

FOREST PRODUCTS COMMISSION OF WESTERN AUSTRALIA

HALF YEAR REPORT

31 DECEMBER 2013



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1. Executive Summary

The Forest Products Commission (FPC) has, as at 31 December 2013, achieved an operating profit of \$4.5 million.

This result is better than the budget forecast of an operating profit of \$2.9 million, primarily due to delayed spending in silvicultural activities, resulting from wet weather conditions early in the financial year, and fixed expenses (timing issue) exceeding the under budget gross profit result in the Native Forest sector.

The gross margin performance compared to last year is an improvement of \$1 million.

Despite customer deliveries being lower than expected in the Native Forest sector and emerging international revenue concerns for Sandalwood, the forecast expectation for operating profit for 2013-14 remains at budget forecast of \$4.5 million. This is a result of compensating forecast adjustments in revenue and expenditure.

The budget forecast for operating profit of \$4.5 million is a downgrade from the Statement of Corporate Intent (SCI) forecast of \$7.9 million.

There are, however, risks to achieving this forecast:

- The current uncertainty in the Native Forest sector pending award of contracts for sale for the new Forest Management Plan (FMP). The sawlog timber available from the new FMP will have to be of suitable quality and delivered cost for industry viability;
- Not obtaining Forest Steward Council (FSC) controlled wood certification for the karri forest management plan. This certification is required to facilitate the maintaining of export markets post 1 January 2014. Should FSC certification not be obtained and alternative markets not found, this will result in the loss of ~\$1 million in gross profit to FPC;
- If the slow recovery in the housing market weakens, it will impact customer demand and viability;
- The Australian dollar value against the United States dollar increases from its current sub \$0.90c exchange rate will impact Sandalwood revenue from international sales and local softwood manufactures; and
- The Sandalwood international market, which weakened in latter part of the second quarter, does not recover in the second half of 2013-14 and the impact of illegal logging on FPC sales.

The Net Profit after Tax (NPAT) position as at 31 December 2013 of \$3.2 million is better than the forecast NPAT of \$2 million. Whilst this exceeds the half year NPAT budget target the outlook for the 30 June 2014 will depend on the manifestation of the risks highlighted above and outcomes of biological valuation as at 30 June 2014.

The current financial outlook is that FPC will continue to generate operating profits enabling dividends to be paid to Government.

The FPC is on track to complete the SCI initiatives. Section 6 of this report provides a progress report against these initiatives.

2. Introduction

The report provides an overview of the performance of the Forest Products Commission (FPC) for the six months to 31 December 2013 as measured against the objectives outlined in FPC's *2013/14 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 resulting in the revision downwards of the forecast operating profit for 2013-14 to \$4.5 million (SCI \$7.9 million).

The result for the first half of the financial year is an operating profit of \$4.5 million compared to the revised forecast of \$2.9 million.

This better than forecast result is due to compensating budget results in reduced expenditure exceeding the reduced revenue outcome.

Whilst the gross margin from sales is under forecast budget by \$0.8 million, direct forest management expenditures (DFME) are significantly underspent by \$2.9 million or 40 per cent, as a result of the weather conditions earlier in the financial year impacting the ability to progress the silvicultural, roading, fertiliser and establishment programs. Fixed expenses, due to timing issues, are also under budget by \$0.5 million.

The under budget gross margin result for the half year is predominately due to customer delivery challenges and downward price pressure for karri chip arising from global market pressures in the Native Forest sector. These challenges have resulted in the forecast gross margin for the 2013-14 financial year being revised down by \$1.1 million compared to SCI. A further revision may be required pending customer performances in the third quarter of this financial year.

Plantation gross margin performance is slightly ahead of budget target with expectation that the financial target for 2013-14 will be achieved.

Sandalwood gross margin performance is slightly behind budget target. Export sales in December did not follow the expected and usual strong trend. At this stage no adjustment to the forecast has been made, however this may be required following a review over the next quarter. Domestic sales performance continues to exceed budget forecast primarily due to a higher than predicted domestic selling price and volumes.

