

# Economic Review

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## Economic Review

### FINANCIAL PERFORMANCE

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

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

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


 Economic Review *cont'd*
**FINANCIAL OVERVIEW**

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



## Economic Review *cont'd*

### **Natural resource asset valuations**

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

### **Debt to Equity**

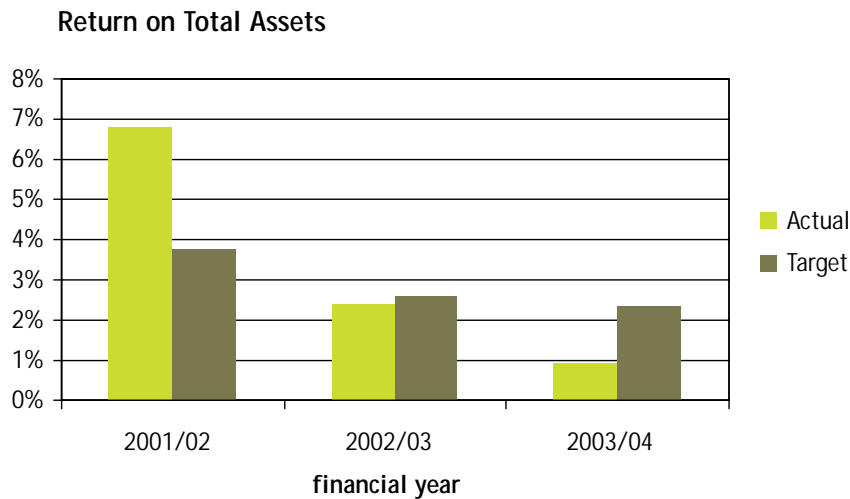
The ratio of debt to equity has increased by 3.2 per cent over the 2002/03 financial year to 32 per cent due new borrowings of \$9 million in the year to fund \$3.3 million investment in land and \$4.4 million in new plantations. The debt to equity ratio continues to be adversely affected by interest-bearing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

Economic Review *cont'd*

**PERFORMANCE INDICATORS**

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

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

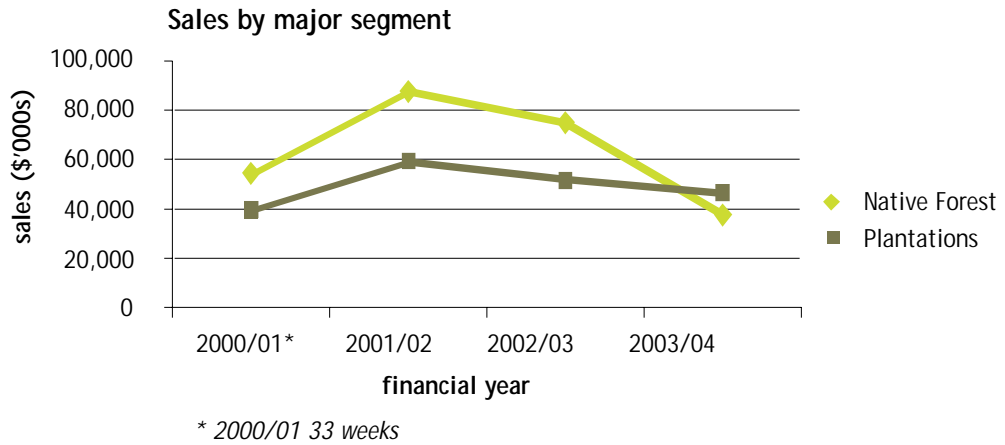


The ratio of Profit Before Interest and Tax to Total Assets is exclusive of the financial effect of Self Generating And Regenerating Assets (SGARA) valuations. The ratio's decrease over the three financial years reflects the effect on the Commission's profit of reductions in Native Forest harvesting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

