions for impairment, as shown in the table at 41.1. The Commission trades only with recognised, creditworthy third parties. The Commission has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. In addition, receivable balances are monitored on an ongoing basis with the result that the Commission's exposure to bad debts is minimal. There are no significant concentrations of credit risk, other than amounts due from the WA Department of Treasury and Finance (refer note 19).

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

Provision for impairment of financial assets is calculated based on past experience, and current and expected changes in client credit ratings. Factors such as customer credit risk, security and the prevailing economic conditions are considered during this process. The maximum exposure to credit risk at balance date in relation to each class of recognised financial asset is the gross carrying amount of those assets inclusive of any provision for impairment, as shown in note 41.1.

For financial assets that are either past due or impaired, refer to Note 41.4.

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

Liquidity risk

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

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and commodity prices will affect the Commission's income or the value of its holdings of financial instruments. The Commission's policy in regard to managing foreign exchange risks through the use of financial exchange contracts is dealt with in Note 37.2.

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

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

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

Currency risk

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

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

The Commission also holds a USD commercial bank account which exposes the Commission to foreign currency risk. The balance of this account at 30 June 2010 is USD 2.572 million (2009: USD 1.709 million).

Interest rate risk

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

Categories of Financial Instruments

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

	2010	2009
	\$000	\$000
Financial Assets		
Cash and cash equivalents	25,795	25,367
<i>Loans and receivables</i>		
Trade Receivables	37,680	45,047
	63,475	70,414
Financial Liabilities		
<i>Financial liabilities measured at amortised cost</i>		
Trade payables	19,123	17,137
Land annuity obligations	23,202	27,913
Interest Bearing Borrowings	87,546	91,001
Forward Exchange Contracts	5,025	5,990
Deferred Land Rental	-	7,080
	134,896	149,121

41.1 Credit Risk, Liquidity Risk and Interest Rate Risk Exposure

The following table details the exposure to liquidity risk and interest rate risk as at the balance date. The Commission's maximum exposure to credit risk at the balance sheet date is the contractual cash flows in the following table. Except for Land Annuities Payable and deferred rental, the contractual cash flows is the carrying amount as at balance sheet date. The carrying amount of land annuity payments is \$32.893 million (2009: \$43.568 million).

2010							
	Note	%	\$000				
		Effective interest rate	Total	0 - 12 months	1 - 2 years	2 - 5 years	More than 5 years
Financial assets							
Commonwealth Bank Cash Management Account	35.1	3.63%	22,774	22,774	-	-	-
Commonwealth Bank USD Account	35.1	0.00%	3,017	3,017	-	-	-
Treasury Funds Receivable	19.0		15,949	1,287	1,366	4,629	8,667
Trade Receivables	19.0		25,146	25,146	-	-	-
Provision for Doubtful Debts	19.0		(3,415)	(3,415)			
Collateral security held - cash	41.4		1,758	1,758	-	-	-
Collateral security held - non cash			4,948	4,948			
Total credit exposure - Trade Receivables			28,437	28,437	-	-	-
Foreign Exchange Contracts			4,876	4,877	-	-	-
			75,053	60,392	1,366	4,629	8,667
Financial liabilities							
Trade Payables	27.0		4,823	4,823			
WA Treasury Corporations (long term loan variable)	29.0	5.66%	84,008	4,739	4,804	14,816	59,649
WA Treasury Corporations (short term loan fixed)	29.0	5.03%	3,538	3,538	-	-	-
Land Annuities Payable			32,893	1,920	3,670	5,405	21,898
Embedded Derivatives	32.0		-	-	-	-	-
			125,262	15,020	8,474	20,221	81,547

