

# **FOREST PRODUCTS COMMISSION OF WESTERN AUSTRALIA**

## **HALF YEAR REPORT**

**31 DECEMBER 2012**



## Contents

<b>1. Executive Summary .....</b>	<b>3</b>
<b>2. Introduction.....</b>	<b>4</b>
<b>3. Financial Overview .....</b>	<b>4</b>
<b>4. Future Directions .....</b>	<b>5</b>
<b>5. Highlights for the Half Year .....</b>	<b>6</b>
<b>6. Progress against initiatives in the 2012/13 Statement of Corporate Intent.....</b>	<b>8</b>
<b>7. Financial Performance.....</b>	<b>22</b>
7.1 Profit and Loss Statement.....	22
7.2 Balance Sheet .....	23
7.3 Cash Flow Statement.....	24

## 1. Executive Summary

The Forest Products Commission (FPC) has had a challenging start to the first half of the current financial year. The continued depressed housing market, high Australian dollar, illegal sandalwood trade and weather conditions affecting harvesting have had an adverse impact on the plantations, sandalwood and native forest industry.

At the same time however, stronger emphasis on reduced spending across fixed expenses, in particular administration, has allowed the FPC to maintain a better than expected Net Profit after Tax (NPAT) of \$2.1 million versus that projected in the SCI of \$1.3 million, to 31 December 2012.

This exceeds the half year budget target and is on track to complete the Statement of Corporate Intent (SCI) initiatives. Section 6 of this report provides a progress report against these initiatives.

The FPC's operating environment has some challenges to be addressed to ensure the long term viability of the forest products industry.

In the Native Forest industry the current markets are strong with available volumes of first and second grade logs under the current Forest Management Plan (FMP 2004-2013) being fully committed to customers in 2013. This reflects a significant improvement over previous years. The challenge for the industry is the ongoing supply of current volumes of timber and its availability within economically viable cartage distances. The FPC has serious concerns about the balance between environmental and industry outcomes in the FMP for 2014-23 and is submitting a separate report to the Minister for Forestry.

The Plantation industry continues to be impacted by a weak housing market and strong Australian dollar. Whilst there have been industry predictions of a recovery in housing starts, there are currently no indications confirming this view. Any recovery is likely to be slow and incremental continuing to make economic conditions difficult for FPC customers in this segment. FPC continues to monitor debt payment schedules closely.

The Sandalwood industry sector is being affected by the illegal harvest of Sandalwood. Not only does this lose significant revenue for the State it directly impacts on the sustainability of the industry. A review of the wild sandalwood industry has been conducted by the Legislative Council Committee with an Interim Report delivered before Parliament was prorogued. The introduction of the *Commonwealth Illegal Logging Prohibition Act 2012* will assist to deter illegal Sandalwood logging.

The current financial outlook for FPC is that with continued strong management and the absence of force majeure events, the Native Forest, Plantation and Sandalwood business units are forecast to continue to generate operating profits for FPC, enabling dividends to be paid to Government.

## 2. Introduction

The report provides an overview of the performance of the Forest Products Commission (FPC) for the six months to 31 December 2012 as measured against the objectives outlined in FPC's *2012/13 Statement of Corporate Intent (SCI)*.

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

## 3. Financial Overview

As indicated in the Executive Summary, the FPC has had a challenging start to the first half of the current financial year. The continued depressed housing market, high Australian dollar, illegal sandalwood trade and weather conditions affecting harvesting have had an adverse impact on the plantations, sandalwood and native forest industry.

Stronger emphasis on reduced spending across fixed expenses, in particular administration, has allowed the FPC to maintain a better than expected Net Profit after Tax (NPAT) of \$2.1 million versus that projected in the SCI of \$1.3 million, to 31 December 2012.

Delays in the winter/spring fertiliser program have also caused a lower than expected spend in direct forest management expenses (DFME). However, the SCI target cost is expected to be expended by the end of the financial year.

Revenues in the plantations sector are nearly \$4.5 million below levels seen at the same time last year. However the SCI had forecast reduced revenues due to difficult market conditions and subsequently returns are only \$800,000 below SCI expectations. The FPC will continue to monitor these conditions, but expects that with increased sales and stumpage price for particle board logs, the targeted gross profits should be achievable.

