

Statement of Corporate Intent

2008/09

June 2008



Agreement

This Statement of Corporate Intent describes how the Forest Products Commission intends to achieve its financial, environmental and social objectives in the 2008/09 financial year. This Statement meets the requirements of the *Forest Products Act 2000* and represents the agreement between the Minister for Forestry and the Forest Products Commission regarding the expected level of performance from the Commission during the year.

The Statement of Corporate Intent is consistent with the Strategic Development Plan which provides a five-year view of the Commission's planning.

Within its one-year framework, the Statement of Corporate Intent provides an overview of the main functions of the Forest Products Commission, the key factors affecting operations, business objectives, resources required and performance monitoring and reporting.

The Statement may be amended upon authorisation from all parties. This provision will allow major unanticipated issues to be addressed and places an onus on the parties to communicate any significant changes.

In accordance with the *Forest Products Act 2000*, and with the Treasurer's concurrence, the Minister for Forestry and the Commission agree to the content of this Statement of Corporate Intent.

MINISTER FOR FORESTRY

CHAIRMAN

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Foreword

The Statement of Corporate Intent 2008/09 (SCI) has been developed collaboratively by Executive and staff of the FPC and endorsed by the FPC's Board of Commissioners.

The SCI provides the specific objectives of the FPC and is complementary to the Strategic Development Plan which provides the overarching direction and objectives of the FPC over the next five years. It is from the SCI that more detailed, tactical business plans at Divisional and Branch level are developed to achieve our objectives and report on performance.

Section 31 of the *Forest Products Act 2000* (the Act) requires that the SCI must specify an outline of objectives, the proposed arrangements to facilitate those objectives, and performance targets and other measures by which performances may be judged.

The Act establishes two specific objectives that are to be included in the Statement of Corporate Intent:

1. the long-term viability of the forest products industry;
2. the application of the principles of ecologically sustainable forest management set out in section 12(2) (of the *Forest Products Act 2000*) in the management of indigenous forest products located on public land;

and also defines the principle that the Commission must try to ensure that a profit that is consistent with planned targets is made from the exploitation of forest products whilst ensuring that these two objectives are met.

These broad objectives, and the principle relating to profit, have been further developed to provide clear goals, strategies, objectives and performance targets. They have also been aligned to be consistent with the Government's forest policy.

Through this SCI the FPC is also aiming to:

- continue to improve FPC's operating performance to deliver consistent financial returns to Government;
- implement the recommendations arising from the review of the Forest Products Act;
- position FPC as a provider of forestry services into carbon and investment markets;
- maintain strong working arrangements with industry;
- encourage the expansion of new tree farm estates in agricultural areas to enable sustainable development of regional timber processing industries;
- ensure the strategic tree farming project remains a high priority project in salinity action programs;
- establish new and build on existing markets for native forest and plantation residue products; and
- sustain Western Australian sandalwood as a high-value business.

Return to the State

Under its legislated objectives within the Forest Products Act 2000 the FPC will in 2008/09 deliver to the State a commercial return through the payment of a dividend together with a range of non financial returns in the form of an ongoing viable timber industry, the establishment and maintenance of plantations in regional Western Australia and the sustainable management of the State's timber resources.

Current position

The Forest Products Commission has been operating since November 2000 as a WA Government Statutory Authority managing the State's commercial forestry activities. Its functions are governed by the Forest Products Act.

In accordance with Section 71 of the Act a review into its operation and effectiveness has recently been completed. This review made a number of recommendations to improve the operations of the FPC and found that the Statutory Authority model was warranted as the most effective way to manage the State's forest products. Other recommendations, when implemented, will provide further clarity about FPC functions and funding.

The Commission operates in a dynamic environment which is influenced by domestic and global market forces and evolving Government policies relating to water use, salinity, climate change and forestry.

The FPC does not attract funding from the State Government (other than funding for two specific activities), but meets its operating costs from the income received from its commercial activities. Capital investment is funded through retained earnings and long term debt arranged through West Australian Treasury Corporation. The FPC has paid dividends to the State in four years of its operations, the most significant being \$2.7 million in relation to the 2005/06 financial year and the \$2.8 million in relation to the 2006/07 financial year.

The implementation of the new Forest Management Plan in 2004, reflecting a reduced volume of available timber, resulted in significant restructuring of the native forest industry. The industry is still adjusting to changes in wood quality coming from the forest, consistency of delivery, end use markets and increasing delivered price. Continuing to work with industry to address these issues remains a focus for the FPC. The industry is working through a number of scenarios to best utilise the available resource within the constraints of delivery distance, resource yield and log quality. Potential responses may include some restructuring of the industry including reductions in available resource or review of log specifications and grading. Any decline in contracted volumes or log grades will result in reduced stumpage revenue to the FPC. When the outcome of the response is known the impact on the FPC can be quantified.

With the decrease in the amount of native timbers available, the Commission has shifted its focus to new plantation based industries. This requires the growing of a new resource. The FPC is continuing to focus on encouraging the establishment of new pine, eucalyptus and sandalwood plantations in low to mid-rainfall areas to provide a timber resource to support local and export demand. The establishment of plantations in the low to mid-rainfall areas will increase the State's timber resource and provide the potential for the development of new processing industries. In addition to these timber values the establishment of plantations will provide real environmental benefits by helping to address the impacts of climate change and salinity.

The FPC has also developed wide ranging industry plans for four regional areas of Western Australia, which identify the best species for local growing conditions, and establishes plantation targets necessary to stimulate the development of downstream processing industries. Further industry plans for sandalwood and oil mallees are currently in preparation in consultation with industry and natural resource management groups. The implementation of these industry plans will result in increased employment opportunities for regional areas and resulting social benefits.

The commercial growing of trees in these areas is unlikely to be viable on the value of the timber alone and needs to be supplemented by financial returns from environmental services such as salinity management and carbon sequestration. The financial value of these services has emerged through programs such as the *National Action Plan on Salinity and Water Quality* (NAP) which is funding programs to address dryland salinity and water quality issues across Australia. The emergence of climate change as a major environmental issue in recent times places renewed impetus on renewable energy and carbon trading. The 'financial returns' from sequestering carbon through afforestation are starting to develop as various organisations look

to offset their carbon emissions. The timing and form of a national Emissions Trading Scheme is becoming clearer providing good opportunity for the FPC to promote its forestry service capabilities and to position itself as leading promoter of plantation based carbon sequestration initiatives. The FPC's knowledge and experience in forest management can also be provided to the external investment market on a fee for service basis.

