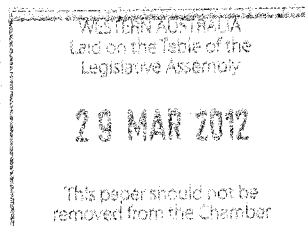


4661

FOREST PRODUCTS COMMISSION OF WESTERN AUSTRALIA

HALF YEAR REPORT

31 DECEMBER 2011



Forest
Products
Commission
WESTERN AUSTRALIA

Contents

1.	Introduction	3
2.	Financial Overview	3
3.	Future Directions	3
4.	Highlights for the Half Year	4
5.	Progress against initiatives in the 2011/12 Statement of Corporate Intent	5
	5.1 South West Native Forests.....	6
	5.2 Plantations.....	6
	5.3 Sandalwood.....	8
	5.4 Sharefarms.....	8
6.	Financial Performance	9
	6.1 Profit and Loss Statement.....	9
	6.2 Balance Sheet.....	9
	6.3 Cash Flow Statement.....	10

1. Introduction

The report provides an overview of the performance of the Forest Products Commission (FPC) for the six months to 31 December 2011 as measured against the objectives outlined in FPC's *2011/12 Statement of Corporate Intent (SCI)*.

This Half Year Report has been prepared in compliance with s.19 of the *Forest Products Act 2000*.

2. Financial Overview

The first half of this financial year has seen an improved financial performance compared to the same period last year. In particular harvest revenues and fixed expenses are comparable. The improvement is largely due to the restructuring programme which has resulted in a significant reduction in Employee Expenses.

Whilst the YTD Net Profit after Tax financial position is under budget, the forecast for 30 June 2012 is for a better than budget (SCI) result. This is due to expectations that the second half of the year will provide sales of timber products of a higher value proportion than in the first half of the year and an increase in sales of export woodchip.

The cash position as at 31 December 2011 is healthy at \$25.1 million and meets Government accountability targets. The operating cash component of this result is a highlight, reporting a positive cash result of \$8.4 million, which compared to last year's comparative position of an operating cash deficit of \$3.0 million, is a turnaround of \$11.4 million.

The forecast closing cash position for 30 June 2012 of \$13.9 million includes allowance for the payment of:

- tax of \$5.9 million;
- a dividend of \$1.5 million; and
- unbudgeted costs of \$1.5 million for debt payout finalisation expenses.

3. Future Directions

In January 2010, the Government determined that the key objective of FPC was the financial and environmental sustainability of its core businesses in south west native forests, plantations and sandalwood.

The restructure of the agency is now largely complete. The FPC will continue to focus on consolidating its financial position and operating on sound commercial principles to ensure that FPC is financially sustainable in the future.

The FPC, however, operates within an environment that is influenced by a number of internal and external factors. A key factor which is impacting on the FPC is the record low rainfall and high temperatures from 2008 to 2010. The Plantations business has been particularly affected and there has been recent need for salvage operations to recover dead or dying trees. FPC is undertaking work to understand the impact of the drought and to develop future mitigation strategies. The FPC has actively sought additional markets and negotiated alternative pricing arrangements with existing customers for drought affected resource. This has assisted increase overall returns, expedite salvage operations and maximise the value of degrading resource. Whilst this is expected to increase revenue from plantation timber sales in the short term, there is likely to be a negative impact on FPC's future revenue streams.

Another key factor which will impact on the FPC is the uncertainty over resource access for native timber and the environmental procedures associated with harvesting and regeneration under the next Forest Management Plan (FMP). The current FMP expires in December 2013 which makes it difficult for existing industry participants to undertake any long-term investment when supply cannot be guaranteed beyond 2013.

The FPC is continuing to develop new industries for the large volume of additional resource that is available from its native forest operations and has recently advertised for Expressions Of Interest (EOI) to assist identify industry development opportunities.

4. Highlights for the Half Year

Significant highlights for the first half of the financial year are:

- Successful co-location of FPC's head office at the Department of Agriculture and Food's (DAFWA) Kensington facility.
- Advertised for Expression of Interest (EOI) to develop new industries to develop large volume of additional resource left following native forest harvesting operations.
- Increased sales of jarrah residue from Alcoa mine clearing operations.
- Auswest purchased Gunns' Deanmill sawmilling operations, which has led to increased jarrah sawlog deliveries.
- Brookfield Rail confirmed significant sleeper orders with South West sawmillers leading to increased demand for low grade logs and assisting in improving industry viability.
- Successful in recertification for FPC's Australian Forestry Standard (AFS) accreditation and for continued compliance to the ISO 14001 standard for Environmental Management Systems (EMS).

5. Progress against initiatives in the 2011/12 Statement of Corporate Intent

There are two long-term goals for FPC. They are:

- *business units are profitable, viable and sustainable; and*
- *state's timber assets are administered in accordance with ecologically sustainable forest management principles.*

There are two corporate objectives for the organisation. They are:

- Objective 1: Profitable Business Units.
Objective 2: Complete the restructure of the FPC.