Lower than expected international sales in the sandalwood market are affecting the FPC's sandalwood revenue. This is affected by the lower priced illegal sandalwood that is seeping into the market. However, a short term suspension in the production of third grade product and lower harvesting costs has had a balancing effect on the overall gross profit targets for sandalwood to 31 December 2012. In addition, sales in high value products are offsetting reduced sales in lower value products. As this trend reverses during the year, revenues may decrease while costs are maintained, resulting in the potential for the FPC to miss SCI targets in this segment.

At the financial half year, the Native Forest segment is on par with SCI targets. Production and contractor activity increasing in the high return products during the remainder of the year should see this sector meeting SCI targets to the end of the financial year.

The better than expected half year NPAT must be read with caution in that a number of the FPC's major customers have expressed concerns in relation to difficult market conditions. In addition, the fertiliser programs should ramp up during the next six months, which will reduce the current \$0.8 million variance between actuals and SCI targets.

The cash position as at 31 December 2012 is healthy at \$24 million and is expected to remain on target to close at approximately \$20.9 million by the end of the financial year, \$400,000 below SCI target. This variance is due to the larger than forecast dividend payment made to the Government in mid-December 2012.

## 4. Future Directions

The Agency has a profitable outlook following the structural and financial reform and continues to focus on business management and industry development.

The FPC operates within an environment that is influenced by a number of internal and external factors. The key challenges facing the forest sectors are:

**Native Forests** – whilst sales in the native forest timber sector remain strong there is uncertainty in the industry pending the outcome of the revised Forest Management Plan 2014-2023 (FMP). Resource uncertainty makes it difficult for the timber processing industry to commit to long-term investment or updating aging equipment. Renewed resource access in the next FMP will be important to facilitate continued investment and operation in the native forest sector. FPC is working closely with, and providing advice to the Conservation Commission during their development of the revised FMP but it is not believed the FPC advice is being properly considered. FPC is also working towards being accredited for Forest Stewardship Council's Controlled Wood Standard for Forest Management Enterprises to maintain and gain greater access to Asian markets for karri timber products.

**Softwood Plantations** – whilst demand in this sector is low due to a depressed housing market and high Australian dollar, the FPC is actively investigating a range of options to increase sales. These include woodchip and small log exports, and biomass and fuel pellet markets. The FPC continues to monitor and develop strategies to manage the impacts of dry seasonal conditions that are affecting the northern pine estate and to achieve an estate of appropriate size that will support a local plantation industry beyond current agreements.

**Sandalwood** – the most significant issues facing the FPC sandalwood segment are the long term sustainability of the industry and illegal harvesting. A Legislative Council inquiry investigating these issues as well as the allocation of rights to harvest; the structure of the industry; and the role of Government in managing the industry, delivered an interim report prior to parliament being prorogued at the end of 2012. The interim report recommended the inquiry be recommenced after the election. If it is recommenced it is likely its findings will be tabled in Parliament in mid-2013.

Business Management – the FPC continues to consolidate its financial position with operations based on sound financial and management principles. The FPC is focused on improving efficiencies, productivity and business intelligence through the introduction of new business management technologies, strengthened training and stakeholder management programs.

## 5. Highlights for the Half Year

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

### Native Forests

- The full volume of jarrah and karri first and second grade sawlogs have been allocated to customers until the end of the current Forest Management Plan with deliveries to customers for the first half of this financial year being on target.
- Lower than expected anti-logging activity has occurred during the last six months.
- A process has started for developing a new procurement plan for new hardwood harvest and haul contracts which will commence from January 2014.
- Additional contractor capacity has been put in place in order to address shortfalls in performance during the first half of the financial year.
- The Office of the Auditor General has been undertaking an audit into the supply and sale of Native Forest Products. This report is due to be tabled in Parliament in the first quarter of 2013.

### Softwood Plantations

- The 2012 planting program has been completed with approximately 2100 hectares established.
- New planting methodologies have been trialled successfully which should assist in reducing future establishment costs as well as the dependence on burning of residue piles.
- Tenders for new harvest and haul contracts to commence from July 2013 have been received and are being evaluated.
- An export market for drought affected sawlog has been established to provide sales from pinaster plantations in the Swan cell.
- A new export market has been identified for small peeler logs from radiata plantations that may provide an alternative market for logs produced from first thinning.
- Whilst there have been numerous wildfires this season, only one has affected the FPC estate. Eighty hectares of drought-affected pine plantation at Yanchep was lost.