The FPC's Strategic Tree Farming (STF) project is one of the more significant projects within the NAP with four of the West Australian Natural Resource Management (NRM) groups committed to the project. The STF project aims to direct the establishment of significant tree plantings to achieve the greatest benefit to local catchment areas while achieving a resource sufficient to maintain a timber industry. It is funded by a combination of Commonwealth and State Government funds through the NAP program. The State's contribution is through a combination of FPC long term borrowings and direct funding. The cost of servicing the additional FPC debt (both interest and principal) is met by the State. The current NAP program is funded through to 2008 and the FPC will look to ensure the Strategic Tree Farming initiative remains a key project in the next program. The success of these efforts will have a major impact on the FPC's ability to deliver its objectives to establish tree farming in low to mid-rainfall areas

At the core of the FPC's current business is its ability to meet the timber supply contracts it has in place with its customers, to ensure that local industries can continue to operate. The delivery of the resource to customers involves FPC entering into service contracts such as harvesting and transportation. In conducting these operations on State forests, FPC is required to meet conditions of the Forest Management Plan, many of which are more stringent than previously applied.

Under the three State agreements for the supply of resource to the State's various softwood mills, the FPC must ensure that the size of the plantation estate is maintained such that the State's commitments can be met. The size of the FPC plantation estate is under ongoing pressure from competing land uses requiring the FPC to acquire new plantation land to replace that which is lost. To ensure the estate is maintained, plantation land lost to competing uses must be replaced. The existing estate is only sufficient to supply resource for the remaining terms of the agreements.

Increasing domestic demand for sawn timber will be met by imports unless additional estate is established. The financial returns to the grower, be that the State or private, are not sufficient to encourage investment in establishing additional resource. In fact there is currently little private or State investment in expanding the radiata pine estate. To attract investment into new pine plantations requires an industry response to improve the financial returns to the grower.

Risks to our business and financial projections

The FPC operates as a commercial business deriving its revenues from the sale of forest products and forestry related services. From these revenues FPC is able to generate a modest profit sufficient to maintain operational viability and pay a dividend back to the State. FPC's revenue is focussed on a few major customers supplied with timber under long term supply contracts. Revenues would be severely impacted if any of these larger customers were, for whatever reason, unable to take their contracted volumes. The nature of the industry does not allow this resource to be resold to other customers in a timely fashion. FPC's financial projections are therefore developed conservatively taking into account customer advice and FPC knowledge.

At the time of finalising this Statement of Corporate Intent the Varanus Island gas explosion had just occurred. The subsequent gas shortage is impacting on the FPC's pine customers resulting in plant shut down and reduction in sales revenues to FPC. The length of the interruption is still unclear however FPC has made allowance within its financial forecasts based on the best available information. Based on this likely case FPC is again forecasting a dividend in relation to the 2008/09 financial year.

Climate change presents an opportunity to the FPC business as discussed above. It also constitutes a threat and its impact may require a response both in managing existing plantations and in establishing new plantations. For example, the impact of the reduced rainfall drought on the plantations in the mid west area is of concern to the FPC as several plantations have failed or are showing signs of stress. The loss of any plantations due to the drought will require some remedial action together with a write down of the plantation asset in the FPC's balance sheet.

The success of the next round of natural resource management project funding (including the FPC's Strategic Tree Farming initiative) is important to FPC's operation and funding. Should the funding be delayed or the amount significantly reduced over current levels much of FPC regional operations would be downsized resulting in employee dislocation and together with the prospect of stranded plantation assets.

The continued strength of the WA economy and the attraction of improved employment conditions in the private sector has led to a high turnover of staff. FPC's ability to retain and attract quality staff in this environment is crucial to the successful implementation of this plan.

If and when these issues materialise, the financial impacts on the FPC will be assessed and as such the forward projections may require adjustment. The FPC will notify the Minister for Forestry and the Department of Treasury and Finance of any impacts arising from these issues as soon as the impact is clarified and future direction understood and agreed.

Vision Statement

To be a leader in achieving an environmentally sustainable and commercially viable forest products industry providing economic and social benefits to the people of Western Australia.

Mission Statement

To contribute to Western Australia's economic and regional growth by:

- *developing the sustainable use of the State's plantation and native forest resources;*
- *promoting innovation and local value adding for these resources; and*
- *achieving appropriate economic and social returns to the State for the use of forest products.*

Values

- Achievement** : We will deliver good service.
- Innovation** : We will be creative and innovative in meeting our objectives.
- Leadership** : We will provide leadership to assist in the development and restructure of the timber industry.
- Customer Focus** : We will understand and meet our customers' needs.
- Environmental Responsibility** : We will adhere to sustainable management in accordance with the Commission's Management of the Environment Policy.
- Accountability** : We will adhere to processes that are understood and measured.
- Integrity** : We will act honestly and ethically in accordance with the Commission's Code of Conduct.

Major Planned Achievements for 2008/09

The FPC will continue to develop its business over the coming year through the creation of new business opportunities in the emerging carbon and environmental services markets while operating and growing an efficient core business. In addition the recommendations arising from the review into the Forest Products Act will be implemented. The major planned achievements for 2008/09 are:

- work with southwest forest industry to ensure the timber supply chain delivers the optimal outcome for the industry and to the FPC;
- work to achieve improved financial returns to pine plantation growers to encourage public and or private investment in an increased plantation estate into the future;
- complete the sandalwood sustainability plan;
- establish plantation based carbon sequestration projects for both public sector and private investors;
- achieve Australian Forestry Standard (AFS) for FPC operations;
- implement the State's Plantation and Farm Forestry Strategy;
- continue to promote the Strategic Tree Farming Project as a high priority project to help address salinity secure ongoing funding for the Strategic Tree Farming project;
- pursue profitable business development opportunities;
- continue to promote FPC's forestry services to assist in addressing climate change;
- achieve accreditation for FPC systems to national carbon schemes.

The FPC's Commitment to a Sustainable Future

The Western Australian Government in September 2004 released a "Sustainability Code of Practice for Government Agencies" which provides the following definition of "sustainability".

"Meeting the needs of current and future generations through the integration of environmental protection, social advancement and economic prosperity".

The FPC has adopted the above definition for the purposes of defining its sustainability strategies.

Environmental protection

The FPC will undertake its activities strategically using Environmental Management System (EMS) processes that optimise benefits for the environment and reduce impacts from actions. Its activities will play a key role in protecting the State's land, water and biodiversity assets through the provision of environmental services which include the following:

- reductions in rising groundwater and salinity;
- improvement of water quality;
- important indirect or downstream benefits to biodiversity by reducing the threat of rising water tables on wetlands or reserves of remnant vegetation.
- provision of renewable energy sources; and
- provision of carbon sinks to offset greenhouse emissions.

Social advancement

The FPC's suite of programs and products provide social outcomes as well as financial returns.