Employee cost is in line with budget.

Payments to Department of Parks and Wildlife (DPaW) is currently under forecast budget by \$0.7 million but is expected to catch up to budget by the end of the

financial year. Wildfire suppression cost is a major risk to meeting budget for this item.

Fixed expenses are under forecast budget by \$0.5 million primarily due to the rescheduling of Information Technology expenses to the third quarter.

Capitalisation of second rotation plantation establishment cost is currently under budget by \$1.3 million, but is expected to meet forecast budget target by the end of the financial year.

The cash result for the half year is positive at \$6.2 million. This includes receipt of the Government equity injection of \$4.7 million for 2013-14. The cash balance is \$29.6 million, which includes prepayments for future contracted obligations, which total \$23.4 million. These contracted obligations will be reduced by ~\$4 million over the next two financial years and ~\$1.3 million per annum over the following twelve plus years. The forecast cash position as at 30 June 2014 is \$23.8 million which is down on SCI target by \$1.4 million.

4. Future Directions

The Commission has the financial foundation to generate operating profits into the future 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 – there is uncertainty in the industry pending the outcome of the new Forest Management Plan 2014-2023 (FMP) request for proposal. Resource uncertainty makes it difficult for the timber processing industry to commit to long-term investment or updating aging equipment. The sawlog available from the new FMP will have to be of a suitable quality and delivered cost for industry viability. Resource access in the new FMP will be important to facilitate continued investment and operation in the native forest sector. FPC is also working towards being accredited for Forest Stewardship Council's Controlled Wood Standard for karri forest management to maintain and gain greater access to Asian markets for karri timber products.

Softwood Plantations – whilst demand in this sector has increased following the decline in the value of the Australian dollar against the United States dollar, the FPC is also 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. The strategy will include managing the provision of replacement suitable land when Crown land, used for softwood plantations, is resumed.

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 prior to being prorogued at the end of 2012. The interim report recommended the inquiry be recommenced after the election. If it is recommenced the findings will be tabled in Parliament.

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

Key events during the first six months of the financial year were:

Native Forests

- FPC worked with Government on options for improving access to timber under the new Forest Management Plan (FMP) 2014-2023. The new FMP was formally released on 6 December 2013.
- FPC progressed the new native forest sales, harvest and haul and roading contracts required for the new FMP 2014-2023 that are due for renewal from 1 January 2014. The sale contracts over ten years are worth ~\$500 million and the harvest and haul contract is worth ~\$275 million. As the request for proposal for sale of native forest timber is still under negotiation existing sale contracts for Native Forest sector have been extended for three months to 31 March 2014 and harvest and haul contracts extended for six months to 30 June 2014.
- The audit of the karri forest management plan significantly progressed with the FPC awaiting receipt of the audit report. This audit is designed to provide FPC with Forest Stewardship Council controlled wood certification which is required for sales of karri to Asian customers.
- Legal action against the Minister for Commerce by a Native Forest customer for FPC's alleged failure to deliver a certain volume under the contract of sale.

Softwood Plantations

- The market outlook for softwood improved with the decline in the value of the Australian dollar and the start of an increase in housing starts. However, the housing market recovery remains slow.
- Preparation commenced for the second rotation planting of 1,700 hectares for the 2013-14 program.
- Finalised new service contracts for a new five year harvest and haul contract for the Northern supply region to take effect from 1 January 2014 (~\$39 million);
- Significant progression on a contract of sale for softwood biomass which will deliver significant benefits to FPC in terms of saving costs in residue clean up and extra revenue. The target commencement date is in FY16.

Sandalwood

- Sandalwood international markets weakened during December.
- DPaW seized 200 tonnes of illegally harvested wild Sandalwood and commenced criminal charge proceedings. This will assist mitigate the illegal harvest impact to FPC sales.
- FPC continued the preparation of a strategy to guide the contract retender process for Sandalwood contracts which expire in 2016.