### Sandalwood

- The 2012 regeneration program has been completed. Construction has begun on the development of a prototype mechanical seeder that will reduce costs of this program in future years.
- Wescorp opened its new packaging facility, which is an important step in preventing the illegal trade of sandalwood.

- Wescorp has also developed a new low grade powder to utilise third grade wood produced from “whole tree” harvest operations. The powder has been well received by the market and is expected to assist the FPC and its contractors with the management of increased stocks of third grade wood.

#### Safety

- Occupational Safety and Health remains a strong focus for the Agency. There has been an increase in awareness and training programs conducted in the last six months.

#### Business Management

- Invitation to register interest for a new Forest Planning Management System has been completed and a business case drafted.
- Improvements in debt recovery and reporting have resulted in the number of customers with overdue debt greater than \$100,000 falling from 14 customers down to six customers. In addition, the overall overdue debt position for the Agency has reduced from approximately \$7.5 million down to approximately \$6.8 million compared with the corresponding period in December 2011.

## 6. Progress against initiatives in the 2012/13 Statement of Corporate Intent

The FPC's five year strategic development plan (SDP) incorporates a one year major planned achievements initiatives that is reported to the Board on a quarterly basis. Following is a progress report against each of these initiatives.

Issue to be managed	5 year Outcomes	2012–2013 Major planned	Progress to Date
South West Native Forests			
<p><b>New Forest Management Plan (2014–2023)</b></p> <p>The term of the current FMP finishes in December 2013 and a new FMP is being prepared by the Conservation Commission. The previous FMP process resulted in a substantial reduction in the area available for harvesting and a subsequent drop in the volume of sawlog available to harvest. Any further reduction in access to timber resources will threaten the financial viability of the FPC's operations and the ongoing viability of the industry.</p>	<ul style="list-style-type: none"> <li>The FPC will be operating sustainably and profitably under a new FMP and the timber industry will be viable.</li> </ul>	<p>FPC will prepare submissions and advocate that:</p> <ul style="list-style-type: none"> <li>The draft FMP (mid 2012) contains options for both the status quo and an increase in sawlog availability for a viable timber industry.</li> <li>The draft FMP contains comprehensive socio-economic information for sustaining the native timber industry.</li> <li>The draft FMP outcomes will at least continue to maintain the current industry and preferably promote new development opportunities as well.</li> </ul>	<ul style="list-style-type: none"> <li>Completed – The draft FMP was published on 15 August 2012 and contains scenarios to cover the same or greater yields of sawlogs. These options will also be promoted in the final FMP.</li> <li>Completed – The Socio-economic Impact Assessment evaluates the impact of native forest industry. The findings will also be promoted in the final FMP.</li> <li>Completed – The draft FMP contains these options. These options will also be promoted in the final FMP.</li> </ul>



Issue to be managed	5 year Outcomes	2012–2013 Major planned	Progress to Date
South West Native Forests			
<p><b>Resource certainty</b></p> <p>The term of the FMP is currently 10 years and native forest supply contracts must be consistent with this period. However, the time period required to achieve the payback from the major investments that are necessary to support new markets and introduce new technology needs to be longer than 10 years.</p> <p>Opportunities for longer term security have been available via State Agreements and Investment Security Guarantees (ISG's), but both of these vehicles have limitations.</p>	<ul style="list-style-type: none"> <li>• A long term Timber Industry Strategy.</li> <li>• Options for Government's consideration to provide long term security where required.</li> </ul>	<ul style="list-style-type: none"> <li>• External consultancy to provide input to the FMP and development of a Timber Industry Strategy.</li> </ul>	<ul style="list-style-type: none"> <li>• A review of the supply chain is underway.</li> </ul>
	<ul style="list-style-type: none"> <li>• Industry investment in new sawmilling / processing technologies.</li> </ul>	<ul style="list-style-type: none"> <li>• A draft Timber Industry Strategy is developed which describes potential markets and the investment framework necessary to attract new industries.</li> </ul>	<ul style="list-style-type: none"> <li>• The Timber Industry Strategy development process has been agreed to and the terms of reference have been advertised.</li> </ul>