Since January 2010, the FPC has undergone a significant organisational and financial restructure. This has culminated in a sharper focus on each of the three core business activities of south west native forests, plantations and sandalwood to ensure that each unit is profitable, viable and sustainable.

FPC will continue to work on optimising its operations through the development of markets for under-utilised portions of the timber resource, improving the efficiency of sawlog harvesting and haulage and improving the financial viability of the FPC.

5.1 South West Native Forests

The South West Native Forests business unit is responsible for the management, harvest and delivery of native forest hardwoods (jarrah, karri and marri) to mills and processing plants in the South West of Western Australia.

Table 1: Summary of Forecast Outcomes for South West Native Forests

Key initiatives as shown in the Statement of Corporate Intent 2011/12	Progress to date
Undertake a review of native timber policy and the Forest Management Plan.	The process for the preparation of the Forest Management Plan commenced in mid-2011. The Department of Environment and Conservation are leading the preparation of the Plan and FPC is providing input and being consulted on key issues. An Expression of Interest (EOI) has been advertised to inform the future options for the development of the industry. A consultancy is now underway to review options for the development of a native forest policy and strategy.
Review timber sales contracts.	The FPC is working with the sawmill sector to align the quantity and quality of log resource to specific mill and market requirements. Work is underway to rationalise the number of contracts and end inactive contracts.
Maximise utilisation of the resource.	The FPC has widely promoted an EOI for up to 800,000 tonnes of low grade native hardwood resource. A range of proposals and uses for this resource are expected to be received mid-2012.
Evaluate log production processes with a view to greater operational and regulatory efficiency.	The FPC is working with DEC to improve governance arrangements to achieve greater efficiency and transparency under the 2014 FMP. Evaluation is being undertaken to determine whether the introduction of back-loading of resource may help to improve efficiencies and lower costs.
Increase the take-up of jarrah residue from mining operations.	Production of jarrah residue from mining operations increased by approximately 30,000 tonnes. The EOI has the potential to identify new and additional markets for residues off mine sites.
Maintain and enhance AFS and EMS accreditation.	There was an AFS/EMS recertification audit in 2011. FPC has retained its accreditation.

5.2 Plantations

The Plantations business unit is responsible for the management, harvest and delivery of State owned and/or managed pine plantation resources mainly to major sawmill and processing plants predominantly in Bunbury and Perth.

Table 2: Summary of Forecast Outcomes for Plantations

Key initiatives as shown in the Statement of Corporate Intent 2011/12	Progress to date
Undertake an inventory to ensure that resource supply meets contractual obligations.	The Mid Rotation Inventory (MRI) for the Central Forest Region was completed by November 2011, with the results of the inventory to be finalised by mid-March 2012. The Swan Region inventory is currently underway. The results will be finalised by 30 June 2012.
Implement improved fertiliser and thinning programs to optimise plantation growth.	The rate of fertiliser requirement is growing as the first thinning program increases. The standard application rate was applied. The area to be fertilised in FY 2011/12 has been limited due to the effects of drought.
Conduct review of harvester and haulage contracts.	All harvesting and haulage contracts will be tendered with no carryovers of existing contracts beyond December 2012. The FPC has begun preparatory work for the tenders – with analysis on the volumes, contractor requirements and value for money being undertaken. The tenders will be called by end of the financial year.
Develop a plan for Mid West (and other) plantations to minimise drought risk.	Tenders for thinning programs were successfully completed. Priority works have commenced, and approximately 25 per cent of the program is completed.
Enhance AFS accreditation.	There was an AFS/EMS audit in 2011. FPC has retained its accreditation.

5.3 Sandalwood

The Sandalwood business unit is responsible for the management, harvest and delivery of wild sandalwood from the Goldfields and Murchison regions to customers in the South West and for export.

Table 3: Summary of Forecast Outcomes for Sandalwood

Key initiatives as shown in the Statement of Corporate Intent 2011/12	Progress to date
Full implementation of sandalwood regeneration plan.	Implementation of the regeneration plan is progressing according to plan. For the six month period to 31 December 2011 165,000 germinants have been produced indicating that the methods applied are functional.
Increase the volume of 'dead' sandalwood collected.	The target for the six month period was 25 tonnes. Approximately 107 tonnes of "dead" sandalwood was produced for this period with the participation of pastoralists (private treaty contracts).
Continue stakeholder engagement with pastoralists to access sandalwood resources.	The FPC continues to engage with relevant stakeholders in pastoral lands regarding access to sandalwood as and when required.

5.4 Sharefarms

FPC has ceased to be actively involved in expanding its new plantation activities. The total sharefarm estate is approximately 42,600 hectares (ha) and is made up of 24,000 ha to be retained by FPC and 18,600 ha which may be divested.

