

FOREST PRODUCTS COMMISSION OF WESTERN AUSTRALIA

HALF YEAR REPORT

31 DECEMBER 2014



Contents

1. Executive Summary	3
2. Introduction.....	3
3. Financial Overview	3
4. Future Directions	4
5. Highlights for the Half Year	5
6. Progress against initiatives in the 2014/15 Statement of Corporate Intent.....	6
7. Financial Performance.....	16
7.1 Profit and Loss Statement.....	16
7.2 Balance Sheet	17
7.3 Cash Flow Statement.....	18

1. Executive Summary

The Forest Products Commission (FPC) has, as at 31 December 2014, achieved an operating profit of \$5.4 million and is on track to meet or exceed budget results by the end of the financial year barring unforeseen circumstances.

This result is better than the budget forecast of an operating profit of \$1.5 million, primarily due to delayed spending in silvicultural activities, resulting from wet weather conditions early in the financial year and an under budget result for employee and fixed expenses.

The gross profit performance compared to last year is an improvement of \$1.8 million.

The half year result for gross profit reports an on budget target result, however this includes better than budget performance for Plantations and Sandalwood which has offset an under budget result in the Native Forest sector.

Despite customer deliveries being lower than expected in the Native Forest sector due to wet weather conditions restricting harvest operations, the forecast for end of financial year is that the native forest sector will meet the budget target.

The Net Profit after Tax (NPAT) position as at 31 December 2014 of \$3.8 million is better than the forecast NPAT of \$1 million. Whilst this exceeds the half year NPAT budget forecast, the outlook for the 30 June 2015 is that this target will be achieved or exceeded barring unforeseen circumstances

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

2. Introduction

The first half of the 2014–15 financial year commenced with a change in FPC's General Manager. Following approximately four years in the role, David Hartley retired in early July and was replaced by Vince Erasmus.

The following report provides an overview of the performance of the Forest Products Commission (FPC) for the six months to 31 December 2014 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

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 2014–15 to \$3.8 million (SCI \$5.6 million).

The result for the first half of the financial year is an operating profit of \$3.8 million compared to the revised forecast of \$1 million.

This better than forecast result is primarily due to reduced expenditure.

Whilst the gross profit from sales is meeting the forecast budget, direct forest management expenditures are underspent by \$0.9 million or 15 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.

Expenditure is below budget by \$1.7 million. This is primarily due to:

- Employee expenses being under budget by \$1.3 million due to a combination of vehicle, temporary and other staff costs being lower than forecast (\$0.7 million) and an accrual reversal from last financial year for over accrued costs (\$0.6 million) associated with the Forest Science and Industry Development Unit transfer from the Department of Agriculture and Food WA; and
- Timing delays in fixed expenses (\$0.3 million) primarily associated with the implementation of the new finance system. The project is on target to go live in quarter four this financial year.

Other costs have exceeded the budget target as a result of a foreign exchange valuation movement of \$0.8 million.

The cash result for the half year is negative at \$2.7 million. This includes the return to Government of \$2.1 million received for recoup of a fire settlement claim.

The cash balance as at 31 December 2014 is \$27.3 million, however this includes prepayments for future log deliveries totalling \$12.7 million which is to be amortised over the next nine years. The forecast cash position as at 30 June 2015 is \$20.2 million which is above the SCI target by \$2.5 million.

4. Future Directions

The Commission has the financial foundation to generate operating profits into the future and continues to focus on initiatives that will improve profitability and cash flow.

Initiatives include a strategic review undertaken by Ernst & Young of the long term business viability challenges facing the forest industry and actions required to address those challenges. This includes increasing sales into the future and a review of operating costs and assets aimed at increasing investment in new plantation establishment.

5. Highlights for the Half Year

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

Native Forests

- The FPC obtained certification to an internationally recognised forestry standard which will facilitate access to markets.
- Finalisation of contracts under the new forest management plan for the sale and harvest and haul of native forest products.
- Progression of opportunities to sell forest residue.
- Progressing, through trial arrangements, business development opportunities for peeling jarrah regrowth sawlogs and sawmilling of small jarrah sawlogs.