Issue to be managed	5 year Outcomes	2012–2013 Major planned	Progress to Date
South West Native Forests			
<p><b>Sale of low grade timber resources</b></p> <p>Over 900,000 m<sup>3</sup> per annum of low grade timber resource is generated from harvesting operations and mine site clearing. However, markets for the low grade resource are restricted to karri woodchip exports, jarrah residue sales for charcoal and firewood.</p> <p>Additional markets for low grade products will reduce harvest costs associated with higher value logs and facilitate the implementation of silvicultural operations. They also provide for a significant boost to regional economies and employment.</p>	<ul style="list-style-type: none"> <li>• New investment in processing technologies that utilise low grade timber resources.</li> </ul>	<ul style="list-style-type: none"> <li>• A market evaluation plan is prepared based on submissions to an Expression of Interest (EOI) for low grade timber resources.</li> <li>• Briefing papers prepared that identify the commercial settings necessary to facilitate and support new industries.</li> <li>• The tendering phase for Contracts of Sale options, resulting from the EOI process are under negotiation in preparation for commencement of processing in 2014.</li> </ul>	<ul style="list-style-type: none"> <li>• Market opportunities for further investment have been identified.</li> <li>• Market consultancy has identified investment requirements.</li> <li>• The business plan is being prepared.</li> </ul>

Issue to be managed	5 year Outcomes	2012–2013 Major planned	Progress to Date
South West Native Forests (continued)			
<p><b>Promoting and supporting the native forest industry</b></p> <p>Sustainable forest management is demonstrated to the market through the FPC’s certification against the AFS standard. However, customers have requested that the FPC also extend this certification to include FSC-Controlled Wood.</p> <p>There is also an opportunity to improve the way the FPC promotes the unique structural qualities and aesthetic features of Western Australia’s unique native timbers. This promotion will improve market opportunities for the FPC’s customers and increase value throughout the supply chain.</p>	<ul style="list-style-type: none"> <li>Continued certification against internationally accepted standards for sustainable forest management that are consistent with market requirements.</li> <li>Product and forest management information readily available for stakeholders.</li> <li>Improved public awareness of sustainable forest management and the regional development benefits of the timber industry.</li> </ul>	<ul style="list-style-type: none"> <li>Evaluate the benefits of pursuing the Forest Stewardship Council (FSC) standard for Controlled Wood by 30 June 2013.</li> <li>Produce a suite of sustainable forest management and timber fact sheets.</li> <li>Complete a stakeholder communications plan that contains responsive and consistent messages.</li> </ul>	<ul style="list-style-type: none"> <li>A tender has been prepared.</li> <li>One information flyer has been produced and is available from the FPC website. Others are currently being finalised.</li> <li>A communications plan has been developed and implemented. The plan will continue to be revised in the lead up to the release of the new FMP.</li> </ul>

Issue to be managed	5 year Outcomes	2012–2013 Major planned	Progress to Date
South West Native Forests (continued)			
<p><b>Improved supply chain efficiencies</b></p> <p>Operating costs in the native forest sector have been affected by:</p> <ul style="list-style-type: none"> <li>• Additions to the reserve system that increasingly restrict forest harvesting to more marginal areas.</li> <li>• Changes to silvicultural practices that result in less area of each coupe being available to harvest.</li> <li>• Poor alignment between the available sawlog resource and the location of larger sawmills. This has resulted in high haulage costs and an inefficient haulage sector where the opportunities for back loading are limited.</li> <li>• Inefficient governance arrangements between the FPC, DEC and Conservation Commission.</li> </ul>	<ul style="list-style-type: none"> <li>• Costs of sawlog production and haulage to reduce by at least 10 per cent from 2012 levels.</li> </ul>	<ul style="list-style-type: none"> <li>• Complete a detailed assessment on opportunities for cost efficiencies within the harvest and haulage industries.</li> <li>• Prepare tender documents for new harvest and haulage contracts that encourage those enterprises that demonstrate an ability to develop and invest in efficient processes.</li> </ul>	<ul style="list-style-type: none"> <li>• A review of native forest value chain has commenced.</li> <li>• A tender for softwood harvest and haulage contracts has been advertised.</li> <li>• A procurement plan and tender documents are currently being finalised.</li> </ul>
	<ul style="list-style-type: none"> <li>• Improved governance between FPC, DEC and Conservation Commission.</li> </ul>	<ul style="list-style-type: none"> <li>• Begin the first phase of implementing improved governance by completing the redraft of: <ul style="list-style-type: none"> <li>- the Memorandum Of Understanding with DEC; and</li> <li>- the working arrangement documents, including harvest approvals and hand-back responsibilities and procedures.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• The development of a MOU with DEC that incorporates the recommendations resulting from the governance review has commenced.</li> </ul>