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

Audited key performance indicator

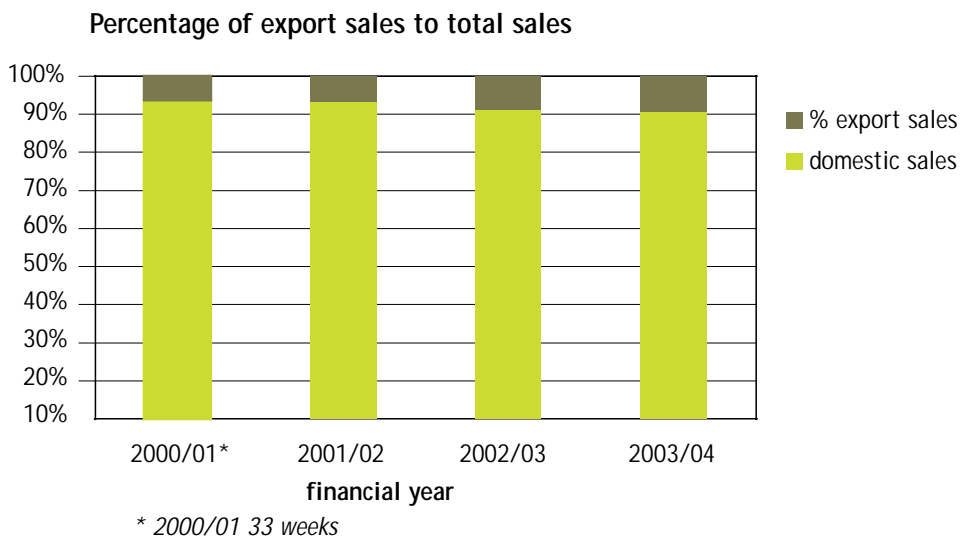
Economic Review *cont'd*



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

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

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

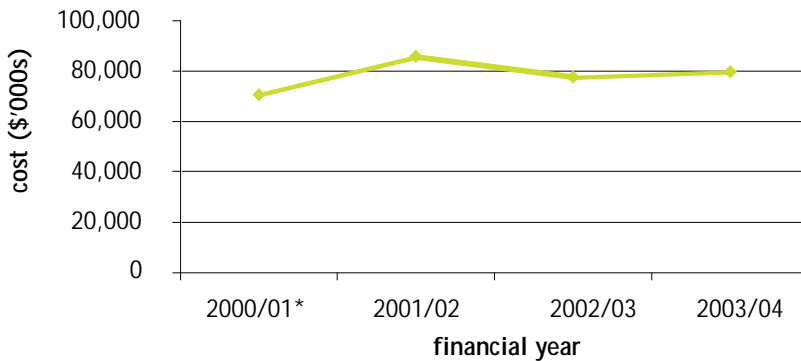


The Commission ensures a maximum amount possible of its products are utilised for value adding purposes in the local market. Product is exported where there is insufficient demand in the local market or where returns to the State for export products well exceed the potential returns to the State for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

Economic Review *cont'd*

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

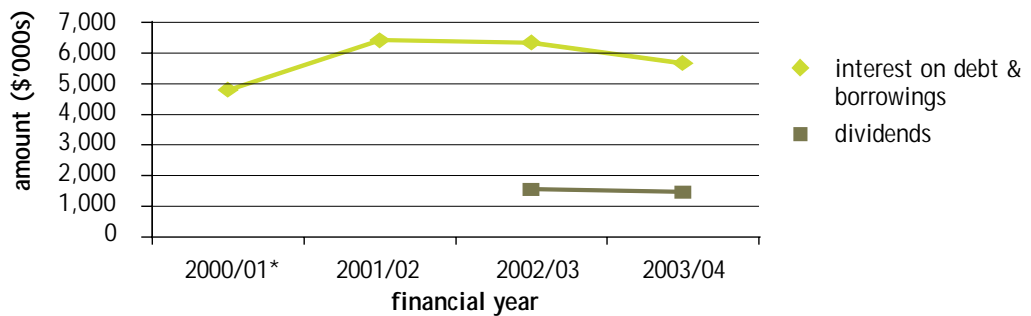
**Cost of all goods, materials & services purchased**