Softwood Plantations

- Demand has exceeded expectation for export sawlog.
- The second rotation planting program is on target.
- Inventory and data collection for a carbon offsets projects was completed.
- Progress with the assessment of the extent of the drought impact on the northern sharefarm estate.

Sandalwood

- FPC attended an exhibition in Xiamen, China and met with Sandalwood customers for the purpose of developing customer relationships and gathering market intelligence.
- Development of new markets in India and the middle East.
- Progressing actions that will address the illegal harvesting of Sandalwood.

Business Management

- Occupational Safety and Health remains a strong focus for the Commission. The Commission continues to work with all stakeholders to find solutions to safety issues. A strong focus is currently on truck rollover incidents.
- The awarding of a contract to implement a new financial management system this financial year.
- The development of business specifications to issue as a request for tender to provide a bureau management service for human resource management.
- Three year internal audit plan prepared and endorsed by the Audit and Risk Committee.

6. Progress against initiatives in the 2014/15 Statement of Corporate Intent

Summary of goals, strategic objectives and planned achievements for 2014–15

In alignment with the *Forest Products Act 2000* and the Government's goals and forest policies, the FPC has developed the following goals, five year strategic objectives and 2014–15 major planned achievements.

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.		
FPC STRATEGIC GOAL 1 – Ensure that the environmental outcomes of harvesting and regeneration of the State's plantation and native forest resources are managed to meet legislative requirements and relevant environmental standards.		
Strategic objectives	2014–15 Major planned achievements	Half yearly progress
1.1 Ensure all harvested areas are effectively regenerated.	<ul style="list-style-type: none"> • Full compliance with all of the regulations detailed within the FMP 2014–2023 and the requirements of its international certifications associated with native forest management, regeneration and post-harvest silviculture. • Increase efforts to reduce the level of crop tree damage from native forest harvesting operations and minimise soil disturbance during harvesting operations. • All second rotation plantation sites on Crown land are replanted following harvest, with the exception of the Swan Coast. 	<ul style="list-style-type: none"> • FPC was subjected to routine surveillance audits for both EMS and AFS certifications in June/July 2014. No moderate or major non-conformances were identified. The next surveillance audit is scheduled for February 2015. FPC are currently reviewing FMP 2014–23 compliance requirements with the review to ensuring all relevant operating procedures address relevant compliance requirements. • An increased focus on the monitoring and management of activities that contribute to crop tree damage was initiated during the year. Monitoring to date has shown an improvement in the standards being achieved. In addition, a continuous improvement

	<ul style="list-style-type: none"> • Continue to monitor the efficiency and effectiveness of its sandalwood silviculture and revegetation program. 	<p>programme was developed with the intent of improving the standard of tops disposal around retained trees from the 80–90% currently being achieved to an aspirational target of 90–95% in the future.</p> <ul style="list-style-type: none"> • Management of soil disturbance has also remained a focus in the Native Forest sector, a high level of compliance with the required standard has been achieved throughout the year with a deliberate focus on minimising the requirement to operate during winter in the Karri mature operations by establishing sufficient log stockpiles with customers during the drier times of the year. • FPC is on track with all second rotation plantations for the year to date. • The new sandalwood seeder was deployed in 2014 and successfully completed 856.77 km of seeded rip line. This was a new record for distance and significantly higher levels of seed burial compared to previous hand planting methods. The germination surveys when extrapolated over the distance, indicate a total of 205 673 germinates. Seeding survival surveys will be completed in March 2015.
<p>1.2 Minimise the impact of wildfire.</p>	<ul style="list-style-type: none"> • Regularly review operational procedures for harvesting contractors to ensure they are aligned with best practice. 	<ul style="list-style-type: none"> • Operational procedures for harvesting contractors, including road construction, have been completed and endorsed by the Department of Parks and Wildlife (Parks and Wildlife).
<p>1.3 Minimise the environmental impact of machine operations in forest estates.</p>	<ul style="list-style-type: none"> • Routinely review existing procedures to ensure that road alignments are surveyed for the presence of significant biodiversity values and that these values are not compromised during road construction. 	<ul style="list-style-type: none"> • A schedule for the ongoing review of operational procedures has been established and has commenced. The current procedures have been endorsed by the Parks and Wildlife.