Issue to be managed	5 year Outcomes	2012–2013 Major planned	Progress to Date
Plantations			
<p><b>Maintain viable plantation industry</b></p> <p>The major long-term threat to the plantation sector is the progressive erosion of plantation area. Without new investment and the planting of additional land, the softwood plantation estate will substantially reduce over the next 20 years. As a consequence of the long lead time between planting and the harvest of sawlogs, action is required now to avoid a future shortage in resource availability.</p> <p>Maintaining supply to the existing sawmill will require the establishment of at least an additional 15,000 hectares of softwood plantation in the Central Forest Region over the next 10 years. The options to maintain supply to the LVL plant are much more difficult.</p>	<ul style="list-style-type: none"> <li>• A plantation industry strategy is guiding the development of a commercial plantation estate.</li> <li>• Subject to consistency with the industry strategy, the FPC to have facilitated the establishment of an additional 7,500 ha of land in the Central Forest Region to support the Dardanup sawmill.</li> </ul>	<ul style="list-style-type: none"> <li>• Prepare a vision and strategy for the future of the softwood industry in Western Australia.</li> <li>• Assess and report on the scale of softwood estate needed to satisfy future industry requirements beyond existing Agreements.</li> <li>• Prepare a business case and funding model for new plantation expansion. (Options for investment in new plantations may include a range of solutions from government funding to private/public partnerships and private equity.)</li> </ul>	<ul style="list-style-type: none"> <li>• A review of the resource status against contractual commitments has been completed.</li> <li>• Industry consultation is currently taking place.</li> <li>• Funding models and land options are being reviewed.</li> </ul>

Issue to be managed	5 year Outcomes	2012–2013 Major planned	Progress to Date
Plantations			
<p>To justify additional investment in plantations requires clear objectives and strategies for the future structure of the plantation industry in Western Australia. Commitment of public and/or private resources will require a high level of collaboration between industry and government.</p>			
<p><b>Thinnings backlog</b></p> <p>It is preferable if the radiata pine plantation estate is thinned at around 12 years of age to reduce competition within the stand and promote the development of sawlogs. Over recent years the market for industrial wood, via the Wesfi State Agreement, has not been sufficient to keep up with the supply from first thinnings. Consequently, the age of first thinnings in radiata pine plantations has extended to 16-18 years.</p>	<ul style="list-style-type: none"> <li>The backlog of plantation thinnings is cleared.</li> <li>Alternative markets have been developed to ensure future thinnings are on schedule.</li> </ul>	<ul style="list-style-type: none"> <li>Review thinning schedules and develop a strategy addressing thinning backlog.</li> <li>Supply new markets for softwood residues.</li> <li>Implement production systems (e.g. in-field chipping) to accommodate increased thinning demand and reduced stem size.</li> </ul>	<ul style="list-style-type: none"> <li>Completed – An inventory has been completed. A thinning program with timelines has also been completed.</li> <li>An engineering feasibility study for the pilot CHP plant is in progress.</li> <li>Completed – Operational and administrative processes to facilitate transport of dry fibre have been developed.</li> </ul>

Issue to be managed	5 year Outcomes	2012–2013 Major planned	Progress to Date
Plantations			
<p><b>Adapting to changing weather patterns</b></p> <p>Recent low rainfall has resulted in the loss of some trees, particularly in plantations north of Perth and on the Harvey coast. Future plantation management practices will need to mitigate the impacts of changes in weather patterns.</p>	<ul style="list-style-type: none"> <li>Plantation management practices incorporate mitigation strategies for emerging risks associated with changing weather patterns.</li> </ul>	<ul style="list-style-type: none"> <li>Review and report on plantation management practices to incorporate mitigation strategies that will reduce any losses associated with prolonged dry periods.</li> <li>Develop new markets for drought affected resource to expedite salvage recovery.</li> </ul>	<ul style="list-style-type: none"> <li>Late age thinning practices in Swan cell have been implemented to maximise recovery of drought affected wood and reduce the risk of future drought impacts.</li> <li>Markets for sawlog products from drought affected logs have been developed. Markets for residue (chip/biomass products) continue to be developed.</li> </ul>