2009							
	Note	%	\$000				
		Effective interest rate	Total	0 - 12 months	1 - 2 years	2 - 5 years	More than 5 years
Financial assets							
Commonwealth Bank Cash Management Account	35.1	4.53%	23,257	23,257	-	-	-
Commonwealth Bank USD Account	35.1	1.09%	2,106	2,106	-	-	-
Treasury Funds Receivable	19.0	0%	17,160	1,212	1,286	4,358	10,304
Trade Receivables	19.0		31,285	31,285	-	-	-
Provision for Doubtful Debts	19.0		(3,398)	(3,398)			
Collateral security held - cash	41.4		(1,780)	(1,780)	-	-	-
Collateral security held - non cash			(4,364)	(4,364)			
Total credit exposure - Trade Receivables			21,743	21,743	-	-	-
Foreign Exchange Contracts			6,095	6,095	-	-	-
			70,361	54,413	1,286	4,358	10,304
Financial liabilities							
Trade Payables	27.0		6,182	6,182	-	-	-
WA Treasury Corporations (long term loan variable)	29.0	6.15%	88,684	4,675	4,739	4,804	74,466
WA Treasury Corporations (short term loan fixed)	29.0	5.46%	2,317	2,317	-	-	-
Land Annuities Payable			37,181	3,284	4,380	6,467	23,050
Embedded Derivatives	32.0		-	-	-	-	-
Deferred Rental	32.0		29,269	318	1,432	1,800	25,719
			163,633	16,776	10,551	13,071	123,235

41.2 Forward foreign exchange contracts

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

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

Sell currency	Value date	USD sell amount \$'000	Historic forward rate	Buy currency	Buy amount \$'000	Current forward points	Current forward rate	Revalued buy currency 30 June 10	Revalued buy amount 30 June 10 \$'000	Variance currency	Variance amount \$'000
USD	30-Sep-10	2,024	0.901	AUD	2,246	-0.009	0.843	AUD	2,400	AUD	(154)
USD	31-Dec-10	2,191	0.833	AUD	2,630	-0.018	0.835	AUD	2,625	AUD	5
		4,215			4,876				5,025		(149)

41.3 Sensitivity analysis

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

	2010				
	\$'000				
	Carrying amount	-1% change		+1% change	
Profit		Equity	Profit	Equity	
Interest rate sensitivity analysis					
<i>Financial Assets</i>					
Cash and cash equivalents	25,791	(159)	(159)	181	181
<i>Financial Liabilities</i>					
WA Treasury Interest bearing loans and borrowings	87,546	613	613	(613)	(613)
Land Annuities Payable	23,202	(1,446)	(1,446)	1,257	1,257
Deferred Rental	0	-	-	-	-

	Carrying amount	-10% change		+10% change	
		Profit	Equity	Profit	Equity
Currency sensitivity analysis					
<i>Financial Assets</i>					
USD Bank Account	3,017	235	235	(192)	(192)

USD rate used in this analysis was the spot rate as at 30 June 2010 - 1 AUD = 0.8523

	2009				
	\$000				
	Carrying amount	-1% change		+1% change	
Profit		Equity	Profit	Equity	
Interest rate sensitivity analysis					
<i>Financial Assets</i>					
Cash and cash equivalents	25,363	(178)	(178)	178	178
<i>Financial Liabilities</i>					
WA Treasury Interest bearing loans and borrowings	91,001	637	637	(637)	(637)
Land Annuities Payable	27,913	(1,632)	(1,632)	1,924	1,924
Deferred Rental	7,080	(162)	(162)	635	635

	Carrying amount	-10% change		+10% change	
		Profit	Equity	Profit	Equity
Currency sensitivity analysis					
<i>Financial Assets</i>					
USD Bank Account	2,106	164	164	(134)	(134)

USD rate used in this analysis was the spot rate as at 30 June 2009 - AUD1 = USD .8114

41.4 Credit risk concentrations

Accounts receivable consists largely of timber debtors, for which deposits and securities equivalent to an average of six weeks' deliveries are required to be lodged in favour of the Commission under timber contracts of sale. These deposits and securities are held in trust until the expiry or default of contracts. As at 30 June 2010, the value of deposits and securities was less than overdue accounts by \$4.161 million (deposits and securities was less than overdue accounts by \$4.541 million at 30 June 2009).