<p>1.4 Restrict the spread of pests, weeds and pathogens.</p>	<ul style="list-style-type: none"> • Ensure that plantation health surveillance programs provide regular monitoring of tree health allowing FPC's forest managers to make appropriate strategic decisions in managing risks. 	<ul style="list-style-type: none"> • Plantation operational staff are routinely sampling foliage and reporting visual signs of possible tree ill-health. Aerial photography and satellite imagery have been extensively used in 2014 to monitor the impact of drought and subsequent tree deaths.
<p>1.5 Reduce reliance on chemical use in forest estates and restrict the spread of chemicals into waterways and non-target areas.</p>	<ul style="list-style-type: none"> • Commitment to only using approved chemicals to achieve critical forest management outcomes and continue to ensure stringent monitoring procedures are in place to detect any movement of chemicals at operational sites and the nursery. 	<ul style="list-style-type: none"> • The West Manjimup Nursery & Seed Centre applies chemicals and fertilisers in the management of seed orchards and propagation of seedlings for plantation establishment and native forest regeneration. All chemicals are approved and used as per label instruction or APVMA permit conditions and restrictions. To ensure contamination of water ways or catchments does not occur and biodiversity is maintained the West Manjimup property diverts run off into effluent ponds and irrigation dams. • Ponds and dam monitoring has been completed as scheduled for 2014–15 for health and vigour of flora, fauna and aquatic life with no adverse results. Bi annual testing of water quality including nutrient levels was completed as planned and quality and nutrient levels have met relevant standards. Chemical residue testing is also required every two years and was last conducted in May 2014. Levels have not increased compared to previous tests.

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.

FPC STRATEGIC GOAL 2 – Facilitate a viable forest industry to deliver social and economic benefits to the people of Western Australia.

Strategic objectives	2014–15 Major planned achievements	Half yearly progress
2.1 Work with stakeholders to develop and implement long term forest industry strategies.	<ul style="list-style-type: none"> Continue to partner with a broad range of industry and other stakeholders to develop and implement long term industry strategies for South West native forests, softwood plantations and sandalwood. 	<ul style="list-style-type: none"> Government’s engagement of Ernst & Young to undertake a strategic review of FPC business in due to be completed at the end of January 2015. Ernst & Young have engaged with FPC’s key stakeholders as a part of the review. The final report will include clear recommendations for FPC’s business going forward.
2.2 Support innovation through the development of new markets and processing technologies.	<ul style="list-style-type: none"> Continue to work with industry and interested companies to identify new manufacturing opportunities to increase the commercial utilisation of low value products. 	<ul style="list-style-type: none"> FPC is working with the proponent, who was awarded a contract to process plantation residue for power generation, to meet relevant contract condition precedents. Negotiations are continuing with other greenfield projects who submitted proposals under the 2013 RFP process.

2.3 Manage supply chains to support efficient, internationally competitive forest industries.	<ul style="list-style-type: none"> Continue to improve governance and regulatory framework arrangements with Parks and Wildlife and the Conservation Commission to produce an improved planning and approval process and ensure that compliance is maintained at an appropriate level. 	<ul style="list-style-type: none"> Road construction and maintenance procedures have been prepared in consultation with the Parks and Wildlife to ensure regulatory and compliance requirements have been adhered to. Working arrangement negotiations are in progress and anticipated to be in place by 30 June 2015.
	<ul style="list-style-type: none"> Continue current program to roll out a range of information technology solutions that will introduce new efficiencies to administrative and operational functions within the agency. 	<ul style="list-style-type: none"> FPC's new financial management system is currently being implemented. Implementation of the new HR system has been delayed and is now due to go live in August 2015. Negotiations with the Forest Planning and Management System preferred proponent have not resulted in a contract. FPC is now seeking alternative solutions.
	<ul style="list-style-type: none"> Ensure the timely completion of the current native timber sale process and harvest and haul tender process and that the right industry structure is in place to promote a viable industry into the future. 	<ul style="list-style-type: none"> The native timber sale process and harvest and haul tender process was successfully completed in the first six months of 2014–15.
2.4 Continue to work with appropriate authorities to eliminate the illegal harvesting of sandalwood.	<ul style="list-style-type: none"> Continue to work with Parks and Wildlife and the Commonwealth Department of Agriculture (DA) to formalise a cooperative agreement to control the movement of sandalwood within and from Australia. 	<ul style="list-style-type: none"> Options for a controlled wood supply chain are being investigated.