Issue to be managed	5 year Outcomes	2012–2013 Major planned	Progress to Date
<b>Sandalwood</b>			
<p><b>Regeneration program</b></p> <p>Available data indicates that there has been insufficient natural sandalwood regeneration and growth to compensate for mortality and harvesting of trees in the wild population. FPC is seeking to reverse this trend through a regeneration program over the long-term.</p>	<ul style="list-style-type: none"> <li>• Successfully regenerate sandalwood through the sowing of 10 tonnes of sandalwood seed per annum.</li> </ul>	<ul style="list-style-type: none"> <li>• Successfully complete the 2012 regeneration program.</li> <li>• Source seed that can be used for regeneration of rangeland areas without risk of mixing provenances.</li> </ul>	<ul style="list-style-type: none"> <li>• Completed – The sandalwood regeneration program has been completed.</li> <li>• Completed – A rangeland seed orchard has been established at the nursery.</li> </ul>
<p><b>Sandalwood industry strategy</b></p> <p>The FPC has a supply agreement until 2016 with Mount Romance Australia (MRA) for 550 tonnes of the highest quality sandalwood for oil distillation. The balance of supply of predominantly lower grades is sold by the FPC through a marketing and processing agreement with Wescorp that expires in 2014.</p>	<ul style="list-style-type: none"> <li>• Successful implementation of a sandalwood industry strategy that will ensure an efficient and sustainable sandalwood industry.</li> </ul>	<ul style="list-style-type: none"> <li>• Commence a review of the sandalwood industry to develop a structure and strategy that will ensure an efficient and sustainable sandalwood industry.</li> <li>• The review to include: an analysis of the sustainable yield from native sources; the potential impact of synthetic products; integration of the plantation estate and future industry structures.</li> </ul>	<ul style="list-style-type: none"> <li>• Detailed strategy development has commenced with stakeholders.</li> <li>• DEC is reviewing FPC's draft for the Management of the Rangeland sandalwood resource.</li> </ul>



Issue to be managed	5 year Outcomes	2012–2013 Major planned	Progress to Date
Sandalwood			
<p><b>Illegally harvested sandalwood</b></p> <p>Illegal sandalwood harvesting in Western Australia is having a negative impact on the sustainability of the resource, and the FPC's customers.</p>	<ul style="list-style-type: none"> <li>Eliminate illegal sandalwood harvesting in Western Australia.</li> </ul>	<ul style="list-style-type: none"> <li>Work with DEC to ensure action is taken that discourages and eliminates illegal sandalwood harvesting.</li> <li>Engage with the Department of Agriculture, Forestry and Fisheries (DAFF) to develop Chain of Custody certification for sandalwood.</li> </ul>	<ul style="list-style-type: none"> <li>Discussions with DEC are ongoing.</li> <li>Work has commenced to develop Chain of Custody design.</li> </ul>

Issue to be managed	5 year Outcomes	2012–2013 Major planned	Progress to Date
<b>Business Management</b>			
<p><b>Business improvement</b></p> <p>The Forest Planning and Management System Project has been initiated to replace the current business management system and provide an integrated solution. The new system will simplify the capture and dissemination of information by incorporating the following operational activities:</p> <ul style="list-style-type: none"> <li>• Forest planning and production management;</li> <li>• Production customer billing;</li> <li>• Contract management;</li> <li>• GIS functionality;</li> <li>• Environmental and regulatory compliance; and</li> <li>• Business reporting.</li> </ul>	<ul style="list-style-type: none"> <li>• An integrated forest planning and management system is operational by 2014.</li> </ul>	<ul style="list-style-type: none"> <li>• Establish an internal reference group to prepare draft specifications which include comprehensive business operational requirements and technology implications for the new Forest Planning and Management System (FPMS).</li> <li>• Engage an external project manager to oversee the initial development and implementation of the first phase of the project.</li> </ul>	<ul style="list-style-type: none"> <li>• Business requirement specifications have been finalised and an invitation to register an interest (ITRI) published in the market place.</li> <li>• As a result of the ITRI a business case has been drafted.</li> <li>• During quarter 3 the business case will be submitted to the Board and Treasury for review.</li> </ul>
	<ul style="list-style-type: none"> <li>• Integrated management and accounting reporting system.</li> </ul>	<ul style="list-style-type: none"> <li>• Review current management accounting and reporting systems and recommend business improvement opportunities.</li> </ul>	<ul style="list-style-type: none"> <li>• Not yet commenced. This is dependent on the recommendation emerging from the FPMS replacement.</li> </ul>