\* 2000/01 33 weeks

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

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



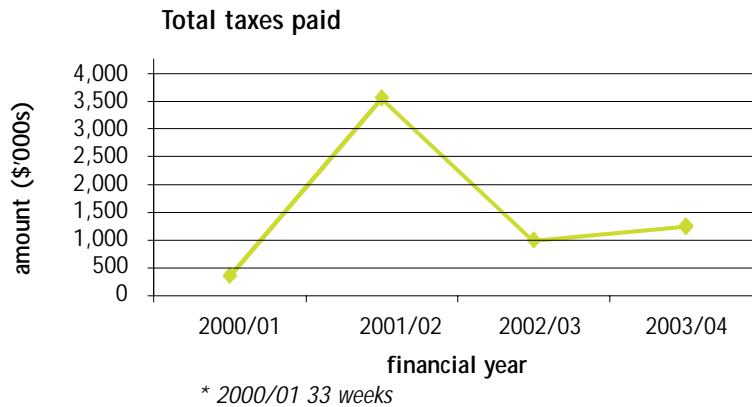
\* 2000/01 33 weeks

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

Economic Review *cont'd*



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



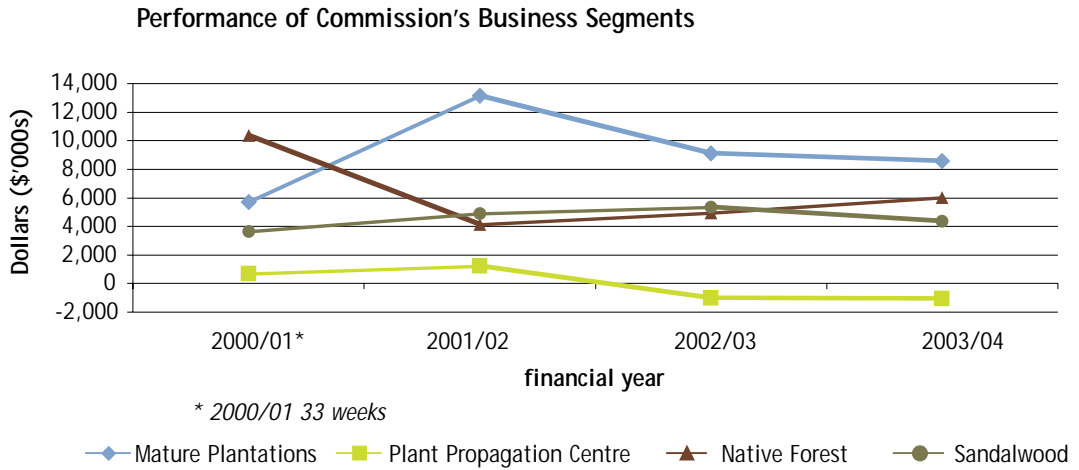
The Commission paid \$1.3 million in taxes this financial year, made up of the following:

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

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

Economic Review *cont'd*

Profit from Operations ◇



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

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

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

Economic Review *cont'd*

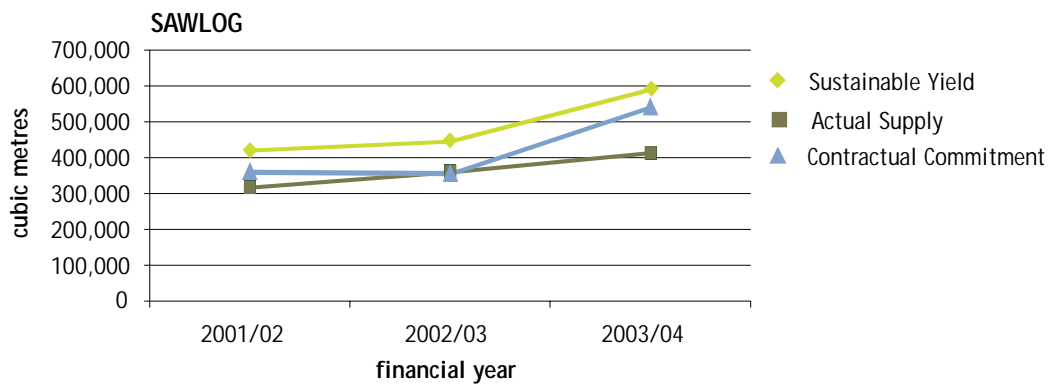
**PLANTATION LOG PRODUCTION IS CONSISTENT WITH CONTRACTED LEVELS OF SUPPLY TO INDUSTRY.**