2.5 Effectively promote the social and economic benefits of the forest industry through strengthened stakeholder engagement and new partnerships.	<ul style="list-style-type: none"> Fully implement new stakeholder management guidelines in 2014–15 in response to changing internal and external environments. 	<ul style="list-style-type: none"> The current stakeholder engagement guidelines are under review with the intention to amend and rebadge under corporate procedures – approximately 60 per cent completed.
	<ul style="list-style-type: none"> Maintain a strong focus on international accreditation for its environmental management practices throughout the term of the current FMP 2014–2023. 	<ul style="list-style-type: none"> FPC underwent a routine surveillance audit early in the 2014–15 year. Only two minor non-conformances were raised. These will be addressed before the next surveillance audit on 16 February 2015. FPC obtained FSC Controlled Wood certification in November 2014.
	<ul style="list-style-type: none"> Ensure continued support and collaboration in expanding the scope and application of FORESTCHECK across regions allocated to harvesting activities. 	<ul style="list-style-type: none"> FPC is currently investigating the expansion of the FORESTCHECK program to include areas of Karri forest. This is part in response to FSC requirements.

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.

FPC STRATEGIC GOAL 3 – Ensure the efficient, effective and safe delivery of core business outcomes.

Strategic objectives	2014–15 Major planned achievements	Half yearly progress
<p>3.1 Ensure compliance with legislative requirements in administration, management and governance to improve efficiency and commercial performance.</p>	<ul style="list-style-type: none"> In 2014–15 the FPC will continue working to replace legacy systems, reduce data disparity between systems, and improve the availability of business intelligence. This will also include establishing systems and procedures for infield data capture and real time reporting. 	<ul style="list-style-type: none"> FPC’s new financial management system is currently being implemented with an anticipated go live date of 1 April 2015 FPC’s procurement of an in-field Planning and Management System was cancelled due to the recommended provider not meeting FPC’s expectations. An alternate model and provider are currently being considered.
	<ul style="list-style-type: none"> Ensure that key work programs aimed at reviewing the agency’s core corporate governance and planning systems are maintained and continually improved. 	<ul style="list-style-type: none"> FPC has successfully implemented an online Governance Management system during the first 6 months of 2014–15. The new system will be fully operation by 30 June 2015.
	<ul style="list-style-type: none"> Continue to improve human resource, corporate accounting and reporting systems to address future corporate governance reporting requirements. 	<ul style="list-style-type: none"> FPC has instigated a comprehensive reporting program to the Executive and the Board on all workforce matters. Reporting on corporate governance matters will become routine with the implementation of the above system.

