

Nature and scope of activities

Forests NSW is a public trading enterprise within NSW DPI. Our role is to manage more than two million hectares of native and planted forests on behalf of the people of NSW. In undertaking this role we combine a sharp commercial focus with a strong commitment to high environmental performance standards.

Forests NSW comprises five branches:

- Planted Forest Operations
- Native Forest Operations
- Commercial Services
- Financial and Operational Business Services.
- Land Management and Technical Services

For more information see the separate report we prepare each year as a public trading enterprise and its companion social, economic and environmental report.

Major outcomes achieved

Primary industries competitiveness increased

Commercial performance

Forests NSW made an underlying trading profit of \$28.04 million in 2006-07. While below target, this was still a strong result given the slow market conditions and losses sustained during the fire season.

Revenue from timber sales was lower than projected due to softer market conditions in the housing and construction industry for most of the financial year and lower prices received for fire affected timber. On the other side of the ledger, costs rose due to sharp increases in fuel prices, which prompted development of new cost-sharing mechanisms with industry.

The trading downturn was offset by the sale of NSW Greenhouse Abatement Certificates, together with the sale of surplus assets, and the strengthening of some market sections late in 2006-07.

Fitch Rating, engaged by NSW Treasury to review the credit ratings of all government businesses, reviewed our business in March 2007. Forests NSW was pleased to maintain its BBB minus rating and thereby achieve a key financial performance target.

Price review

In 2005-06 Forests NSW initiated the Review of Pricing for NSW Public Native Forest and Hardwood Plantation Log Products to address ongoing industry pricing concerns, review pricing principles and systems, and re-set log prices where warranted. This financial year consultants engaged by the review's steering committee consulted with industry stakeholders and prepared a draft report and recommendations. The steering committee will forward the final report to the Minister for consideration.

Industry development (State Plan: P6)

The major developments for the year were:

- the opening of the Allied Timber Products new sawmill in Raglan near Bathurst, which will process up to 90 000 cubic metres per annum of Forests NSW softwood plantation sawlogs. Approximately \$10 million has been invested to date
- significant progress has been made towards completion of the McVicar mill at Quirindi near Tamworth, designed to process up to 115 000 cubic metres per annum of Forests NSW softwood sawlogs. \$6 million has been invested to date
- the upgrade of the Norske Skog newsprint mill at Albury, which has considerably increased production. An additional \$130 million has been invested.

Planned expansions include the Visy Pulp and Paper second stage development of their Tumut mill. This \$450 million project is expected to create around 900 jobs in the Snowy Mountains region.

Business development (State Plan: S8, P6, E8)

With the sale of NSW Greenhouse Abatement Certificates generating over \$9.5 million in 2006-07, Forests NSW continued to explore other commercial opportunities from non-timber products and services. Driving this strategy is the newly established Enterprise Development Group. Among potential services that the group may consider are biodiversity management, enhancement of water quality and quantity and commercial recreational opportunities.

In other business development initiatives, Forests NSW finalised plans for a feasibility study into the collection and processing of biomass residue from the harvesting of softwood plantations in the Macquarie Region. A two-year timeframe to complete the study is proposed.

Plantations strategy (State Plan: P6, E4)

Recognition of the need to improve plantation productivity and profitability prompted Forests NSW to develop a strategy that establishes a framework for business decision-making. Consistent with the State Plan, the strategy also outlines actions to deliver economic, social and environmental benefits to regional and rural communities.

Plantation timber quality study (State Plan: P6)

Forests NSW is taking part in the most comprehensive study of wood properties currently in progress in the world. The study is investigating the genetics of wood quality in plantation-grown *Eucalyptus pilularis* (Blackbutt). A Forests NSW plantation near Port Macquarie is one of three sites being used in the study. The end-goal is to select seedlots that will produce Blackbutt plantations with superior growth and wood quality traits, thereby increasing the value of forest production for both Forests NSW and our timber processing customers.

Appropriate access to natural resources

Wood supply agreements (State Plan: P6, E4)

During 2005 Forests NSW commenced the final stage of a process to secure sales of low quality sawlogs (salvage sawlogs) under long-term wood supply agreements and give resource security to all major north coast customers. 2006-07 marked the signing of new wood supply agreements by the majority of customers.