Issue to be managed	5 year Outcomes	2012–2013 Major planned	Progress to Date
<b>Business Management</b>			
<p><b>Safe working environment</b></p> <p>The provision of a safe and healthy work environment is the FPC’s primary commitment to its people. The FPC is taking steps to ensure it is well placed to implement the new national harmonisation OSH laws.</p>	<ul style="list-style-type: none"> <li>An effective occupational safety and health management system that targets zero work- related injury and illness.</li> </ul>	<ul style="list-style-type: none"> <li>Improve the Safety Management Framework via audits and programs to ensure progress, in a timely manner, to meet the requirements of the proposed Work Health and Safety Act for Western Australia.</li> </ul>	<ul style="list-style-type: none"> <li>An audit has identified the required actions of legislative compliance. These actions are currently being implemented.</li> </ul>
<p><b>People and development</b></p> <p>Management’s focus is to continuously develop our people’s competencies and provide professional training opportunities. Developing a five year Workforce Plan will identify gaps between current workforce capabilities and those required to achieve the FPC’s strategic goals.</p>	<ul style="list-style-type: none"> <li>An efficient and effective staff development program that provides training and development opportunities to enhance staff performance in a safe and productive work environment.</li> </ul>	<ul style="list-style-type: none"> <li>Develop a five year Workforce Plan that assists the FPC in identifying its current and future workforce needs.</li> <li>Review the effectiveness of the Performance Development Review System (PDRS) in the context of the Workforce Plan.</li> <li>Revise and implement an induction program that incorporates employee awareness of their corporate, safety and environmental responsibilities.</li> <li>Implement a staff training and qualifications register to assist the FPC in identifying staff skills and competencies.</li> </ul>	<ul style="list-style-type: none"> <li>The workforce competency gap analysis has been completed and a training program drafted.</li> <li>The PDRS has been revised and implemented.</li> <li>The employee induction program has been revised and employee awareness training conducted.</li> <li>A staff training register has been established.</li> </ul>

Issue to be managed	5 year Outcomes	2012–2013 Major planned	Progress to Date
Business Management (continued)			
<p><b>Stakeholder management</b></p> <p>Consider key processes, risks and controls in relation to the FPC's overall stakeholder management processes. This includes the FPC's commitment to stakeholder management and the existence of an overall stakeholder management framework. The key is to understand and communicate the FPC's process to source new or maintain existing stakeholder relationships in response to changing internal and external environments as well as managing stakeholder issues as they arise.</p>	<ul style="list-style-type: none"> <li>An effective stakeholder management framework is in place.</li> </ul>	<ul style="list-style-type: none"> <li>Review and improve the stakeholder management strategy, policy and procedures.</li> </ul>	<ul style="list-style-type: none"> <li>A stakeholder management policy and framework has been developed and implemented.</li> <li>A Stakeholder management database has been developed and populated.</li> </ul>

Issue to be managed	5 year Outcomes	2012–2013 Major planned	Progress to Date
Business Management (continued)			
<p><b>Reducing operating costs</b></p> <p>The FPC will continue to review and consolidate their financial position to ensure the agency is financially sustainable into the future.</p>	<ul style="list-style-type: none"> <li>Operating costs have been reduced in proportion to timber sales revenue.</li> </ul>	<ul style="list-style-type: none"> <li>Review and develop a plan to reduce operating costs.</li> <li>Participate in discussions that will lead to reduced charges levied for services provided by the DEC.</li> <li>Work with customers to achieve a debt position where customer accounts are maintained within credit terms.</li> </ul>	<ul style="list-style-type: none"> <li>Monitoring of falling revenues and action/initiatives to manage these declines are assessed regularly, with both short and long term initiatives identified.</li> <li>Terms of reference for an independent review by Treasury have been drafted.</li> <li>Customer debt levels are under constant review with overdue debt levels continuing to fall. Customer security levels have been reviewed and implementation of late payment rates applied.</li> </ul>