The FPC has attempted to divest the 'exit' estate through a public sale process. The two Requests for Tender (RFT) held in January and August 2011 resulted in bids that were non-conforming bids or were substantially below the cost of establishing the plantations. It is unlikely that FPC will sell the 'exit' estate at a commercial rate in the foreseeable future.

Table 4: Summary of Proposed Outcomes for Closing Sharefarm Activities

Key initiatives as shown in the Statement of Corporate Intent 2011/12	Progress to date
Complete the sale of the 'exit' sharefarm estate through tender process.	The FPC has attempted to divest the 'exit' sharefarm estate through two public sale processes but has been unsuccessful.
Progress various alternatives to negotiate exit strategies with sharefarm landowners where the estate cannot be sold.	The FPC will continue to maintain the 'exit' sharefarm estate.
Develop options for the FPC's future seed and seedling requirements, including future alternatives for the FPC's Manjimup Nursery.	FPC will retain the West Manjimup Nursery and Seed Centre to support core business associated with plantation establishment, and native forest (including sandalwood) regeneration.

6. Financial Performance

6.1 Profit and Loss Statement

Millions	6 Months to 31 December		12 Months to 30 June	
	2011 Actual	2010 Actual	2012 Forecast	2012 SCI
Revenue:				
- Harvest Revenues	50.9	50.0	107.5	100.3
- Production and Delivery Expenses	(28.0)	(27.2)	(60.5)	(54.0)
Gross Margin	22.9	22.8	47.0	46.3
Other Revenues	1.3	2.1	1.4	0.8
Less Expenses:				
- Direct Forest Management Expenses	(4.5)	(4.9)	(10.6)	(11.4)
- Employee Expenses	(9.9)	(10.3)	(18.5)	(17.4)
- Restructuring Costs	-	(0.8)	-	-
- DEC Expenses	(4.8)	(4.7)	(12.5)	(11.5)
- Fixed Expenses	(3.2)	(3.6)	(7.8)	(7.7)
- Interest Expenses	(1.1)	(3.6)	(0.7)	-
Profit before Capitalisation and Other Non Cash Items	0.7	(3.0)	(1.7)	(0.9)
Capitalisation (Second Rotation and STF)	0.8	1.3	5.9	3.7
Other Non Cash Items	(0.7)	(1.2)	3.1	(0.9)
Operating Profit	0.8	(2.9)	7.3	1.9
NRA Adjustment	-	0.4	(4.8)	-
Nominal Tax	(0.3)	0.4	(0.2)	(0.6)
Net Profit After Tax (NPAT)	0.6	(2.1)	2.3	1.3

6.2 Balance Sheet

Millions	6 Months to 31 December		12 Months to 30 June	
	2011 Actual	2010 Actual	2012 Forecast	2012 SCI Plan
Current Assets	49.9	45.8	43.1	43.1
Other Non Current	6.9	26.0	7.2	7.2
Plant property and equipment	22.3	22.6	21.9	21.9
Natural Resource Assets	345.2	331.6	324.1	324.1
Carbon Asset	-	13.5	-	-
Total Assets	424.3	439.5	396.3	396.3
Current Liabilities	(21.5)	(25.4)	(19.5)	(19.5)
Provisions	(4.0)	(5.6)	(2.8)	(2.8)
Contracted Obligations	(62.2)	(61.0)	(46.2)	(46.2)
State Borrowings	-	(85.2)	-	-
Total Liabilities	(87.7)	(177.2)	(68.5)	(68.5)
Equity	(336.5)	(262.3)	(327.8)	(327.8)
Total Liabilities and Equity	(424.3)	(439.5)	(396.3)	(396.3)

6.3 Cash Flow Statement

Millions	6 Months to 31 December		12 Months to 30 June	
	2011 <i>Actual</i>	2010 <i>Actual</i>	2012 <i>Forecast</i>	2012 <i>SCI Plan</i>
Net Cash flow from:				
Operating activities (adjusted EBITDA)	8.4	(0.8)	1.7	(1.5)
Investing activities				
- Other Capital works	(1.0)	(0.8)	(3.9)	(5.5)
Financing activities				
- Laminex Prepaid Logs	0.3	-	1.0	1.0
- Equity Injection (Restructure)	-	-	1.1	7.2
- Debt Interest and Principal	-	(4.6)	(1.5)	-
- Interest Revenue	0.1	0.2	0.8	0.4
Other Items				
- Other Cash (Non-Recurring Item - WPC)	-	-	4.9	-
- Dividends	-	-	(1.5)	(1.5)
- Tax	-	-	(5.9)	(6.8)
Total Cash for period	7.8	(6.0)	(3.3)	(6.7)
Opening cash balance	17.2	25.8	17.2	17.2
Closing cash balance	25.0	19.8	13.9	10.5