Business Management

- Occupational Safety and Health remains a strong focus for the Commission.
- A strategic occupational safety and health plan was developed.
- A new individual development plan was implemented with the results benefiting the targeting of staff development programs.
- FPC's fire staff was gazetted as a fire and emergency unit (FES). This will ensure the FPC staff engaged in firefighting (approximately 60) will have the same statutory protection from civil litigation as DPaW and FES staff.
- Some media coverage was made of commercial groups protest action at Challar coupe and also their comments in response to the release of the new FMP. However, with the exception of some minor coverage in the Western Australian, it has been largely confined to regional media.
- FPC issued a request for tender and commenced evaluation of respondents for the sale of FPC's Indian Sandalwood research trial on the Ord River scheme in Kununurra.
- A business case to introduce a new service delivery model for finance and human resource services was completed.
- Continued improvements in debt recovery and reporting have resulted in overdue debt as at 31 December 2013 reducing to \$ 3.6 million. This compares to \$7.3 million as at 31 December 2012.

6. Progress against initiatives in the 2013/14 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.

Half Yearly Progress Report - implementing SCI initiatives		
Government Goal: Social and environmental responsibility – Ensuring that economic activity is managed in a socially and environmentally responsible manner for the long-term benefit of the State.		
Strategic Goal 1 (5 yr): FPC ensure that the environmental outcomes of harvesting and regeneration of the State's forest resources are managed to meet FMP and legislative requirements	SCI 2013-14 major planned objectives	Progress
1.1 Ensure that all harvested areas are effectively regenerated.	Area of jarrah and karri forest that are harvested for regeneration will be burnt and naturally regenerated (where applicable) or planted with seeds.	<ul style="list-style-type: none"> • Jarrah post-harvest burning relies on DPaW capacity to complete burns – this is well behind target. In excess of 5,000 ha outstanding. • 2013 karri establishment program completed on target informal monitoring indicates success criteria met formal regeneration surveys currently being undertaken. • Karri site prep commenced for the 2014 establishment program. Required seedlings have been ordered and established at the Nursery and Seed Centre – program on target.
	All Plantations on crown land, with the exception of the Swan Coast, will be replanted following harvesting.	<ul style="list-style-type: none"> • 95.5% of plantations have been replanted to date.
	Sow 10 tonnes of sandalwood seed under contract with FPC sandalwood seeder.	<ul style="list-style-type: none"> • 10.2 ton of sandalwood seed was planted last year. • Program commenced for the 2014 season. 100 km have been planted with approximately 1.4 ton of seed planted to date.

	Achieve sandalwood germination and survival of seedlings in sufficient number to balance wild harvest.	<ul style="list-style-type: none"> • 2012 regeneration program did not meet target requirements of 50,000 seedlings surviving one summer after germination due to operational areas not receiving the required 75 mm of rainfall. 2012 planting was 500 km, not the required 700 km. • 2013 germination of the 2012 plantings currently sits at 74,770 seedlings. The final survival rate of seedlings beyond the first year since germination will be determined following the current summer. • Germination from 2013 seed plantings has totalled 103,500 seedlings. The survival rate of first year seedlings will be determined following the first summer.
	Produce breeding values of genetic material for use in operational pine deployment program for replanting.	<ul style="list-style-type: none"> • Ongoing.
	Reduce the level of crop tree damage from harvesting operations.	<ul style="list-style-type: none"> • To be considered as part of the review of Key Projects following URS review. • Crop tree damage levels are being regularly monitored. 92% met the target of less than 5% damage. (158 fallers blocks assessed, 147 met the target). The blocks out of speck were between 5 to 10% damage only.
	Maintain firebreaks.	<ul style="list-style-type: none"> • MP – 75% compliance with LGA requirements – Currently compliant. • SF – 161 owners contacted and reminded of compliance requirements to LGA firebreak notices.
1.2 Minimise the impact of wildfire.	Minimise fire impacts resulting from machine operations.	<ul style="list-style-type: none"> • Review of the Harvest and Haul manual is underway which will result in key operational procedures for managing machinery during fire season. • Discussions with DPaW are continuing re guidelines ensuring that fire prevention measures can be locally managed.
	Minimise soil disturbance during harvesting operations.	<ul style="list-style-type: none"> • SWF – Harvesting operations regularly monitored as per the requirements of DPaW – Operations remain compliant. • SWF – Moist soil planning requirements will be initiated during February for winter 2014 operations. • MP – target of 80% on duplex soils to be tested not achieved. Form used for data capture has been revised and 1st field training day has occurred. As testing occurs between July and September further training sessions will be held.
1.3 Minimise the environmental impact of machine operations in forest estates.	Minimise the impact on environmental values resulting from road construction operations.	<ul style="list-style-type: none"> • Review of Rooding Manual underway which will result in key operational procedures for reducing the impact on environmental values are being considered.