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

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

	2010			2009		
	Number of customers	\$000		Number of customers	\$000	
		Value overdue ¹	Impairment		Value overdue ¹	Impairment
1 to 30	41	3,149	-	39	3,173	1,128
31 to 60	24	1,345	38	21	1,218	573
Greater than 60	46	5,170	3,046	43	5,674	866
All overdue accounts	67	9,664	3,084	57	10,065	2,567

¹ Overdue beyond the Commission's agreed trading terms.

The likelihood of recovery as at 30 June 2010 was estimated and factored into the amounts provided for impairment of receivables (refer note 17). Where applicable, interest is charged under the terms of the customer's supply contract.

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

Maximum exposure to credit risk for trade receivables by type of Customer	2010	2009
Forest Product Manufacture/Supply	15,949	17,160
State Government	21,731	27,887
	37,680	45,047

41.5 Funds held in trust

Funds held in trust¹ as security for contract obligations. These funds are repayable upon completion of contracts.

	2010	2009
	\$000	\$000
Opening balance	1,782	1,659
Receipts	237	293
Payments	(261)	(170)
Closing balance	1,758	1,782

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.

41.6 Fair values

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

The Commission's long and short term borrowings are valued as per the accounting policy in note 2. The Commission's borrowings of \$87.546 million (\$91.001 million at 30 June 2009) from the Western Australian Treasury Corporation (WATC) have been assessed by the WATC to have a net fair value of \$90.203 million (\$91.219 million at 30 June 2009) as at 30 June 2010. The net fair value of a financial liability is the amount at which the liability could be settled in a current transaction after allowing for the premium required if debt is settled prior to the due date.

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

42.0 Taxation

The prima facie income tax on pre-tax accounting profit reconciles to the income tax equivalent in the Statement of Comprehensive Income is as follows:

	2010	2009
	\$000	\$000
Profit from ordinary activities before Income tax	(23,050)	529
Income tax calculated at 30% of operating profit	(6,916)	159
Underprovided / (overprovided) in prior periods	(4,867)	(191)
	(11,783)	(32)
Current tax expense		
Current year	(1,349)	(840)
	(1,349)	(840)
Deferred tax expense		
Relating to origination and reversal of temporary differences	(10,434)	808
	(11,783)	(32)
Total income tax expense in the Statement of Comprehensive Income	(11,783)	(32)

Recognised deferred tax assets and liabilities:

	Assets		Liabilities		Net	
	2010	2009	2010	2009	2010	2009
	\$000	\$000	\$000	\$000	\$000	\$000
Receivables	(1,024)	(1,019)	-	-	(1,024)	(1,019)
Inventories	(1,053)	-	-	430	(1,053)	430
Land	(37)	-	-	3	(37)	3
Buildings	(156)	(273)	-	-	(156)	(273)
Nursery infrastructure	(1,148)	(680)	-	-	(1,148)	(680)
Plant, equipment and vehicles	(116)	(62)	-	-	(116)	(62)
Investment in Joint Venture	(162)	(216)	-	-	(162)	(216)
Natural resource assets	(4,930)	(5,445)	20,632	29,711	15,702	24,266
Employee provisions	(1,758)	(2,024)	-	-	(1,758)	(2,024)
Share farm annuities	(8,708)	(6,882)	-	-	(8,708)	(6,882)
Auditing fees provision	1	(29)	-	-	1	(29)
Deferred rental provision	-	(1,971)	-	-	-	(1,971)
Restoration provision	(1,141)	(2,000)	-	-	(1,141)	(2,000)
Deferred income	(5,048)	(24)	-	-	(5,048)	(24)
Incentive payments provision	(6,961)	(8,374)	-	-	(6,961)	(8,374)
Reserves	-	-	3,266	3,410	3,266	3,410
Tax value of loss carry-forwards recognised	(2,553)	(4,874)	-	-	(2,553)	(4,874)
Net tax (assets) / liabilities	(34,794)	(33,873)	23,898	33,554	(10,896)	(319)