The FPC will endeavour to guide the establishment of a plantation resource in rural areas sufficient to attract infrastructure and provide opportunities for employment in regional communities.

In addition, the FPC will conduct non-commercial community service obligations to the extent required by Government, consistent with approved funding.

Economic prosperity

The FPC will continue to work in partnership with industry, the community and other Government agencies to establish a long-term, viable timber industry. This will be achieved through sound management of existing resources, actively pursuing future investment opportunities, and seeking new economic and policy mechanisms to support the industry in the longer term.

Key Elements

The key elements of the five-year strategic direction for the Forest Products Commission are:

Current Resources and Customers

- Maximum utilisation and local value adding of harvested timber.
- Renegotiate existing sale contracts in order to achieve target financial returns.
- Develop new markets for unsaleable forest products to provide greater efficiency, diversity and stability.
- Ensure harvest and delivery of forest products is undertaken most efficiently and at a competitive price.
- Provide profitable 'fee for service' plantation services using existing expertise and capacity.
- Ensure throughput at the nursery is maintained at levels that best utilise capacity.
- Operate in strict accordance with environmentally sustainable forest management practices.
- In consultation with industry, pursue accreditation under the Australian Forestry Standard.
- Meet industry demands for a consistent and competitive timber supply.
- Complete and implement the sandalwood sustainability plan.
- Secure the plantation estate in the short and long-term, compatible with other land use objectives.
- Produce high quality seedlings meeting internal and customer specifications.
- Research and manage the potential impacts of climate change.

Developing New Business

- Establish a sustainable funding model for ongoing maintenance of FPC's new plantations.
- Establishing the settings to encourage private investment in plantations.
- Contribute to a tree farm estate of a scale that supports a competitive processing industry in the quickest feasible timeframe, consistent with Industry Development Plans.
- Develop profitable markets for arid forest timbers other than sandalwood.
- Develop and deploy genetically improved seed material on a commercial basis consistent with the commercial, environmental and social objectives of the FPC.
- Provide accredited and profitable forestry based services to the carbon market.
- Achieve accreditation to the Greenhouse Friendly (GHF) program.
- Continually develop and where possible commercialise FPC intellectual property.

People and Systems

- Attract and retain quality staff through initiatives ensuring that FPC remains an attractive place to work.
- Employee safety and welfare will remain a priority to the FPC.
- Establish and maintain an environment in which staff operate in accordance with shared values toward a common goal.
- Further refine skills development, with particular focus on leadership and forestry operations.
- Invest in new technology where it improves efficiency, services to stakeholders, or compliance capacity.
- Plan smooth transition to the Office of Shared Services (OSS) in accordance with Government schedule.
- Ensure business and administrative processes operate efficiently and effectively.

Financial Performance

- Achieve target profits and return on capital, and pay dividends to Government consistent with dividend policy.

Forest Industry Services

- Provide Community Service Obligations and other non-commercial services in accordance with Government requirements and agreed funding arrangements.
- Continue to implement the State's Plantation and Farm Forestry Strategy.
- Maintain sound communications with Government, industry and community stakeholders.
- Ensure all benefits provided by the forest products industry – social, economic and environmental – are understood by the community and other stakeholders.

Goals, Objectives, Strategies and Performance Targets

The FPC operates five relatively distinct business segments each with their own operating conditions, markets and financial characteristics.

The following describes the objectives, strategies and key performance indicators of each of the five business segments of the FPC.

South-West Forests

The South-West Forests business segment covers the jarrah, karri, marri and associated native species in the South West. The FPC harvests these timbers for supply to a number of saw mills located throughout the State. The strategy for this segment focuses on profitably supplying timber into an industry producing high value end products, with an emphasis on employment and manufacturing within the State of Western Australia.

The industry has undergone major restructuring and downsizing as a result of the reductions in timber supplies arising from the Government's *Protecting Our Old Growth Forests Policy*. The current Forest Management Plan covers the period 2004 to 2013 and sets the total volume of timber that is allowed to be harvested. The following strategy is based on the FMP approved sustainable yield levels of 131,000 cubic metres and 54,000 cubic metres per annum of jarrah and karri first and second grade sawlogs respectively, plus the quantities of other grades and species relevant to this level of cut.

The industry is still undergoing a period of adjustment reflecting the reduced volumes, the quality of timber coming from the forest, end use markets and increased delivered price. FPC's priority is to maintain a consistent timber supply at an efficient price to the mills. This requires constant management ensuring the planning, approvals and logistics processes are efficient. To achieve this, a partnering approach with industry is required to ensure the harvested timber supply chain delivers the optimal outcome for the industry and the FPC.

While the industry is a mature industry there is new investment occurring, with a new mill at Manjimup commencing operation in 2007, and new plant planned for Albany utilising non committed resource.

The goal for the South-West Forests business segment is:

To develop a profitable native forest products business to produce timber for the high value manufacturing industry in Western Australia.

5 year Objectives

- A viable and sustainable industry based on local downstream processing and increasing product sales.
- A FPC business operating in a profitable manner matched to the resource available.
- Meeting industry's demands for a consistent and cost efficient timber supply.
- Maximum utilisation and value adding of all timber harvested.
- Operating in strict accordance with environmentally sustainable forest management practices.

Key Strategies for 2008/09

1. Work with industry to ensure the timber supply chain delivers the optimal outcome for the industry and the FPC.
2. Reduce supply risk through improved planning and approvals processes.
3. Continue to develop markets and policy settings to allow greater use of residue material.
4. Work with industry to develop improved resource utilisation and additional high value end uses for timber.
5. In liaison with contractors improve the logistics and management of timber harvest and delivery.
6. Review the option of a 'mill door' delivered price model.

Key Performance Targets

- Financial performance meets target (see Appendix C5).
- Contracts for sale achieve 30% recovery of the available gross timber volume (including residues) by 30 June 2009.
- Achieve target for delivery of first and second grade sawlogs in accordance with delivery schedule and the FMP allowable harvest.
- Improved planning and approvals lead times.
- Regeneration of *harvested areas* within time limits as specified in the Forest Management Plan.
- Required percentage of timber resource for value added output is achieved for each contract of sale.

Arid Forests

WA sandalwood remains a stable, high-value resource, used both domestically to extract sandalwood oil which in turn is sold into the international fragrance and pharmaceuticals markets, and exported, primarily to Asia, for the traditional incense market.