	Prevent coupe boundary incursions.	<ul style="list-style-type: none"> • New Harvest and Haul contracts will require harvesting machinery to have GPS units installed on selected machinery operating in the forest. • These GPS units will provide detailed monitoring which in turn will assist to potentially prevent incursions.
	Continue to monitor compliance by FPC staff and contractors with forest hygiene management incursions.	<ul style="list-style-type: none"> • Data capture has commenced.
1.4 Reduce the spread of pests, weeds and pathogens.	Continue to improve integrated pest surveillance programs and implement recommendations to deliver improved forest protection.	<ul style="list-style-type: none"> • Ongoing
	Record chemical use and monitor trends.	<ul style="list-style-type: none"> • Branches are currently formalising methods to capture base line data.
1.5 Reduce reliance on chemical use in forest estates and restrict the spread of chemicals into waterways and non-target areas.	Monitor spraying contractors for compliance with relevant operating procedures.	<ul style="list-style-type: none"> • One above base line data is captured a plan will be developed for best practice use of chemicals – In turn monitoring of spaying contractors for compliance to operating procedures will also be monitored.
	Monitor emerging industry developments, including 'green' chemicals.	<ul style="list-style-type: none"> • Periodic updates of industry trends are being provided in monthly business reports.

Government Goal: Financial and economic responsibility – Responsibly managing the State’s finances through the efficient and effective delivery of services, encouraging economic activity and reducing regulatory burdens on the private sector. Regional focus – Greater focus on service delivery, infrastructure investment and economic development to improve the overall quality of life in remote and regional areas.

Strategic Goal 2 (5 yr): Facilitate a viable forest industry to deliver social and economic benefits to the people of Western Australia.	SCI 2013-14 major planned objectives	Progress
2.1 Partner with stakeholders to develop and implement long-term forest industry strategies.	Develop and implement strategies for: 1. South West native forests; 2. Softwood Plantations; and 3. Sandalwood industry.	<ul style="list-style-type: none"> • Additional resourcing allocated to these projects in October 2013. These projects were presented to the December Board meeting for discussion. Project leaders are currently incorporating feedback from this session, as well as from the staff conference into draft plans.

	Develop and initiate legislative changes to achieve industry strategies and long-term resource security.	<ul style="list-style-type: none"> Legislative reviews will flow from the long-term industry plans.
2.2 Support innovation through the development of new markets and processing technologies.	Seek appropriate resource security arrangements to encourage new investment.	<ul style="list-style-type: none"> An interagency policy working group with DPaW and the Conservation Committee has been set up to continue discussion and negotiations with respect to options for progressing resource security. There appeared to be strong support for options which would change the legislative basis to extend the term of contracts, rather than the alternatives of ISG's and State Agreements. The new Minister is being briefed on these alternatives.
	Identify and facilitate the development of new markets for low grade forest products.	<p>Current/New residue development</p> <ul style="list-style-type: none"> A short term contract for export of small pine logs has been undertaken with Pentarch out of Bunbury. <p>WA Biomass</p> <ul style="list-style-type: none"> A contract of sale with WA Biomass for plantation residues at Manjimup was approved by the Commission at the 20 December 2013 meeting. The details of this contract are currently being finalised. The Minimum annual intake of total biomass is scheduled to be 90,000 tonnes a year from 2016 through to 2036. <p>EOI for low grade native forest resource for local processing</p> <ul style="list-style-type: none"> Three short listed proponents presented their Business Plans in mid-December 2013 and FPC has since entered into negotiations which include requests for significant additional information to support the proposals. The projects include; <ul style="list-style-type: none"> Project to export 120,000 tonnes a year (Stage One) commencing mid-2015 for biomass woodchip to Japan of mixed jarrah and marri residues close to the Diamond Mill site and Bunbury Port. Development of resource logistics and costs needs to be completed by the end of February 2014. Support will need to be sought from Government for the export of native forest biomass woodchip. Stage Two and Three projects are dependent on Stage One proceeding.