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

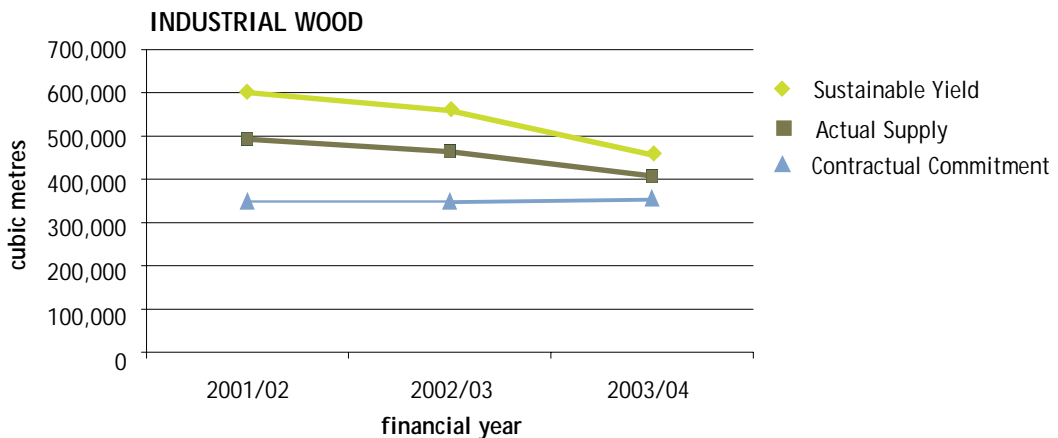
Contractual supply levels indicate the current commitments. Log production to each customer varies on an annual basis in accordance with the prevailing market conditions for their products.

**Measure:**

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



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



Audited key performance indicator

## Economic Review *cont'd*

### NATIVE FOREST OPERATIONS

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

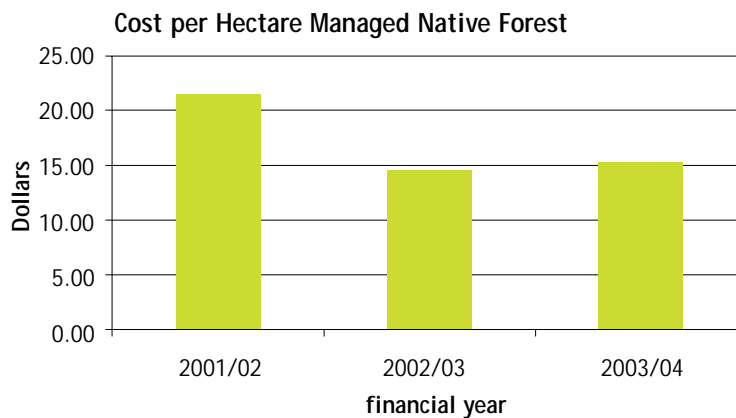
#### 1. COST OF HARVESTING - NATIVE FOREST HARDWOOD

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

##### Measure:

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

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



Economic Review *cont'd*

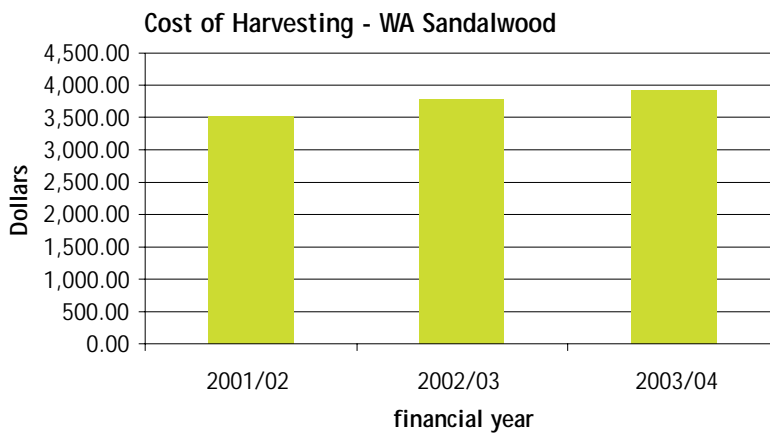
**2. COST OF HARVESTING - WA SANDALWOOD**

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

**Measure:**

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

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



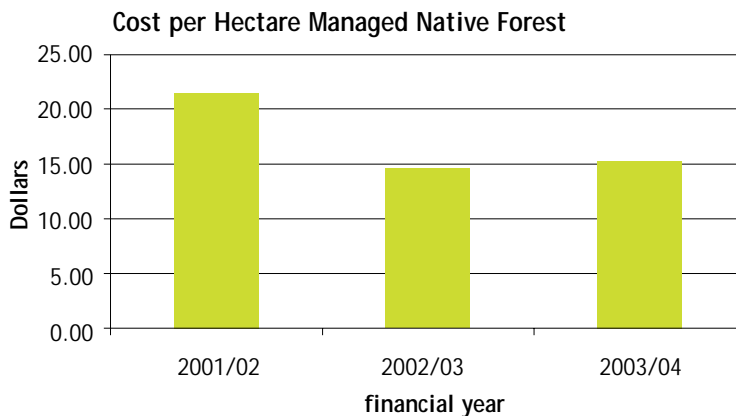
**3. SILVICULTURAL COST PER HECTARE MANAGED OF NATIVE FOREST**

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

**Measure:**

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

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



Audited key performance indicator

## Economic Review *cont'd*

### PLANTATION OPERATIONS

The Plantation Operations has three main operating arms:

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

The outputs of this division are:

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

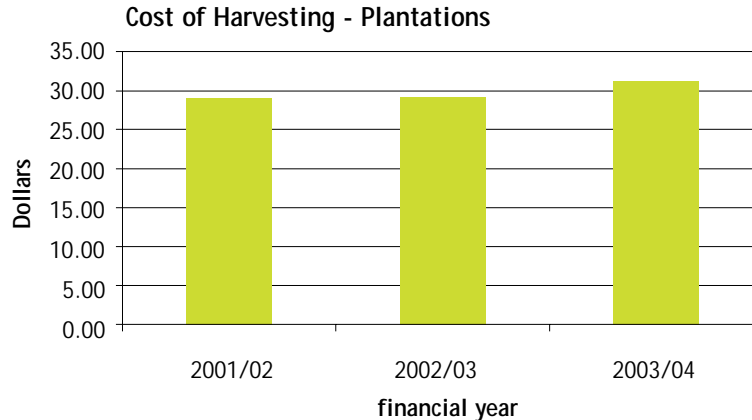
#### 1. COST OF HARVESTING

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

Measure:

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

The increase is mainly due to product mix.



Audited key performance indicator

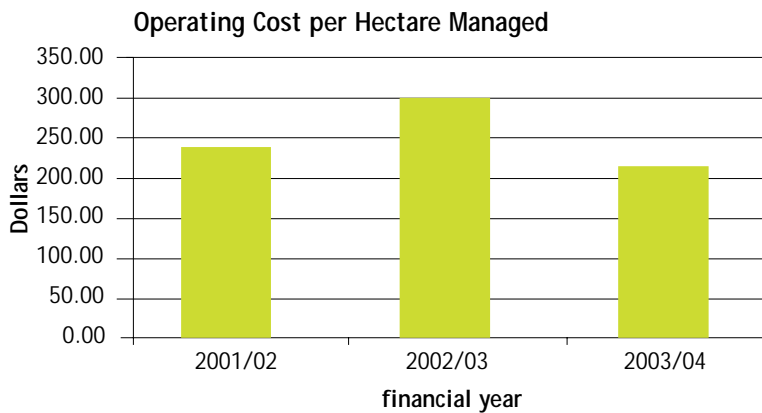
Economic Review *cont'd*

**2. OPERATING COST PER HECTARE MANAGED**

**Measure:**

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

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



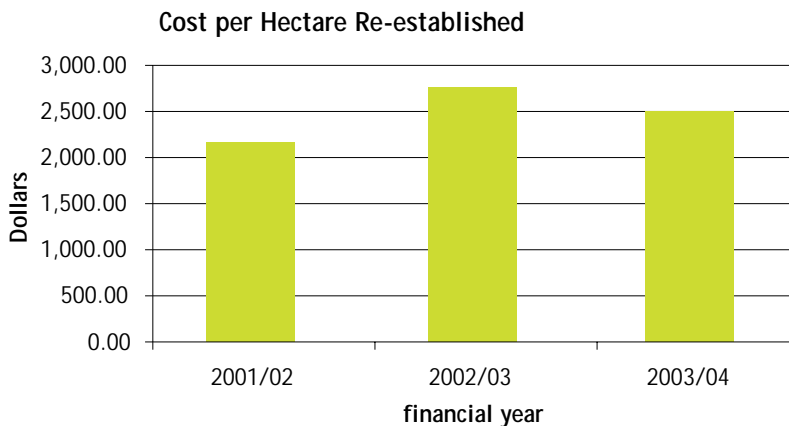
**3. COST PER HECTARE RE-ESTABLISHED**

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

**Measure:**

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

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



Audited key performance indicator



## Economic Review *cont'd*

### EXTERNAL INVESTMENT ◇

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

### PROPORTION OF AREA OF PLANTATION ESTATE PRIVATELY FUNDED ◇

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

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

### INDUSTRY DEVELOPMENT ◇

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

### RESEARCH AND DEVELOPMENT ◇

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

◇ SCI Indicator