The harvesting of WA sandalwood is managed in a sustainable way with a limited annual harvest volume and appropriate regeneration processes. The FPC is the only organisation permitted to harvest the State's natural sandalwood resource and as such looks to ensure the limited production is made available to local and overseas markets. The sandalwood export market is a profitable market, however, is subject to volatility, whereas the local processing industry is developing on the back of sandalwood oil's acceptance into the international fragrance market. There is strong demand in both the domestic and export market for sandalwood, well above current supply levels. Supply from natural stands is constrained legally so little opportunity exists to increase the level of harvest. Available resource can only be increased by improved utilisation of each harvested tree and by increasing the harvest of dead sandalwood.

The FPC seeks to ensure suitable supplies are made available to meet the growing local demand allowing local industry to develop while providing ongoing support to the more lucrative overseas export markets. The domestic market is dominated by Mt Romance Australia which is supplied under a long term contract whereas export sales are to long established Asian buyers. Achieving this balance of supplying a limited resource to both the domestic and export markets remains a strategic imperative for the FPC.

The development of plantation grown sandalwood timbers, both *Santalum album* and *Santalum spicatum*, form a key part of the strategy to maintain ongoing sandalwood supplies to FPC's existing markets as the natural sandalwood harvest declines over time. To achieve this balance in a timely way that maintains market certainty, a more detailed knowledge of the field inventory is being developed.

A number of other timbers, including aromatic timbers, are also available to the FPC, however, the markets for these products are in their infancy.

FPC's significant scientific and operational knowledge of sandalwood is a valuable asset which FPC is looking to secure and commercialise.

The goal for the Arid Forest business segment is:

To expand Western Australian sandalwood and desert timbers as a high-value business, by demonstrating the sustainability of the native harvest and investing in plantation development.

5 Year Objectives

- Consolidation and expansion of existing and new markets to provide stability and diversity, increased profits and appropriate levels of local value adding.
- Complete and implement the sandalwood sustainability plan.
- Optimise use of the resource.
- Ensure the harvest and delivery of forest products from woodland areas is undertaken at a competitive price.
- Investigate market potential for other desert timbers, both aromatic and sawlog.
- Conduct limited trials in sandalwood (*Santalum album* and *Santalum spicatum*) plantations.

Key Strategies for 2008/09

1. Complete sandalwood sustainability plan using field inventory and data analysis.
2. Seek agreement of Conservation Commission, DEC, identified aboriginal communities and pastoralists to intensive regeneration and management.
3. Review sandalwood regeneration program with view to more targeted activities.
4. Secure and commercialise FPC's sandalwood intellectual property where appropriate.
5. Continue to develop markets for lower grade sandalwood product.
6. Review harvest contracting arrangements to ensure performance meets target.
7. Work with pastoralists to increase dead sandalwood harvest.
8. Review the possible harvest and supply of other desert timbers (aromatic and sawlog) where profitable and sustainable supply exists.
9. Contribute research and trial information to inform sandalwood industry development planning, protecting intellectual property where appropriate.

Key Performance Targets

- Financial performance meets target (see Appendix C5).
- Root recovery to remain above a minimum of 10% of total green sandalwood harvest.
- Green sandalwood harvest not to exceed 1,500t per annum.
- Sandalwood sustainability plan completed by January 2009.
- Markets for lower grade sandalwood established.

Mature Plantations

The mature plantation business segment relates to established plantations (largely *Pinus radiata* and *Pinus pinaster*) from Wanneroo to Manjimup where both the resource and its processing industry are significantly mature.

It is a well developed industry focussed on a few significant processing plants located in the South West and Perth supplied under long term contracts underpinned by various State Agreement Acts. There is, however, a lack of investment in new Radiata Pine plantings either by Government or the private sector as the current economic returns are insufficient to justify any further investment. In fact the Radiata Pine estate is diminishing in size as the area of harvesting exceeds the level of replanting. If Western Australia is to maintain the current level of self sufficiency in pine, let alone meet the expected future demand, financial returns to the grower (i.e. FPC) need to increase to meet minimum required rates of return.

In addition to this lack of new investment, some plantations within this estate will, because of public land use decisions, be removed from ongoing plantation production. In particular, Gnangara, Pinjar, Yanchep and Peel are not currently planned to be replanted after clear fell, requiring replacement plantation estate to meet long term supply commitments. In addition some plantation area lost to fire has not been replanted to pine due to financial constraints. The replanting of this land is a key priority over the next three years. This incremental loss of estate to competing land use requirements needs to be addressed such that the State's commitments under the State Agreement Acts can be met beyond their current term.

The markets for industrial wood and residue products are currently insufficient to make full use of the available resource despite recent gains. An ongoing strategy to develop markets for these products is a key to improving the profitability of the business segment.

The strategic direction in the mature plantations business segment is one of consolidation and maximising the returns from the plantation asset. The goal adopted for the area under plantation is:

To maximise the commercial return for FPC's existing products, and where viable expand the resource base supplying the established industry.

5 Year Objectives

- Improve financial returns from existing sale contracts through contract renegotiation.
- Maximise log production and financial return from the plantation estate through additional sales and improved utilisation.
- Secure the plantation estate in both the short and long-term, compatible with other land use objectives.
- Establishing the correct settings to allow for an increase in private investment in pine plantations.
- Maintain the existing estate and wood supply by ensuring any land lost due to land use change is replaced or otherwise compensated for by the proponent.

Key Strategies for 2008/09

1. Work to increase the commercial returns from the mature plantation estate through price renegotiation with major customers and sale of uncommitted resource.
2. Work with other Government agencies to negotiate security of land use.
3. Seek access to public or private land at low cost where plantation establishment would be beneficial.
4. Address backlog of second rotation plantation establishment.
5. Achieve improved resource recovery and profitability through application of new inventory technology.

Key Performance Targets

- Financial performance meets target (see Appendix C5).
- Cost of harvesting and cost of re-establishment not to exceed budget
- Economic returns from plantations to increase to meet FPC hurdle rate.
- Establish 300 ha of second rotation backlog.
- Pre Harvest Inventory (PHI) introduced and applied in harvest operation for 30% of clearfall harvest areas.

New Plantations

The New Plantations business segment focuses on expanding the tree farm and plantation estate where a processing industry has not yet developed to any significant level. The opportunities for expanding this estate are large, but investment based on timber returns alone in areas of low to medium rainfall, remote from existing markets, is not likely to be possible in the foreseeable future.

The strategy that FPC is pursuing is a scenario of an integrated investment based on environmental services (watertable control, salinity, carbon sequestration), plus forest products (timber, fibre, biomass, oils etc.). It is noted that controlling water tables is a tool for protecting biodiversity, water resources and community infrastructure at a regional scale. The FPC sees itself as a facilitator within the industry to develop and promote the vision of industry scale plantations delivering the environmental, social and economic benefits to the State. This may include the provision of existing FPC expertise and capacity on a fee-for-service basis. FPC does not see itself as a direct investor in new plantations in these areas unless financial returns meet investment hurdle rates.