		<ul style="list-style-type: none"> • Development of an engineered wood product plant based within the Manjimup region using jarrah and karri resource of about 60,000 tonnes a year commencing late 2015. The Project requires support for government loans, 20 year resource security and may see development of a second plant. Project support needs to be developed over the next six month period (June 2014) in conjunction with various state government agencies. • A biofuels project requesting a very large quantity of mixed native forest resource that would exclude all other projects, submitted the lowest log cost, requested resource security for 20 – 40 years and considerable state support of land and services. A request to evaluate a smaller scale project will be suggested. <p>Future Development</p> <ul style="list-style-type: none"> • Within the native forest sector there remains potential for increased utilisation of low grade and residue products via small log peeling for plywood veneer, biomass conversion, bio char and biofuels projects. Proposals for future opportunities will be dependent on the take up of resource from the RFP and EOI processes.
<p>2.3 Manage supply chains to support efficient, internationally competitive forest industries.</p>	<p>Finalise new contracts for harvesting, haulage and sale of native forest products which are consistent with the 2014-2023 Forest Management Plan and the native forest industry strategy.</p>	<p>Request for Proposals</p> <ul style="list-style-type: none"> • Native forest resource was offered through a Request for Proposal (RFP) in late 2013 after sawmills with government Investment Security Guarantees (ISGs) were set aside to seek customers for mostly northern sawlog resource including bole logs, whole bole logs, firewood and residue with successful Respondent's having been identified through that process. Negotiations for contracts will commence during mid to late January 2014 and remain dependent on available quantities from the recently approved (December 2013) Forest Management Plan (FMP over the next 10 years (2014 – 2023). New sale opportunities have been identified and are being developed including both existing FPC customers and green fields operations. • Existing harvest and haul contracts have been extended for six months to cover the negotiation period for new contracts of sale.
	<p>Improve the efficiencies in governance and working arrangements between FPC, DEC and Conservation Commission.</p>	<ul style="list-style-type: none"> • Ernest and Young have been appointed by Treasury to review the working arrangements between the two organisations. This review will consider each key activity as either: public benefit, regulatory or commercial. • FPC have prepared internal documentation to support this process which details FPC's position on the principal of commercial neutrality with respect to DPaW charges. • To date FPC has met with EY on three occasions during December and January. • EY intend to provide their recommendations to Treasury by 31 January.

	<p>Improve efficiencies in log production and haulage.</p>	<ul style="list-style-type: none"> • New softwood log contracts tendered during 2013 included: options to separate harvest and haulage and the introduction of optimisation technology to maximise the volume of high value log products. • The softwood contracts have now been awarded and this has resulted in a new structure that optimises the competitive advantages that individual companies have in the provision of harvest and haulage services. • Optimisation software is now in use and FPC is currently in the process of developing analytical techniques to evaluate the datasets that are being produced. A similar process will be followed for native forest contracts during the first half of 2014. • Addition of a new softwood export log product ex Bunbury and provision of chip to Laminex/export is providing an opportunity to maximise value from all parts of the tree and from salvage operations. • New opportunities are emerging for the sale of residues from the northern plantations and this will have a similarly beneficial impact on utilisation from this region. Sandalwood branch has dramatically increased the efficiency of contractors in producing dead wood by formally introducing a target ratio of dead wood to green wood production.
	<p>Continue to meet sawlog production targets and ensure the ongoing operation of customer businesses.</p>	<ul style="list-style-type: none"> • Contract management plans and delivery schedules for 2013-14 are in place. Although customer demands are below budget in some cases most customers are over 90% of requested deliveries. Reported monthly by senior managers.
	<p>Maximise utilisation of high value products.</p>	<ul style="list-style-type: none"> • The viability of operations and therefore FPC's ability to maximise its access to higher value products under a new Forest Management Plan, is directly linked to market availability to absorb all products, from the highest to the lowest. FPC's Expression of Interest (EOI), and Request for Proposal (RFP) processes aims to achieve a sustainable and profitable industry based on resource quality, quantity and location. • The EOI process for the sale of lower grade wood resources in the native forest business is being finalised and FPC is currently negotiating with preferred tenderers on their proposals. Should these negotiations lead to a viable offer/s it will significantly improve the utilisation of native forest products. • Similarly the RFP process for the Sale of Native Forest products under FMP 2014-23 is also nearing completion. This process also identified new projects requiring significant capital investment for the utilisation of lower grade wood products. Should negotiations around the viability of these proposals lead to an offer, they will further contribute to improved utilisation.