<p>3.2 Implement initiatives in the Strategic Occupational Safety and Health plan 2014–2017.</p>	<ul style="list-style-type: none"> Ensure safety and health strategies are continually improved to develop the FPC’s safety culture and awareness through consultation, communication and training. 	<ul style="list-style-type: none"> FPC has instigated a comprehensive reporting program to the Executive and the Board on all safety matters. Contract management with respect to safety has been significantly strengthened during the year. The first six months of 2015 will see increased focus on vehicle maintenance and driver awareness. FPC’s internal audit program included a safety compliance audit during 2014–15.
	<ul style="list-style-type: none"> Continue to drive improvements to safety management through the implementation of a new corporate human resources system that has a fully integrated safety incident reporting and evaluation module. This will include introducing strategies to progress compliance with AS/NZS 4801, Occupational Health and Safety Management Systems. 	<ul style="list-style-type: none"> There have been some delays with the implementation of the new corporate human resources (HR) system due to the independent Strategic Review. The new corporate HR system was also delayed slightly in recognition of the risk associated with launching three new systems during the year. This new system is now anticipated to go live in the second half of 2015.
<p>3.3 Improve the productive capacity of native forests and plantations.</p>	<ul style="list-style-type: none"> Ensure the continued refinement of plantation silvicultural strategies in order to maximise potential yield growth in plantations while maintaining timber quality. Inherent in this will be the need to find markets for thinning residue. 	<ul style="list-style-type: none"> New export chip and small log export markets have been established for first thinning programs. More than one customer has been identified and a range of markets for different size thinning logs have been established.
	<ul style="list-style-type: none"> The fertiliser program will be reviewed to ensure that growth responses are optimised within budget constraints. The FPC will extend its program of nutrient sampling to include first thinning operations and to ensure that any potential second rotation decline through lack of nutrients is identified and avoided. 	<ul style="list-style-type: none"> Additional resourcing has been provided for monitoring silviculture programs. Assessments are underway for monitoring nutrient, fertiliser and thinning programs through foliar and soil sampling.

	<ul style="list-style-type: none"> • Continue the genetic deployment program for <i>Pinus radiata</i> targeting improved families for specific environmental conditions in Western Australia. 	<ul style="list-style-type: none"> • The first phase of the on-going work between the FPC and the Southern Tree Breeding Association is providing the analysis of the performance of the current genetics at the FPC compared to other trees on a national basis – this stage of the project is now nearing completion. The next phase of this three year project will look at the variable of genetics and environment to assess the most appropriate genetics for particular environments in WA.
	<ul style="list-style-type: none"> • Develop utilisation assessment indicators that are applicable across different forest types to enable more proactive forest management. 	<ul style="list-style-type: none"> • Work with Parks and Wildlife has now been completed on a joint procedure for data capture and utilisation assessment process in native forests. This agreement between FPC and Parks and Wildlife allows the data collected to be shared between the two agencies with confidence that it accurately captures the variation in the field. Whilst the data allows the FPC to monitor in-field utilisation of contractors and allows for adaptive management, it also builds a database that can be used for FMP compliance in the future. • The FPC has a dedicated officer who has already begun routine assessments of harvest coupes and will provide quarterly reports to the Manager Native Forest Operations.
<p>3.4 Implement initiatives in the Workforce and Diversity plan 2014–2019.</p>	<ul style="list-style-type: none"> • From 2014 the FPC will make every endeavour to ensure this new performance management system is effectively rolled out at all levels within the agency. 	<ul style="list-style-type: none"> • FPC’s performance development system has been implemented for 80 per cent of staff. Regular communications have been issued to ensure the good work in this area continues through 2015.
	<ul style="list-style-type: none"> • Commence other initiatives listed for action in 2014 within the Workforce and Diversity Plan 2014–2019. This includes a new management information system, policies, procedures and new organisational development activities. 	<ul style="list-style-type: none"> • The progress against the Workforce and Diversity Plan 2014–2019 was reviewed and a summary of the outcomes achieved provided to Executive. The plan of action for 2015 was also included. This provides details on the progress that will be made in the five priority areas for the workforce; occupational safety and health, workforce capability, knowledge management, attraction, and contemporary policies, procedures and a system that can measure and report on human capital.

		<ul style="list-style-type: none"> • FPC's learning and development strategy expenditure was reviewed. It outlines how core skill gaps, talent management action plans and career development opportunities have been met in the past six months and will be addressed in the remainder of the 2014/2015 year. • The implementation of the new HR system will enable some of the remaining initiatives in the Workforce and Diversity Plan to be achieved and therefore the requirements of legislation and standards can be met more efficiently.
<p>3.5 Continue to build strong and positive relationships with customers and contractors.</p>	<ul style="list-style-type: none"> • Continue to fully utilise the new stakeholder management system in 2014–15 to improve communications and foster ongoing strong and positive stakeholder relationships. 	<ul style="list-style-type: none"> • Greater understanding of the capacity of FPC's new electronic records system has identified an opportunity to transfer FPC's stakeholder database into TRIM rather than using a stand-alone system. While this involves additional system requirements it will create a single source of information for easy access by all staff.