Elements of the New Plantation strategy also contribute to providing replacement plantation estate lost to competing land use. Much of the plantation establishment activities in the mid-west region of the State are to establish a new pine resource for the Gngangara pine estate that is not to be replanted to pine once clear felled.

The New Plantations business segment strategy contemplates high levels of investment, partly from salinity action by Governments and increasingly from private sector investment, both directly in timber and in carbon values, and indirectly through plantation investment schemes. The FPC's Strategic Tree Farming initiative is a major project focusing on the establishment of tree farms and plantations in areas where significant water values can be obtained. A key element of the Strategic Tree Farming initiative is the ongoing research and development into the silviculture, plant breeding and utilisation of forest products to meet the objective of establishing viable tree farm estates in medium to low rainfall areas.

The FPC is confident that the Strategic Tree Farming project will continue into any ongoing water quality and salinity amelioration programs. Should this not be the case and no alternative funding source secured, the future of the Strategic Tree Farming project would need to be reviewed. This would necessitate a significant restructuring of this business segment.

The funding of the ongoing maintenance of the plantation estate needs to be clarified with the FPC reviewing alternative scenarios to fund this activity into the future. Should a suitable model not be found FPC would need to seek Government financial support to allow these plantations to grow to maturity or alternatively seek to divest of the plantations. Funding options to be considered include selling the plantations, renegotiation crop share arrangements with land owner in exchange for contribution to maintenance, or selling future timber rights.

The New Plantation business segment has great opportunity in the emerging carbon market. FPC will pursue accreditation to the Greenhouse Friendly (GHF) program to participate in the proposed federal Government Emission Trading Scheme.

The goal adopted for this area of business is:

To establish commercially viable tree farm estates within identified cells to enable sustainable development of regional timber processing industries and to deliver significant regional environmental services.

5 Year Objectives

- For each cell, a tree farm estate of a scale that will support a competitive processing industry in the quickest feasible timeframe.
- Maximise the contribution to salinity and watertable control consistent with regional NRM strategies.
- Strategic Tree Farming is a key element of future water quality and salinity amelioration programs.
- Provide profitable ‘fee for service’ plantation services to the market utilising existing FPC expertise and capacity.
- Establish a sustainable funding model for ongoing maintenance of new plantations.
- Provide accredited profitable forestry based services to the carbon market.
- Ensure the potential impacts of climate change on plantation programs are well understood and managed.

Key Strategies for 2008/09

1. Work with NRM groups to deliver the environmental outcomes promoted through the Strategic Tree Farming project.
2. Continue to develop new plantation projects where investors are focussing on mid to low rainfall areas.
3. Establish a suitable model to fund the ongoing maintenance of new plantation estate.
4. Continue to investigate and promote opportunities for new tree crop and plantation species suitable for mid to low rainfall areas.
5. FPC will facilitate possible leverage of public funding using private sector funds to maximise new plantation establishment.
6. Work to maintain Government’s investment in Strategic Tree Farming to at least current levels to ensure achievement of long term goals.
7. Continue to develop suitable products and services suited to the requirements of the emerging carbon markets.
8. Continue to implement the State’s Plantation and Farm Forestry Strategy.
9. Pursue accreditation to the Greenhouse Friendly (GHF) program.

Key Performance Indicators

- Establish plantings within budget and in accordance with agreed program (100% of land acquired for planting and 75% of target areas established within the financial year).
- Appropriate funding strategy for ongoing plantation maintenance established.
- Unit cost of plantation establishment meets target.
- Systems implemented to measure reduction achieved in salinity and improvements achieved in water quality on 10 sites identified in the Monitoring and Evaluation Reporting Plan.
- Greenhouse Friendly accreditation attained.

Plant Propagation

Plant Propagation Centre comprises the activities that produce high quality seed and seedlings to support the FPC's core business. This includes providing seedlings to the FPC's new plantations, replanting of areas of harvested plantations and regeneration of native forest.

This segment includes the Manjimup Nursery, Seed Technologies and the Tree Breeding unit. The Manjimup Nursery was a major capital development prior to the establishment of the FPC and was designed for a throughput of 40 million seedlings per annum. Current throughput is about 10 million per annum with financial breakeven at about 12 million per annum. The current commitments for seedlings under the Strategic Tree Farming project take throughput to above this figure.

The FPC's extensive knowledge and intellectual property in improved generic material provides commercial opportunities for the FPC. It is planned to expand this part of the FPC business to sell improved genetic seed and seedlings to other forestry companies.

The Plant Propagation Centre will also take advantage of opportunities that arise to provide seeds and seedlings to external customers where it is economically viable to do so and where it does not compromise the FPC's core business objectives.

The goal adopted for this area of business is:

Through the use of technology, to provide quality seed and seedlings suited to the location and purpose, primarily for FPC operations but also for external customers, on a commercial basis.

5 Year Objectives

- To maintain throughput at the nursery at levels to achieve at least financial breakeven.
- To produce high quality seedlings meeting customer specification.
- To develop and deploy genetically improved seed material on a commercial basis.
- Tree Breeding programs are designed to provide genotypes consistent with the commercial, environmental and social objectives of the FPC tree planting programs.

Key Strategies for 2008/09

1. Pursue external sales to a moderate degree focussing on quality production.
2. Seek to use non-productive land or other assets at the Nursery to generate income where this does not detract from core business.
3. Limit capital expenditure to critical works to ensure quality of production.
4. Review suitability of primary species in light of possible climate change impacts.
5. Pursue external seed sales only where it does not impact on FPC core business.
6. Develop markets for genetically improved seed material.

Key Performance Indicators

- 95% of orders filled on time and to specification.
- Unit cost of seed and seedlings not to exceed budget unit cost.
- Achieve species targets for seed collection.
- Achieve budget target for seed sales.

Overarching and Support Services

A number of strategies are common to the achievement of the goals of each of the five business segments. These strategies are driven at the whole of agency level providing the operational, financial and quality systems to deliver the FPC objectives. Particular initiatives in this area are listed below.

The goal adopted for overarching and support services is:

To ensure the efficiency and profitability of all FPC business operations through the provision of appropriate services, systems and resources.

Australian Forestry Standard

The FPC currently maintains its Environmental Management System to the ISO 14001 standard. The Australia Forestry Standard (AFS) is an improved standard sought by industry to gain and maintain access to export timber markets. The FPC is committed to introducing the new standard in consultation with DEC and with the industry. The costs of implementing the Australian Forestry Standard are not insignificant and the FPC has indicated it will seek to recover some of the cost via a 'levy' on log sales. The FPC has indicated that the cost of implementing the AFS would be borne by the agency with the ongoing maintenance to the standard being recovered through the log levy. The FPC will also review the option of introducing the AFS into discrete parts of the business rather than the whole agency if, in consultation with industry, it is considered a targeted implementation to meet specific market demand is appropriate.