Movement in temporary differences during the year

	Balance 1 July 08	Recognised in income	Recognised in equity	Balance 30 June 09	Balance 1 July 09	Recognised in income	Recognised in equity	Balance 30 June 10
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Receivables	(770)	(249)	-	(1,019)	(1,019)	(5)	-	(1,024)
Inventories	(362)	792	-	430	430	(1,483)	-	(1,053)
Land	(50)	53	-	3	3	(40)	-	(37)
Buildings	(242)	(31)	-	(273)	(273)	117	-	(156)
Nursery infrastructure	(670)	(10)	-	(680)	(680)	(468)	-	(1,148)
Plant, equipment and vehicles	(24)	(38)	-	(62)	(62)	(54)	-	(116)
Investment in Joint Venture	(129)	(87)	-	(216)	(216)	54	-	(162)
Natural resource assets	17,734	6,532	-	24,266	24,266	(8,564)	-	15,702
Employee provisions	(1,602)	(422)	-	(2,024)	(2,024)	266	-	(1,758)
Share farm annuities	(6,292)	(590)	-	(6,882)	(6,882)	(1,826)	-	(8,708)
Auditing fees provision	(30)	1	-	(29)	(29)	30	-	1
Provision for embedded derivatives	(543)	543	-	-	-	-	-	-
Deferred rental provision	(2,171)	200	-	(1,971)	(1,971)	1,971	-	-
Restoration provision	(1,845)	(155)	-	(2,000)	(2,000)	859	-	(1,141)
Deferred income	(24)	-	-	(24)	(24)	(5,024)	-	(5,048)
Incentive payments provision	(7,518)	(856)	-	(8,374)	(8,374)	1,413	-	(6,961)
Reserves	3,016	(1)	395	3,410	3,410	(1)	(143)	3,266
Tax value of loss carry-forwards recognised	-	(4,874)	-	(4,874)	(4,874)	2,321	-	(2,553)
Net tax (assets) / liabilities	(1,522)	808	395	(319)	(319)	(10,434)	(143)	(10,896)
Provision for taxation								
Opening							8,142	8,982
Provision raised / (reversed)							(1,349)	(840)
Tax Paid							-	-
Closing							6,793	8,142

43.0 Remuneration of members of the Accountable Authority and Senior Officers

43.1 Remuneration of members of the Accountable Authority

The number of Members of the Accountable Authority (Commissioners) whose total of fees, salaries, superannuation¹, travel and other benefits received, or which are due and receivable, for the financial year which fall within the following bands, is as follows:

\$	2010	2009
0 - 10,000	2	
20,000 - 30,000	3	6
30,000 - 40,000	1	
50,000 - 60,000		1
60,000 - 70,000	1	
	7	7
Total remuneration of Members of the Accountable Authority for the financial period was	167,966	203,867
Remuneration of Members of the Accountable Authority was comprised of:		
Short-term employee benefits	153,176	175,101
Allowances	1,004	13,007
Post employment benefits (defined contribution funds)	13,786	15,759
	167,966	203,867

¹ No member of the Accountable Authority is a member of the Pension Scheme.

43.2 Remuneration of Senior Officers

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

\$	2010	2009
10,000 - 80,000	1	-
130,001 - 140,000	1	1
140,001 - 150,000	1	2
150,001 - 160,000	1	
230,001 - 240,000	1	1
	5	4
Total remuneration of Senior Officers for the financial period was	738,263	666,219
Remuneration of Senior Officers was comprised of:		
Short-term employee benefits	635,424	574,983
Allowances	73,283	66,828
Post employment benefits	29,556	24,408
	738,263	666,219

44.0 Related/affiliated bodies

44.1 Related bodies

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

44.2 Affiliated bodies

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

The Commission has one affiliated body - a joint venture arrangement with the University of Western Australia, refer note 24.