7. Financial Performance

7.1 Profit and Loss Statement

Millions	6 Months to 31 December			12 Months to 30 June	
	2014		2013	2015	
	MYR	Actual	Actual	MYR	SCI
Revenue:					
- Harvest Revenues	53.8	52.4	47.4	116.2	122.9
- Production and Delivery Expenses	(29.8)	(28.4)	(25.2)	(65.1)	(70.7)
Gross Profit	24.0	24.0	22.2	51.1	52.2
Other Revenues	0.8	1.2	1.5	1.2	0.8
Add/(Less): Revenue/(Expenses):					
- Direct Forest Management Expenses	(5.9)	(5.0)	(4.4)	(11.3)	(12.2)
- Employee Expenses	(10.3)	(9.0)	(9.7)	(21.4)	(19.9)
- DPaW Expenses	(4.6)	(4.7)	(3.9)	(10.1)	(10.1)
- Fixed Expenses	(3.5)	(3.0)	(2.2)	(8.8)	(7.9)
- Interest Revenue/(Expenses)	0.1	0.2	0.3	-	0.6
Profit before Capitalisation and Other Non Cash Items	0.6	3.7	3.8	0.7	3.5
Capitalisation	0.8	0.9	1.6	7.0	2.9
Other	(0.0)	0.8	(0.9)	(3.9)	(0.7)
Operating Profit	1.5	5.4	4.5	3.9	5.7
NRA Adjustment	-	-	-	(8.6)	(3.7)
Nominal Tax	(0.5)	(1.6)	(1.3)	1.4	(0.6)
Net Profit After Tax (NPAT)	1.0	3.8	3.2	(3.3)	1.3

7.2 Balance Sheet

Millions	6 Months to 31 December		12 Months to 30 June	
	2014	2013	2015	
	<i>Actual</i>	<i>Actual</i>	<i>MYR</i>	<i>SCI</i>
Current Assets	52.9	54.5	44.0	45.4
Other Non Current	-	1.6	-	-
Deferred Tax	9.2	9.5	12.3	11.4
Plant Property and equipment	20.6	21.1	21.2	21.4
Natural Resource Assets	323.0	322.2	316.1	319.4
Total Assets	405.6	408.9	393.6	397.7
Current Liabilities	(15.6)	(14.3)	(16.9)	(18.3)
Provisions	(7.7)	(5.4)	(7.8)	(5.8)
Contracted Obligations	(42.9)	(44.2)	(38.9)	(37.4)
Total Liabilities	(66.2)	(63.9)	(63.6)	(61.4)
Equity	(339.4)	(345.0)	(330.0)	(336.3)
Total Liabilities and Equity	(405.6)	(408.9)	(393.6)	(397.7)

7.3 Cash Flow Statement

Millions	6 Months to 31 December			12 Months to 30 June	
	2014		2013	2015	
	MYR	Actual	Actual	MYR	SCI
Net Cash flow from:					
Operating activities	0.6	2.7	3.5	2.5	4.4
Investing activities					
- Plantation establishment	(3.0)	(2.8)	(1.6)	(4.6)	(4.6)
- Annuities	(0.5)	(0.5)	(0.5)	(2.7)	(2.2)
- Other Capital works	(0.7)	(0.2)	(0.1)	(1.3)	(1.3)
Financing activities					
- Equity Injection	-	-	4.7	-	-
- Interest Revenue/(Expense)	0.1	0.2	0.2	0.6	0.6
Other Items					
- Contribution to Owner	-	(2.1)	-	(2.1)	-
- Dividends	-	-	-	(2.1)	(2.1)
Total Cash for period	(3.4)	(2.7)	6.2	(9.9)	(5.3)
Opening cash balance	30.1	30.1	23.4	30.1	23.0
Closing cash balance	26.7	27.3	29.6	20.2	17.7