Human Resources

The ability to attract and retain quality staff in a highly competitive labour market requires initiatives to ensure that the FPC remains an attractive place to work. The FPC, like a number of Government agencies, is experiencing high levels of staff turnover with corresponding difficulties in recruiting experienced and qualified replacement staff. A number of programs and initiatives to improve employee attraction and retention are being developed and will be implemented.

Specifically the FPC will continue to evolve its Workforce Development Strategy to ensure its staff have the necessary capabilities to deliver on the strategy.

The FPC will also continue to focus on skills development with particular focus on leadership development and operational forestry. Employee safety and welfare will continue to be a priority to the FPC.

Intellectual Property

The FPC's intellectual property in the science and technology of forestry ranging from improved seed genetics and silviculture practices to growth models, is of considerable value to the agency. The FPC will actively manage this intellectual property to both protect and, where possible, commercialise its value. Where IP is attained through public funded projects the FPC will seek to make that IP available to industry.

Land Transfer

The Statutory Review has recommended that ownership title of plantation land currently in the name of the Executive Director (CALM/DEC) be transferred from DEC to the FPC. A specific project is required to arrange the title transfer but also to ensure all ownership responsibilities are understood and appropriate management practices assigned.

Office of Shared Services

FPC has been planning at a high level for the transition to the Office of Shared Services (OSS). The transition date for the FPC has been moved out to 2009 at the earliest. In the meantime the FPC will continue to develop internal processes and systems consistent with those proposed by the OSS. As part of preparation for the move, the FPC will review the Service Level Agreements it has with DEC for the provision of

Human Resource and Finance functions with the view to identifying options for the delivery, including possible insourcing, of those services not to be provided by OSS.

DEC/FPC Memorandum of Understanding

The Memorandum of Understanding that exists between FPC and DEC as the result of the Expenditure Review Committee's decision in 2006 outlines the arrangements with which the FPC must purchase services from DEC to the value of \$7.6 million pa (indexed). Each year a works program, is agreed between the two agencies detailing the works that will be performed. The FPC remain concerned that this arrangement is unsatisfactory in that it imposes a fixed cost to the FPC where it has little control over either the efficiency or effectiveness of the services provided. The FPC will continue to work with both DEC and the Department of Treasury and Finance (DTF) to seek improvements to this arrangement to provide value for money outcomes to the FPC consistent with recommendation 13 of the Statutory Review into the Forest Products Act.

FPC Commitments to Fire Management

The FPC provides significant human resources to the fire control activities of WA. Specifically a number of highly experienced FPC staff are actively engaged in the fighting and suppression of wild fires within the DEC fire model. While the FPC is reimbursed from the DTF via DEC for the direct cost of staff time in attending fire events a number of other direct and indirect costs incurred in providing this service are funded internally. Much of the FPC's capability in fire management comes from long serving employees highly experienced in fire suppression. These resources need to be replaced through the identification, training and development of new staff. FPC's involvement in fire suppression comes at a cost to FPC's operational performance in that the deployment of FPC staff to fire activities takes them away from their core FPC responsibilities. The FPC will look to an improved financial arrangement to fund appropriate training and development of staff involved in providing this service.

Information Technology

Additional investment is planned in the period to update several FPC information systems. New computer applications are planned in the following areas:

- Contracts Management – Systems to track performance and obligations of FPC sale and purchase contracts.
- Billing – A system to replace the ageing LOIS system.
- MIS – Management Information System to consolidate and deliver management information across the agency.
- Sandalwood Inventory – A system to manage and control sandalwood inventories at FPC sandalwood processing and marketing agent, Wescorp.
- Document Management – To introduce an electronic document management system across the agency.
- IT Network – Ongoing investment in the distributed wide area network.
- Content Management – A system to manage FPC's online content on the intranet and internet.
- Customer Relationship Management system – the development of a CRM capability.
- Log Tracking – A system to individually identify and track higher value logs (arising from OAG's 2007 report).

Communications

The FPC will continue to provide a high level of communication with stakeholders including customers, contractors, other Government agencies and the general public. The FPC will continue to liaise and consult with industry ensuring a collaborative approach to issues impacting on the industry.

Business Process

Continued focus will be on business process review to ensure administrative and business processes operate efficiently whilst delivering the requirements of good corporate governance.

Basis of Financial Forecasts

The financial forecasts have been developed on the most likely case to give greater certainty and comfort to the forecasts. Customer sales revenue is determined by a number of factors including customer demand together with the Commission's ability to supply. Forecast customer demand is determined through discussions with customers and customer contracted volumes. The Commission's ability to supply is impacted by external factors such as weather, fire and contractor capacity. FPC's production forecasts are based on the ability the harvest during an average year's weather and fire conditions.

While FPC works actively to pursue new business opportunities, until negotiations are at an advanced stage and the project is nearing completion and supply commencement date relatively certain no allowance is made in the forecasts. The FPC's expenditure budget and resourcing model is based on these conservative revenue forecasts to provide greater certainty that FPC will meet its dividend target and providing the opportunity for upside should favourable conditions result and projects eventuate.

Revenue Forecasts

The revenue items within the financial projections are based on current contracted volumes with price escalation based on the provisions of each individual sale contract. The forecasts do not include potential sales opportunities which may evolve over the forecast period. While the Commission is constantly evaluating possible sales opportunities, the long lead-time coupled with overall uncertainty of the timing of new projects makes accurate financial estimates problematic.

Native forest production levels have been set at levels conforming with the Government's *Protecting Our Old Growth Forests Policy* under the *Forest Management Plan 2004-2013*. The predetermined price path for these supply contracts has been used in the forecasts though some allowance has been made for possible impacts arising from potential industry restructuring.

Mature Plantations revenue levels are set at conservative sales volumes taking into consideration current production levels and the customers' view of future supply requirements.

Estimates of sandalwood sales are based on current contracted volumes to Mt Romance Australia with uncontracted volumes for sale at export price into the export market (or additional domestic sales at export parity pricing).

Expenditure Forecasts

Expenditure forecasts are developed based on existing business practices with specific allowances made for additional staff in some areas in response to operational constraints, increase plantation maintenance on early STF plantations, and provisional amounts for possible additional drought response actions.

Capital Investment

The FPC capital investment programme is limited to investment in new plantations and a program of replacing and/or upgrading plant and equipment, information technology, and land and buildings. These investments will be funded from internal resources and or debt, once appropriate business cases are developed and approvals are obtained.