	Implement forest planning and management system.	<ul style="list-style-type: none"> • Funding approval to commence the FPMS project was received late last calendar year. Software procurement is scheduled to take approximately six months. • Implementation will be split into three phases (this isn't included in the Gantt), with phase one go-live within six months, by January 2015. • Phase one is business critical as it will replace the legacy system currently used to generate 95% of FPC revenue. Phase 2 is scheduled to be fully realised by July 2015. • A Paper is currently being prepared for Executive detailing the full management plan.
2.4 Eliminate the illegal harvesting of Sandalwood.	Work with DPaW to ensure that State based legislation is more effective in discouraging illegal harvesting.	<ul style="list-style-type: none"> • FPC now holds the sandalwood licence on behalf of contractors. • A Wescorp compliance audit was completed in 2013 and this informed changes to the proposed contract extension. • Benefits of a chain of custody system are currently being re-evaluated because a) there is no inspection protocol by Commonwealth agencies to support the Act and b) the Act does not include export of timber in log form.
	Implement a chain of custody system that will facilitate convictions under the Commonwealth Government illegal logging prohibition act.	<ul style="list-style-type: none"> • Chain of Custody provisions are currently being incorporated into draft contracts for the Sale of Native Forest Products.
2.5 Effectively promote the social and economic benefits of the forest industry through strengthened stakeholder engagement and new partnerships.	Effectively market and promote the benefits of forest products.	<ul style="list-style-type: none"> • FPC has undertaken an extensive stakeholder consultation process as a part of its bid to obtain FSC certification. This has included the development and roll out of a comprehensive stakeholder database that allows for efficient monitoring and of stakeholder consultations across the organisation. This includes a complaints system which ensures these matters are dealt with promptly. The system will be used to communicate with stakeholders on a range of matters
	Maintain certification to internationally recognised standards for sustainable forest management.	<ul style="list-style-type: none"> • Obtained EMS and AFS recertification in June 2013. Certification on these current certificates expires in June 2016. The next surveillance audit is scheduled for May 2014. • URS has recently reviewed FPC environmental management system and made several recommendations which will simplify and streamline the system. • The URS will assist with ensuring that any outstanding audit findings are adequately addressed before the May surveillance audit.

	<p>Ensure FORESTCHECK is understood and the program continues to be resourced. Include investigating the inclusion of Karri into FORESTCHECK.</p>	<ul style="list-style-type: none"> • On-going
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Government Goal: Results-based service delivery – Greater focus on achieving results in key service delivery areas for the benefit of all Western Australians. Regional focus – Greater focus on service delivery, infrastructure investment and economic development to improve the overall quality of life in remote and regional areas.

