

FOREST PRODUCTS COMMISSION OF WESTERN AUSTRALIA

HALF-YEARLY REPORT

**Report to
31 DECEMBER 2018**

Approved by the Forest Products Commission 22 February 2019



Contents

1.	Executive Summary	3
2.	Introduction	3
3.	Financial Overview	3
4.	Highlights for the Half Year	4
5.	Financial Performance	5

1. Executive Summary

The Forest Products Commission (FPC) has had a busy and productive six-month period.

At 31 December 2018, the FPC has recorded a pre-tax operating profit of \$2.7 million.

This result is lower than the budget forecast primarily due to ongoing instability in both the sandalwood and native forest industries, and sales were lower in these sectors as a consequence.

A dividend was paid to government of \$1.044 million.

2. Introduction

The following report provides an overview and highlights of the FPC's performance for the six months to 31 December 2018, as measured against the financial and operating objectives outlined in the FPC's *Statement of Corporate Intent 2017/18 (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.

The result for the first half of the financial year is a pre-tax operating profit of \$2.7 million, compared to the forecast operating profit of \$4 million. Refer to section 5 for a summary of financial performance.

This worse than forecast result is primarily due to:

- Flat sales in the native forest sector.
- Low sales in sandalwood resulting from instability in domestic manufacturers and a slowdown in international sales.

The cash balance as at 31 December 2018 is \$28.7 million; this includes investment in assets of \$3.6 million in land and \$3.03 million in R1 and R2 plantations.

4. Highlights for the Half Year

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

- The new Key Performance Indicators have been reported on and are now being integrated with monthly reporting through Senior Management Team meetings.
- Improvements in the format of financial reporting for management review, together with a review of systems and financial controls.
- Increased collaboration with FIFWA and industry, resulting in projects such as Value Stream Mapping that are bringing real efficiencies and benefits to the industry.
- The commencement of collaborative research projects through the National Institute of Forest Products Innovation, Forest and Wood Products Australia and the Northern Australia CRC.
- The continuation of the expansion of the softwood estate through land purchase arrangements and implementation of Farm Forestry Assist.
- The increase in volume of karri being supplied to Wesbeam for integration in LVL.
- The RFP process and subsequent negotiations are progressing with the intent of establishing an Integrated Timber Processing Yard.
- The establishment of a panel of domestic Sandalwood buyers.
- The endorsement of the FPC's strategic Stakeholder Management Strategy.
- Successful operational audits that ensure the FPC's continued certification against standards for environmental management and sustainable forest management.
- The successful implementation of Office 365.
- A new deliveries and billing system has been initiated through the TechOne system and will be due to be implemented by 1 May.

The FPC has focused significant effort on improvement of its safety processes, with emphasis on safety culture for staff and contractors. Key achievements include:

- Implementation of a People and Safety subcommittee to the Commission.
- Implementation of a comprehensive process to manage the risk of drugs and alcohol in the workplace that includes drug and alcohol testing.
- A review of the organisational occupational safety and health committees resulting in a comprehensive tier of committees focussed at each level of the organisation.
- Focus on safety culture and engagement, resulting in an increase in safety reporting.

5. Financial Performance

Economic Assumptions	Year to Date December 2018				Full Year 18/19	
	Actual	MYR	Variance	Last Year	MYR	SCI
Timber Supply ('000 tonnes)						
Native Forest	238	324	(86)	240	765	854
Plantation	481	442	38	421	1,027	898
Sandalwood	0.7	1.1	(0.4)	0.8	2.2	2.4
Forest Activity						
Native Forest harvest areas (ha)	3,298	2,655	643	2,831	6,271	9,950
Plantation establishment (ha)	1,876	2,217	(341)	2,905	2,771	2,508
Sandalwood seedlings (tonnes of seed)	6	9	(2)	2.0	16	22
Other						
\$/US exchange rate	0.72	0.74	(0.02)	0.78	0.74	0.79
Financial Outcomes (\$ '000)						
Operating revenues	54.4	61.7	(7.3)	54.0	128.3	134.5
Net profit (loss) before tax ¹	2.7	4.0	(1.3)	2.4	7.2	15.6
Closing cash balance	28.7	26.7	2.0	29.4	23.5	20.5
Plantation establishment	(3.0)	(3.3)	0.3	(4.2)	(6.9)	(8.0)
Asset investment program	(3.6)	(3.4)	(0.3)	(0.0)	(6.7)	(7.7)
Performance indicators						
Return on assets	0.6%	1.0%	-0.3%	0.6%	1.8%	3.8%
Return on equity	0.7%	1.1%	-0.4%	0.7%	2.0%	4.3%
Net profit to timber revenues	5.0%	6.5%	-1.5%	4.4%	5.6%	11.6%

¹ excluding biological asset revaluations