New Investment in Plantations

Investment in new plantations is limited to the Strategic Tree Farming initiative under the National Action Plan for Water Quality and Salinity. Under the funding arrangements for the NAP the State's contribution will be met in the first instance by the FPC from its approved long-term borrowings program. The servicing

costs of these borrowings (principal and interest) are met by Government as a Community Service Obligation.

Additional investment in the establishment of new plantations to service established industries e.g. south west pine sawlog industry, will only be pursued where improved contracted prices allow investment to meet FPC investment hurdle rates.

Occasionally opportunities arise to purchase private plantations which, if of strategic importance, FPC would wish to acquire. FPC would seek separate approvals to purchase these private plantations only if the financial returns meet FPC investment hurdle rates.

Plant and Equipment

An ongoing program of asset replacement and upgrade has been built into the plan, funded out of working capital.

Information Technology

Additional information technology investment is also included within the capital budget to improve FPC's IT applications and infrastructure. The specific initiatives are included in page 21.

2nd Rotation Backlog

Included within the capital budget is an allowance for a program to address the 2nd rotation plantation backlog.

Funded Community Service Obligations

The forward estimates do not include direct funding from Government of the Community Service Obligations as recommended in the Statutory Review of the Forest Products Act, estimated to be in the region of \$4 million per annum, nor do they include an additional \$500,000 pa to fund the forestry lead agency role recommended by the review. Community Service Obligations are described in more detail in Section 9.

New Borrowings

The FPC will continue to utilise the approved borrowings program to fund the Strategic Tree Farming initiative under the NAP. The approved borrowings program finishes in 2008 pending any renewal of the NAP program. An additional funding approval has been received via the 2008/09 budget process for new borrowings of \$1 million /pa for 5 years to fund the reestablishment of 2500 hectares of plantation estate.

Interest and Debt

The Commission's interest on long and short term-debt as well as its exposure to movements in short and long-term interest rates is managed, in consultation with the Western Australian Treasury Corporation (WATC), under the WATC's Portfolio Lending Arrangement. The objective of the Portfolio Lending Arrangement is to ensure an optimal mix of long and short-term debt, aligned as closely as possible with the Commission's operating cash flows.

The Commission's debt to equity ratio is higher than all other state owned forestry agencies mostly arising from the debt FPC inherited on establishment from CALM. The FPC will be looking at ways to improve its gearing ratio.

Exchange Rate Management.

FPC uses forward purchase contracts to manage its exposure to foreign exchange rate movements. FPC exports of sandalwood are priced in US dollars. FPC's foreign exchange policy determines that revenue from 15 months of anticipated sandalwood US dollar sales are 'locked' in at a forward \$US/\$A rate. No forward cover exists beyond the 15 month period.

Annual Works Agreement between FPC and DEC

The forecasts include the annual appropriation from the 2006 ERC decision which requires the FPC to pay to Treasury an amount of \$7.6 million per annum (indexed) for works performed by DEC through an agreed annual works program.

Working Capital

FPC manages its operating cash position to optimise the cost of working capital. Prepayments of short term debt or delayed debt drawdowns through the WATC Portfolio Lending Arrangement are used to manage periods of excess cash. The bank overdraft or short term facilities through WATC are used to manage short term cash shortfalls.

Dividend Policy

FPC's dividend estimates are based on the approved FPC dividend policy. This policy requires the FPC to pay a dividend to the State an amount equal to 50% of the adjusted operating profit after tax. Adjusted operating profit after tax is the profit excluding the impact of revaluations of Natural Resource Assets and abnormal items.

Accounting Policies

The Commission's financial statements are prepared in accordance with Australian Accounting Standards, as detailed in the Financial Statements included in the Commission's Annual Report.

Performance Reporting

The Forest Products Commission will provide the Minister for Forestry with a written half-yearly report and an annual report summarising progress made in fulfilling the intentions of this Statement.

The half-yearly report will be submitted to the Minister in accordance with Section 19 of the *Forest Products Act 2000*. The half-yearly report will be the mechanism for measuring the performance against the Statement of Corporate Intent and will include comments on variations from the plan.

As part of this report the Commission will provide information on its balance sheet, profit and loss, cash flow and capital expenditure.

In addition to the half-yearly report the Commission will advise the Minister of any significant variations in the performance of the Commission and of any factors that may prevent the agreement being fulfilled or necessitate its re-negotiation.

Annual Report

The annual report will contain:

- a report on operations;
- a copy of financial statements for the financial year;
- the Chairman's statement;
- a copy of the Auditor General's report on the financial statements;
- particulars of any direction given by the Minister and its impact on the financial position, profits and losses and prospects of the Commission; and
- a summary of reports to the Commissioner for Public Sector Standards on the observance by members of staff on any code of conduct.

Appendix A: Potential Additional Business Opportunities and Revenue Streams

As noted earlier the Commission's financial forecasts contained in this document are based on the most likely circumstances for the year and do not include the effect of potential net revenues which would accrue from new business ventures.

The Commission has applied considerable effort in its endeavours to pursue forestry business opportunities to enhance its profitability and therefore returns to Government. Steady progress has been made on this front and some projects are now at an advanced stage.

The table below, which shows projected profit before interest and tax, outlines business projects which are at an advanced stage and rated as having a good chance of being successful.

Project Description	Value \$'000	Year
Sale of 300,000 tonnes native forest residue to new industry.	600	2008/09
Sale of plantation establishment services to carbon sequestration project.	500	2008/09
Sale of 80,000 tonnes of pine industrial wood	900	2008/09
Sale of 300,000 tonnes per annum of plantation timber residue to biomass energy projects	1,200	2008/09
Sale of 75,000 tonnes industrial wood from Albany plantation resource.	300	2008/09

The FPC is in various stages in the sale negotiations with potential customers for each of these initiatives. In each case the FPC is working with existing and potential customers to develop product/service specifications, confirm resource availability, and agree commercial terms.

The forestry industry is an industry where a resource is matched with one, or only a few, customers. A balance needs to be achieved between the need to establish a market for the resource and to achieve full value for that resource. The supply to the customer/project is the major input to the operation and the negotiated supply contract forms an element to the projects' commercial viability. Supply contracts require large and long-term supply commitments to ensure the viability of the project. As such, a balance needs to be achieved between the commercial return from the timber resource and the need to establish a market and associated processing infrastructure. It should be noted that the State receives considerable social and industry development benefits from such projects in addition to the direct financial returns to the FPC.

In the greenfield business projects identified (e.g. exotic eucalyptus, engineered products, biomass energy plants) the supply arrangements are one element of the project economics being evaluated by the proponents. In cases of existing customers the FPC is working to make additional profitable supply to customers wishing to invest in increased production capacity.