The joint venture manages the operations of a timber research program and associated facilities located within the Faculty of Architecture, Landscape and Visual Arts (ALVA) at the University of Western Australia (UWA). It is intended that the Joint Venture will provide opportunities for collaborative research, sharing of facilities and enhanced use of the ALVA premises and amenities. Refer note 21 for details of financial transactions.

45.0 Remuneration of auditor

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

	2010	2009
	\$000	\$000
Auditing the accounts, financial statements and performance indicators	100	100
Provision for remuneration of auditor		
Opening balance	98	100
Payments made during the period	(171)	(163)
Amounts provided during the period	173	161
Closing balance	100	98

46.0 Supplementary financial information

	2010	2009
	\$000	\$000

46.1 Write-offs

Debtors	45	-
Total	45	-

46.2 Losses through theft, defaults and other causes

Losses through theft, defaults and other causes	-	-
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46.3 Gifts of public property

Gifts of public property	-	-
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47.0 Segment Information

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

Main operating segments:

- South West Forest - Responsible for harvesting and regeneration activities associated with Native Forest other than Sandalwood.
- Arid Forest - Responsible for harvesting and regeneration activities associated with Sandalwood and other arid timbers.
- Plant Propagation Centre - Responsible for seed orchard production, collection of seed from the wild and production of seedlings to meet internal and external demand.
- New Plantations (Maintenance) - This sector is responsible for maintenance of plantations in the low rainfall zone. The objective of this arm of the Commission is to maintain establishments that sustain and develop the timber industry; ameliorate salinity and address soil degradation.
- Mature Plantations - Responsible for all harvesting, replanting and maintenance of the Commission's mature estate plantations.
- New Plantations (Investment) - This sector is responsible for Establishment of plantations in the low rainfall zone. The objective of this arm of the Commission is to produce timber to sustain the timber industry, to ameliorate salinity and address soil degradation.

Support services:

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

	2010									
	South West Forest	Arid Forest	Plant Propagation Centre	New Plantations (Maintenance)	Mature Plantations	Corporate & Support Services	New Plantations (Investment)	Capitalisation	Eliminations	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Revenue										
External Segment Revenues	36,162	15,825	786	557	51,904	5,338	5,507	-	-	-
Inter-Segment Sales	-	-	3,992	4	-	-	-	-	(3,996)	-
Total Revenue	36,162	15,825	4,778	561	51,904	5,338	5,507	-	(3,996)	116,079
Expenses										
Employee Expenses	(3,373)	(643)	(2,667)	(1,788)	(1,992)	(10,219)	(1,343)	1,343	-	-
External Segment Expenses	(24,917)	(11,730)	(4,480)	(18,429)	(39,434)	(7,724)	9,683	4,164	3,996	(88,871)
Interest	-	-	-	-	(2,239)	-	(3,359)	-	-	(5,598)
Total Expenses	(28,290)	(12,373)	(7,147)	(20,217)	(43,665)	(17,943)	4,981	5,507	3,996	(115,151)
Natural Resource Asset Valuation Increment (Decrement)	2,914	13,368	-	(26,458)	54	-	-	-	-	(10,122)
Onerous Contracts	-	-	-	-	-	-	(13,856)	-	-	(13,856)
Profit (loss) before Tax	10,786	16,820	(2,369)	(46,114)	8,293	(12,605)	(3,368)	5,507	-	(23,050)
Allocation of Income Tax	(3,236)	(5,046)	711	13,834	(2,488)	8,008	-	-	-	11,783
Profit for the period	7,550	11,774	(1,658)	(32,280)	5,805	(4,597)	(3,368)	5,507	-	(11,267)
Total Segment Assets	112,150	52,158	11,196	1,270	165,002	83,245	21,844	-	-	446,865