<p>FPC Strategic Goal 3 (5 yr): Ensure the efficient and effective delivery of core business outcomes.</p>	<p>SCI 2013-14 major planned objectives</p>	<p>Progress</p>
<p>3.1 Ensure compliance with legislative requirements in administration, management and governance to improve efficiency and commercial performance.</p>	<p>Fully integrated strategic and operational plan that links key projects outcomes to work programs.</p>	<ul style="list-style-type: none"> • New Strategic Planning Policy and Procedure has been endorsed that formalises the strategic planning process. • Strategic planning process for 2014-15 has commenced with a planning workshop with the Board on 20 December as well as feedback from the staff conference on 29 November. • Feedback from these sessions will be captured in the SDP and SCI which are currently being drafted. • The 2014-15 Strategic Plan will be simplified following the URS review and feedback from the EMS auditor. • Half yearly report to Executive and the Board is a product of this process.
	<p>Governance systems review completed.</p>	<ul style="list-style-type: none"> • Project Plan completed, options presented to Executive December 2013. • Executive approved the project and internal audit plan which includes an audit of governance processes. • This audit is currently underway and due to be completed in February. A key output from this audit will be a new agreed Corporate Governance Framework. • Final framework to be presented to Executive in mid-February.
	<p>Complete a comprehensive strategic workforce diversity plan including learning and development strategy.</p>	<ul style="list-style-type: none"> • Second draft was circulated out to the Senior Management Team in early November. • All staff were given a short briefing at the staff conference on 29 November and the final document was tabled for approval and was endorsed by the Executive on 16 December.

		<ul style="list-style-type: none"> The final workforce plan will go to Executive the third week of February. Graphic design work will be undertaken in January and it is anticipated a final copy for publication would be ready in February for endorsement by the Board to upload on the Intranet.
	Complete the review of contract management policies and procedures and implement recommendations.	<ul style="list-style-type: none"> Progress on this work has recently been reported to the OAG and the State Records Office. Actions are being regularly followed up through the internal audit log. It is anticipated that this work will be completed by the next ARC meeting on 10 February.
	Complete stage 2 of IT software and infrastructure upgrade.	<ul style="list-style-type: none"> Complete
	Establish procedures for infield data capture and real time reporting.	<ul style="list-style-type: none"> On-going
	Minimise the cost of operational activities and overheads.	<ul style="list-style-type: none"> ~\$150,000 savings
	Management accounting business improvement initiatives.	<ul style="list-style-type: none"> Improvements to forward estimate budget forecasting development has been implemented for the SDP financial forecasts FY15 to FY19. A business case to provide a new service delivery model for financial and HR services has been approved by Executive and will be tabled for the Board at its January meeting for endorsement. The new service delivery model will provide business intelligence tools that provide relevant and timely management information necessary to assist decision making and performance monitoring. The plan is to have a new system implemented to go live 1 January 2015. The development of the SDP FY15 to FY19 provided template worksheets to drive discussions on cost drivers and cost reduction opportunities.
3.2 Fully implement and maintain an effective occupational safety and health management system that targets zero work related injuries.	Develop and implement strategic occupational and safety plan. Introduce strategies to progress compliance with AS/NZS 4801. Improve contractor safety management practices.	<ul style="list-style-type: none"> First draft of the Strategic OSH plan was tabled and endorsed by Executive on 16 December. The final plan is to be presented to the Board in January 2014. The communication and publication schedule will be determined following Board approval. The Strategic OHS plan is the key document that will drive strategies to achieving AS/NZS 4801 as well as improving contractor safety management.

<p>3.3 Improve the productive capacity of native forests and Plantations.</p>	<p>Improve the productivity of the Plantations resource through timely thinning and optimal management of nutrition.</p>	<ul style="list-style-type: none"> • Plantation inspections sitting at 75% improvement needed to capture 100% of Plantations. • All plantation post-harvest surveys for comparison with pre harvest tree mark surveys have been reported on (1 plot per 10 ha). • Variance between pre and post-harvest plots will not be below 10% - Target was compliant.
	<p>Review and refine silvicultural strategies in the softwood estate to manage the impact of changing weather patterns and maximise future timber yield without affecting wood quality.</p>	
	<p>Limit green production to 1350 tonnes and maximise the dead component of harvest ratio.</p>	<ul style="list-style-type: none"> • This is being monitored closely through quarterly reporting of harvest volumes against target.