## 7. Financial Performance

### 7.1 Profit and Loss Statement

Millions	6 Months to 31 Dec.			12 Months to 30 June	
	2012		2011	2013	2013
	SCI	Actual	Actual	Forecast	SCI
<b>Revenue:</b>					
- Harvest Revenues	49.4	47.3	50.9	102.0	102.0
- Production and Delivery Expenses	( 27.9)	( 26.1)	( 28.0)	( 57.3)	( 57.9)
<b>Gross Margin</b>	<b>21.5</b>	<b>21.2</b>	<b>22.9</b>	<b>44.7</b>	<b>44.1</b>
Other Revenues	0.4	0.7	1.3	2.5	2.5
<b>Add/(Less): Revenue/(Expenses):</b>					
- Direct Forest Management Expenses	( 5.5)	( 4.6)	( 4.5)	( 10.7)	( 9.3)
- Employee Expenses	( 8.7)	( 8.8)	( 9.9)	( 18.1)	( 18.5)
- DEC Expenses	( 4.6)	( 4.6)	( 4.8)	( 10.6)	( 10.9)
- Fixed Expenses	( 2.3)	( 1.9)	( 3.2)	( 6.5)	( 6.8)
- Interest Revenue/(Expenses)	0.6	0.6	( 1.1)	1.1	1.1
- Efficiency Dividend	-	-	-	0.2	0.6
<b>Profit before Capitalisation and Other Non Cash Items</b>	<b>1.4</b>	<b>2.6</b>	<b>0.7</b>	<b>2.6</b>	<b>2.6</b>
Capitalisation	0.5	1.0	0.8	4.9	4.9
Other	( 0.1)	( 0.6)	( 0.7)	( 5.2)	( 5.2)
<b>Operating Profit</b>	<b>1.9</b>	<b>3.0</b>	<b>0.8</b>	<b>2.2</b>	<b>2.2</b>
NRA Adjustment	-	-	-	( 3.1)	( 3.1)
Nominal Tax	( 0.6)	( 0.9)	( 0.3)	0.9	0.9
<b>Net Profit After Tax (NPAT)</b>	<b>1.3</b>	<b>2.1</b>	<b>0.6</b>	<b>0.1</b>	<b>0.1</b>

## 7.2 Balance Sheet

Millions	6 Months to 31 Dec.		12 Months to 30 June	
	2012	2011	2013	2013
	<i>Actual</i>	<i>Actual</i>	<i>Forecast</i>	<i>SCI Plan</i>
Current Assets	46.5	47.5	48.7	48.7
Other Non Current	2.3	7.5	6.7	6.7
Plant Property and equipment	21.0	21.3	20.6	20.6
Natural Resource Assets	333.1	347.7	330.1	330.1
<b>Total Assets</b>	<b>402.9</b>	<b>424.0</b>	<b>406.1</b>	<b>406.1</b>
Current Liabilities	( 17.0)	( 16.4)	( 14.5)	( 14.5)
Provisions	( 3.0)	( 4.6)	( 2.5)	( 2.5)
Contracted Obligations	( 42.9)	( 60.0)	( 43.3)	( 43.3)
Deferred Tax	6.3	-	-	-
Total Liabilities	<b>( 56.6)</b>	<b>( 81.0)</b>	<b>( 60.3)</b>	<b>( 60.3)</b>
Equity	( 346.3)	( 343.0)	( 345.8)	( 345.8)
<b>Total Liabilities and Equity</b>	<b>( 402.9)</b>	<b>( 424.0)</b>	<b>( 406.1)</b>	<b>( 406.1)</b>

## 7.3 Cash Flow Statement

Millions	6 Months to 31 Dec.			12 Months to 30 June	
	2012		2011	2013	2013
	<i>SCI</i>	<i>Actual</i>	<i>Actual</i>	<i>Forecast</i>	<i>SCI Plan</i>
<b>Net Cash flow from:</b>					
Operating activities	0.6	2.8	8.4	(0.7)	(0.7)
Investing activities					
- Plantation establishment	(2.7)	(2.3)	(0.9)	(4.5)	(4.5)
- Other Capital works	(1.4)	(0.9)	(1.0)	(0.6)	(0.6)
Financing activities					
- Laminex Prepaid Logs	0.5	0.5	0.3	1.0	1.0
- Equity Injection	9.4	9.4	-	5.8	5.8
- Interest Revenue	0.5	0.6	0.1	1.1	1.1
Other Items					
- Other Cash (Non-Recurring Item)	(4.9)	(4.9)	-	-	-
- DEC Wildfires	-	-	-	-	-
- Dividends	(2.9)	(3.3)	-	(3.3)	(2.9)
- Tax	-	-	-	-	-
<b>Total Cash for period</b>	<b>(0.9)</b>	<b>1.9</b>	<b>6.9</b>	<b>(1.2)</b>	<b>(0.8)</b>
Opening cash balance	22.1	22.1	17.2	22.1	22.1
<b>Closing cash balance</b>	<b>21.3</b>	<b>24.0</b>	<b>24.1</b>	<b>20.9</b>	<b>21.3</b>