	2009									
	South West Forest	Arid Forest	Plant Propagation Centre	New Plantations (Maintenance)	Mature Plantations	Corporate & Support Services	New Plantations (Investment)	Capitalisation	Eliminations	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Revenue										
External Segment Revenues	43,574	11,445	1,259	821	50,939	8,540	12,619	-	-	129,197
Inter-Segment Sales	-	-	4,199	50	-	-	-	-	(4,249)	-
Total Revenue	43,574	11,445	5,458	871	50,939	8,540	12,619	-	(4,249)	129,197
Expenses										
Employee Expenses	(3,738)	(620)	(3,658)	(1,666)	(2,061)	(10,008)	(2,548)	2,548	-	(21,751)
External Segment Expenses	(35,047)	(7,946)	(2,971)	(5,713)	(48,909)	(10,234)	(13,083)	13,074	4,249	(106,580)
Interest	-	-	-	-	(2,082)	-	(3,122)	-	-	(5,204)
Total Expenses	(38,785)	(8,566)	(6,629)	(7,379)	(53,052)	(20,242)	(18,753)	15,622	4,249	(133,535)
Natural Resource Asset Valuation Increment (Decrement)	(906)	1,323	-	(9,012)	13,461	1	-	-	-	4,867
Profit (loss) before Tax	3,883	4,202	(1,171)	(15,520)	11,348	(11,701)	(6,134)	15,622	-	529
Allocation of Income Tax	(1,165)	(1,261)	351	4,656	(3,405)	855	-	-	-	32
Profit for the period	2,718	2,941	(820)	(10,864)	7,944	(10,846)	(6,134)	15,622	-	561
Total Segment Assets	109,227	39,111	14,028	1,297	176,015	81,431	54,671	-	-	475,780

48.0 Change of accounting policy

There has been no change of accounting policy for 2010.

49.0 Additional information

Domicile and legal form:

The Forest Products Commission is a Government Trading Enterprise domiciled in Western Australia.

Principal office:

Level 1, 117 Great Eastern Highway, Rivervale, Perth, Western Australia, Australia

Operations and principal activities:

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

Parent entity:

Government of Western Australia.

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Appendix 1 - Trends in the area of Native Forest harvested (hectares)

Year	Jarrah forest	Mixed jarrah/ karri forest	Jarrah/wandoo forest	Karri forest	
				Clearfelled or partially cut	Thinned
1976-77	32,320		1,170	2,610	
1977-78	26,020		740	4,450	
1978-79	25,540		530	2,710	
1979-80	25,150		860	2,110	60
1980-81	22,930		1,440	2,080	180
1981-82	24,680		610	2,180	320
1982-83	23,740		330	990	190
1983-84	21,540		580	1,490	260
1984-85	20,010		1,440	2,360	500
1985-86	22,640		650	1,590	340
1986	19,340		1,150	1,090	490
1987	17,180		1,380	1,310	700
1988	23,400		490	1,180	840
1989	15,130		200	1,510	910
1990	12,960		100	1,560	340
1991	10,910			1,920	230
1992	13,990		30	1,540	310
1993	14,250		40	1,630	80
1994	14,050		50	1,440	
1995	17,830		30	2,410	
1996	22,320		50	1,300	60
1997	18,240		60	1,870	60
1998	19,250		60	1,970	320
1999	14,200		50	1,890	360
2000	20,570		10	1,310	70
2001	15,130*			1,380	120
2002	12,870*		30	700	350
2003	8,520*			720	485
2004	8,860*			330	920
2005	6,220*		30	460	1,070
2006	8,425*	33	308	363	1,127
2007	7,189*	16	59	547	999
2008	6,583*	36	0	347	661
2009	8,993*	94	0	650	921

Notes:

* figures do not include areas cleared for mining or utilities.