7. Financial Performance

7.1 Profit and Loss Statement

Millions	6 Months to 31 December			12 Months to 30 June	
	2013		2012	2014	
	Forecast	Actual	Actual	Forecast	SCI
Revenue:					
- Harvest Revenues	52.0	47.4	47.3	111.0	111.1
- Production and Delivery Expenses	(29.0)	(25.2)	(26.1)	(61.8)	(60.8)
Gross Margin	23.0	22.2	21.2	49.2	50.3
Other Revenues	1.5	1.5	0.7	2.3	1.9
Add/(Less): Revenue/(Expenses):					
- Direct Forest Management Expenses	(7.3)	(4.4)	(4.6)	(15.0)	(15.8)
- Employee Expenses	(9.7)	(9.7)	(8.8)	(20.1)	(19.1)
- DPaW Expenses	(4.6)	(3.9)	(4.6)	(10.7)	(10.6)
- Fixed Expenses	(2.7)	(2.2)	(1.9)	(5.0)	(4.6)
- Interest Revenue/(Expenses)	0.3	0.3	0.6	0.6	0.7
Profit before Capitalisation and Other Non Cash Items	0.5	3.8	2.6	1.3	2.8
Capitalisation	2.9	1.6	1.0	4.9	5.9
Other	(0.5)	(0.9)	(0.6)	(1.7)	(0.8)
Operating Profit	2.9	4.5	3.0	4.5	7.9
NRA Adjustment	-	-	-	(8.5)	(8.5)
Nominal Tax	(0.9)	(1.3)	(0.9)	1.1	0.2
Net Profit After Tax (NPAT)	2.0	3.2	2.1	(2.9)	(0.4)

7.2 Balance Sheet

Millions	6 Months to 31 December		12 Months to 30 June	
	2013	2012	2014	
	<i>Actual</i>	<i>Actual</i>	<i>Forecast</i>	<i>SCI</i>
Current Assets	54.5	46.5	54.7	54.7
Other Non Current	1.6	2.3	7.0	7.0
Plant Property and equipment	21.1	21.0	20.3	20.3
Natural Resource Assets	322.2	333.1	327.4	327.4
Total Assets	399.4	402.9	409.4	409.4
Current Liabilities	(14.3)	(17.0)	(16.6)	(16.6)
Provisions	(5.4)	(3.0)	(2.8)	(2.8)
Contracted Obligations	(44.2)	(42.9)	(41.3)	(41.3)
Deferred Tax	9.5	6.3	-	-
Total Liabilities	(54.4)	(56.6)	(60.7)	(60.7)
Equity	(345.0)	(346.3)	(348.7)	(348.7)
Total Liabilities and Equity	(399.4)	(402.9)	(409.4)	(409.4)

7.3 Cash Flow Statement

Millions	6 Months to 31 December			12 Months to 30 June	
	2013	2012	2012	2014	
	<i>Forecast</i>	<i>Actual</i>	<i>Actual</i>	<i>Forecast</i>	<i>SCI</i>
Net Cash flow from:					
Operating activities	3.2	3.5	2.8	5.2	7.7
Investing activities					
- Plantation establishment	(2.9)	(1.6)	(2.3)	(4.9)	(5.9)
- Annuities		(0.5)		(2.5)	(2.2)
- Other Capital works	(0.8)	(0.1)	(0.9)	(0.6)	(0.6)
Financing activities					
- Laminex Prepaid Logs	-	-	0.5	-	1.0
- Equity Injection	-	4.7	9.4	4.7	4.7
- Interest Revenue/(Expense)	0.3	0.2	0.6	0.6	0.7
Other Items					
- Other Cash (Non-Recurring Item)	-	-	(4.9)		-
- Dividends	-	-	(3.3)	(2.1)	(1.1)
- Tax	-	-	-		-
Total Cash for period	(0.2)	6.2	1.9	0.4	4.3
Opening cash balance	20.9	23.4	22.1	23.4	20.9
Closing cash balance	20.7	29.6	24.0	23.8	25.2