Major new revenue opportunities exist in the emerging carbon offset market where plantation trees provide carbon offsets through sequestration. The opportunities to the FPC from this market are considerable though timing of the market opportunities will depend on the timing and nature of the proposed federal Government Emission Trading Scheme.

Appendix B: Community Service Obligations

Recommendation 1 of the Statutory Review of the Forest Product Act 2000 states that the FPC should retain responsibility for its non-commercial activities and include a full description of these in its annual Statement of Corporate Intent, identifying their cost, funding source and impact on the financial performance of the organisation.

Currently the FPC is in receipt of two Community Service Obligation funding relating to debt servicing. The FPC receives an amount of \$1.070 million pa for the cost of servicing native forest debt which was incurred prior to the formation of the FPC. This payment is made in recognition of the effect of the State Government's *Protecting our Old Growth Forest Policy* and *Forest Management Plan 2004-2013* reduction in native forest harvesting levels and associated revenue decrease. It also receives an amount of \$2.3 million to service (principal and interest) FPC borrowings used to fund the National Action Plan for Water Quality and Salinity.

As identified in the statutory review FPC undertakes a number of non-commercial activities where expenditure is incurred or revenue foregone to support broader Government objectives. The Statutory Review also recommended that FPC take on a broader industry advisory/lead agency role to lead the development of the broader industry including policy development and industry coordination and liaison.

The following summary outlines the types of non-business activities likely to be expected of the FPC by Government, including an expanded 'lead agency' role for forest-based industries in Western Australia.

Category	Activity	Description
Lead Agency	Forestry policy and stakeholder management	Supporting ministerial office through public relations, Ministerial Advisory Committees, industry forums, ministerial enquiries and media.
	Plantation and Farm Forestry Strategy	Implement the State Government's Plantation and Farm Forestry Strategy.
	Industry development and support	Activities undertaken in supporting the industry including formulation of industry development strategies and policy development.
	Industry leadership	FPC role in performing forest industry leadership role. Executive and Commission engagement in industry leadership and Government policy implementation.
	Private Forestry Development Committees	Direct financial support to Private Forestry Development Committees (PFDCs).
Sustainability Strategy	Delivery of NAP program	Resources to provide oversight, liaison and delivery of the Strategic Tree Farming initiative through the NAP.
	90 day credit terms	Cost of providing extended 90 day payment terms to native forest customers negotiated as part of industry rationalisation under old growth forest policy.
Research and Development	End-use timber research.	Supporting downstream processing industries, researching timber applications in furniture and other high-value end uses.
	Strategic Tree Farming research and development	R&D activities aimed at developing new species and systems for low rainfall areas underpinning NAP's Strategic Tree Farming initiative.
	Development of Carbon Systems	R&D and verification systems developed for the assessment of carbon in the main plantation and tree farming species.

In the past the FPC has spent in the order of \$4 million per annum from retained revenue on these types of activities. It is estimated that additional lead agency responsibilities related to policy advice across whole the forest industry may amount to a further \$250,000–\$500,000. Additional research and development or industry development required by Government may add further to this.

The cost of providing these services of behalf of Government is currently borne by the FPC and results in reduced reported profit and therefore reduced financial dividend to the State. The ability for FPC to continue to provide these services from internal funds is in question and the FPC will seek direct funding of the services through the budget process.

Appendix C

Forecast Financial Statements 2008-09

- C1 Income Statement
- C2 Cash Flow
- C3 Balance Sheet
- C4 Financial Ratios
- C5 Segment Profitability by Major Business Segment

Appendix C1

Forecast Income Statement 2008-09 (\$'000)

	2008/09 '000
Gross Operating Income	113,725
CSO Income	1,800
Total Income	<u>115,525</u>
Total Expenditure	<u>(108,441)</u>
Earnings before Interest & Tax	7,084
Interest	<u>(6,568)</u>
Operating Profit before Tax	516
Taxation	<u>(155)</u>
Net Profit after Tax	362
Statutory Dividend	(850)

Appendix C2

Forecast Statement of Cash Flow as at 2008-09 (\$'000)

	2008/09 '000
Operating cash flows:	
Receipts	115,575
Payments	(113,936)
Net cash flow from operating activities	<u>1,640</u>
Financing activities:	
Borrowings	1,000
Debt Repayments	(4,171)
Net cash from financing activities	<u>(3,171)</u>
Investing activities:	
Capital Inflows	-
Capital Expenditure	(7,591)
Net cash flow from investing activities	<u>(7,591)</u>
Funding from/(to) Government:	
Proceeds from Government	4,370
Payments to Government:	
Taxation	(155)
Dividend to State Government	(850)
Net cash from/(to) Government	<u>3,365</u>
Total cash flow for the period	(5,758)
Opening Cash Balance	35,488
Closing Cash Balance	<u><u>29,730</u></u>

Appendix C3

Forecast Balance Sheet 30 June 2009 (\$'000)

	2008/09 '000
Current Assets	
Cash Assets	29,730
Trade Receivables	17,961
Accrued Revenue	14,868
Sandalwood Inventories	3,880
Inventories	1,505
Other Financial Assets	2,500
Current Nap Capitalisation	-
	70,444
Non Current Assets	
Operational Assets	19,147
Forestry Assets	345,677
	364,824
	435,268
Total Assets	
Current Liability	
Trade Creditors	(7,956)
Employee Obligations	(4,500)
GST Payable	(51)
Tax Payable	(39)
Interest Payable	(1,642)
Deferred Revenue and Expense	(6,134)
	(20,322)
Non Current Liability	
Term Debt	(85,982)
Deferred Revenue and Expense	(74,001)
Term Provisions	(4,198)
Deferred Tax	(2,435)
	(166,616)
Equity	
Equity	(247,619)
Reserves	(4,000)
Rounding	1
Dividend Paid	3,650
NPAT	(362)
	248,329
	435,268

Appendix C4

Financial Ratios as at 30 June year end

	2008/09
<u>Current Assets</u> Current Liabilities	2.35
<u>Total Borrowings</u> Total Equity	35%
<u>Net Profit after Tax</u> Total Assets	0.08%
<u>Net Profit before Interest and Tax</u> Total Assets	1.63%
<u>Total Dividends</u> Total Equity	-0.34%
<u>Expenditure</u> Income	-94%

Appendix C5

2008/09 Segment profitability (note) by main business segment (\$'000)

Year	South West Forest	Mature Plantations	Arid Forests	New Plantations	Plant Propagation Centre	Corporate and Support Services	Total
2008/09	9,132	10,813	6,001	(4,810)	(4,028)	(8,952)	8,156

Note: Earnings before Interest, Tax and Depreciation (EBITDA)