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

Appendix 2 - Area of Coniferous (pine) plantations as at 31 December 2009

Year	Commission Owned								Commission Managed		Grand Total
	Pinus radiata				Other Pine				1 st rotation starfarms		
	1 st Rotation		Subsequent		1 st Rotation		Subsequent		Pinus radiata	Other Pine	
	State	Sharefarms	State	Sharefarms	State	Sharefarms	State	Sharefarms			
Pre 1970	374	11	26		5,093	62	48			5,614	
1970	61	19			1,068		19			1,167	
1971	146		1		721					868	
1972	256	7			582					845	
1973	56		18		487		3			563	
1974	319				275					594	
1975	337				1,177					1,514	
1976	287		5		1,101		1			1,393	
1977	322		30		844					1,196	
1978	498		8		195					701	
1979	660	2	16		39					716	
1980	1,461				613					2,074	
1981	1,321		109		724		12			2,166	
1982	1,295		125		428		5			1,853	
1983	1,099		36		583					1,718	
1984	1,714		3		497		9			2,222	
1985	1,596	40	121		476		2			2,235	
1986	878	167	10		417					1,473	
1987	659	586	144		579					1,968	
1988	424	1,142	121	1	163					1,852	
1989	545	355	405	23	22		22			1,371	
1990	137	596	328				16			1,077	
1991	58	909	507		4		17			1,495	
1992	10	1,721	477				329			2,536	
1993		661	1,011		134	5	303			2,114	
1994	143	420	523				387			1,473	
1995	25	95	981			278	136			1,516	
1996	14	9	1,075		160	507	31			1,798	
1997	64	2	1,001			1,186	166		17	2,436	
1998	15	75	79			1,494			305	1,968	
1999	29	67	772		6	2,152	197	39	20	3,626	
2000	5	161	896		28	3,837	13		20	5,217	
2001		0	832			2,993			1	4,150	
2002	38	177	597			641				209	1,662
2003		603	922	24		826	69			312	2,755
2004	27		1,163		433	609	138			132	2,501
2005	12	27	1,238		120	440	84			238	2,159
2006	4	49	1,501		47	1,454				97	3,152
2007	21		1,438			2,516	49			241	4,265
2008		551	1,627	9		1,244					3,431
2009		35	2,100	9		482	6				2,630
Grand Total	14,911	8,488	20,244	65	17,016	20,725	2,060	39	41	2,475	86,064

Appendix 3 - Area of broadleaved (eucalypt) plantations as at 31 December 2009 (hectares)

Year	Commission Owned				Grand Total
	E. globulus		Other eucalyptus		
	State	Sharefarms	State	Sharefarms	
Pre 1988	8		6551	1	6560
1988		3	10		13
1989		80	2		81
1990	20	7	24	23	74
1991	0		38		39
1992	6	184			190
1993		62	6		68
1994		8	2		9
1995	4				4
1996		4	6	3	13
1997	17			11	28
1998	24	39		6	69
1999			9	1	10
2000		55	29	2	85
2001		72		29	100
2002		27	1	474	502
2003	13	30	26	287	357
2004		172	145	539	856
2005			34	219	252
2006		5	14	1,051	1,070
2007	3		16	1,145	1,163
2008				624	624
2009	3	24		6,838	6,866
Grand Total	97	772	6,912	11,253	19,033

Appendix 4 - Area of sandalwood plantations (hectares) as at 31 December 2009

Year	Commission Owned		Commission Managed		Grand Total
	State	Sharefarms	State	Sharefarms	
1997		5			5
1998				19	19
2000		24			24
2001		48			48
2002		65		11	76
2003	3	59		22	84
2004	35	127		4	166
2005	39	174			212
2006	22	508		1	531
2007	46	1,517			1,563
2008		2,707			2,707
2009		647			647
Grand Total	146	5,879	0	58	6,083

Appendix 5 - Log production from Crown land and private property

Product type	Crown land		Private property		Total	
	m ³	tonnes	m ³	tonnes	m ³	tonnes
Sawlog timber						
Jarrah	134,191	175,582			134,191	175,582
Karri	49,625	61,533			49,625	61,533
Marri	11,202	13,892			11,202	13,892
Blackbutt	1,593	1,988			1,593	1,988
Wandoo	138	181			138	181
Sheoak	1,233	1,233			1,233	1,233
Other	21	26			21	26
Total native forest sawlogs	198,003	254,435			198,003	254,435
Marri	28	33			28	33
Yellow Stringybark	154	203			154	203
Tuart	22	26			22	26
Muellerana	1,017	1,210			1,017	1,210
Total plantation hardwood sawlogs	1,221	1,472			1,221	1,472

Product type	Crown land		Private property		Total	
	m ³	tonnes	m ³	tonnes	m ³	tonnes
Pinaster	130,569	130,569	195	195	130,764	130,764
Radiata	436,666	436,666	3,126	3,126	439,792	439,792
Plantation softwood sawlogs and veneer logs	567,235	567,235	3,321	3,321	570,556	570,556
Total sawlogs	766,459	823,142	3,321	3,321	769,780	826,463

Other log material

Native forests

Chiplogs	121,200	144,806			121,200	144,806
Firewood/charcoal logs	112,004	129,730			112,004	129,730
Sandalwood	2,571	2,571			2,571	2,571
other *	4,077	5,024			4,077	5,024
Sub-total native forest other	239,852	282,131			239,852	282,131

Plantation hardwood

Chiplogs **			123	152	123	152
Firewood/charcoal logs	673	673			673	673
other *			7	8	7	8
Sub-total hardwood plantation other	673	673	130	160	803	833

Plantation softwood

Industrial wood	224,548	224,581	68,077	68,593	292,625	293,174
Woodchips	6,926	6,996	40	40	6,966	7,036
Other	17,120	17,120	6,437	6,437	23,557	23,557
Pine rounds	14,810	14,810	319	319	15,129	15,129
Sub-total plantation softwood other	263,404	263,507	74,873	75,389	338,277	338,896

Total other material

	503,929	546,311	75,003	75,549	578,932	621,860
TOTAL LOG TIMBER	1,270,388	1,369,453	78,324	78,870	1,348,712	1,448,323

Includes logs from Crown land sold under Minor Production contracts.

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

** Includes woodchips.

Appendix 6 - Native forest sawlog production 2009 – 2010

Species	High quality sawlogs	1st & 2nd grade sawlogs	Bole sawlogs	Other sawlogs	Total
	m ³	m ³	m ³	m ³	m ³
Jarrah	633	53,534	68,924	11,100	134,191
Karri	104	46,648		2,873	49,625
Marri	506			10,696	11,202
Other species	543	181	156	2,105	2,985
Total	1,786	100,363	69,080	26,774	198,003

Species	tonnes	tonnes	tonnes	tonnes	tonnes
Jarrah	786	70,397	90,635	13,764	175,582
Karri	128	57,843		3,562	61,533
Marri	628			13,264	13,892
Other species	647	237	205	2,339	3,428
Total	2,189	128,477	90,840	32,929	254,435

Includes logs from Crown land sold under Minor Production contracts

Appendix 7 - Native forest chiplog production

Species	2007/08		2008/09		2009/10	
	m ³	tonnes	m ³	tonnes	m ³	tonnes
Marri	3,973	4,905	5,349	6,627	1,977	2,435
Karri	137,626	163,493	147,459	174,892	113,891	136,133
Other	27,246	31,878	14,997	17,547	5,332	6,238
Total	168,845	200,276	167,805	199,066	121,200	144,806

Appendix 8 - Native forest fuelwood production

Product type	2007/08	2008/09	2009/10
	(tonnes)	(tonnes)	(tonnes)
Firewood logs	47,998	67,366	62,087
Charcoal logs	84,004	91,188	67,643
Total	132,002	158,554	129,730

Appendix 9 - Sandalwood production from Crown land

Product type	2007/08	2008/09	2009/10
	tonnes	tonnes	tonnes
Green (excl. roots & 3 rd grade)	1,008	1,261	1,239
Roots	193	232	242
3 rd grade green	185	249	304
Dead	656	599	786
Total	2,042	2,341	2,571



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