Brigalow Belt South and Nandewar Regional Assessment (State Plan: P6, E4)

In line with the NSW Government's decision on the regional assessment, Forests NSW commenced non-commercial thinning of regrowth cypress to provide future sawlogs to the industry. A review of the inventory of timber supply of the cypress forests south of the Brigalow bioregion also commenced.

Primary industries reflect principles of sustainable development

Sustainable forestry (State Plan: P6, E4)

Continuous improvement in sustainable forest management was a high priority throughout 2006-07 and led to the major achievement of being certified under the Australian Forestry Standard for the management of both native forests and plantations.

Following publication last year of ecologically sustainable forest management plans for native forests in Regional Forest Agreement areas, Forests NSW completed corresponding draft plans for planted forests. We will publish the final plans after taking public comment into account.

Independent audits of the Environment Management System (EMS) were conducted throughout the year to ensure that Forests NSW maintained its environmental performance according to ISO 14001. The EMS certification gained in mid-2006 subsequently allowed us to apply for certification to the Australian Forestry Standard, which was achieved in December 2006.

The Australian Forestry Standard certification assures all stakeholders that our forests are managed sustainably and gives customers greater confidence regarding the environmental, social and economic credentials of their timber products. It will also help to ensure that timber products from logs harvested in NSW state forests remain competitive in local and international marketplaces.

Red gum wetlands (State Plan: P6, E4)

Under the multi jurisdictional Living Murray program, the NSW Government and the Murray Darling Basin Commission jointly purchased a 1 480 hectare property located downstream of Echuca and encircled by Forests NSW red gum forests. The main section of the property was added to the Perricoota/Koondrook group of forests, part of 84 000 hectares of the NSW Central Murray state forests listed as a wetland of international significance under the Ramsar convention.

Acquisition of the property will allow the periodic flooding of the Perricoota/Koondrook forests, an area of approximately 31 000 hectares, which is crucial to the ongoing health and productivity of the entire forest ecosystem.

Adopting best practice health and safety standards

Safety improvements

As a self-insurer for workers compensation purposes, Forests NSW must implement comprehensive safety systems that meet WorkCover requirements.

This year Forests NSW focused on continuous improvement of the safety management system. Although a WorkCover audit of the system led to renewal of our self-insurer licence for 12 months, it also identified a number of technical deficiencies.

We therefore developed a detailed improvement plan which is being implemented.

To further highlight the importance of safety, Forests NSW appointed two additional safety coordinators to support the continuing development and implementation of the system across the state. To strengthen the safety message to staff, our new Chief Executive initiated the production of a monthly newsletter called 'Keep Safe'. The monthly newsletter will highlight key safety issues including recent incidents and new safety programs as well as including current safety statistics.

Community confidence in primary industries is enhanced

NSW state forests not only play a vital role in supporting profitable and sustainable primary industries but also support human health and well-being by providing many educational and recreational opportunities. Consistent with the priorities in the State Plan, Forests NSW is actively developing strategies to encourage more people to use state forests. Some of these initiatives are outlined below.

A new vision for Cumberland State Forest (State Plan: E8)

Long valued by both Forests NSW and the general public, the Cumberland State Forest now has a clear future direction due to the strategic management plan drafted in 2006-07. The plan establishes a vision for forest management and identifies new recreational and leisure opportunities for the increasing number of visitors each year. Cumberland is the only metropolitan state forest in NSW.



Visitors enjoying walking trails through the Cumberland State Forest.

Teacher and student education (State Plan: P7, E8)

Forests NSW organises special forest tours designed to increase teacher awareness of our role and enable them to supply students with up-to-date material about our sustainable forest management practices. The tours, now in their 10th year, are conducted at Coffs Harbour, Bathurst and the Watagans.

For the students themselves, we offer a range of education programs aligned with primary, secondary and tertiary

curricula. Nearly 6 000 students took part in the program in 2006-07.

Contributing to regional infrastructure (State Plan: P6)

As in past years, many Forests NSW projects in 2006-07 directly benefited regional NSW communities, particularly projects relating to road construction and maintenance. Some of the major road works funded under this program this year that contribute to NSW Government social objectives included:

- reconstruction and sealing of the Brindabella Road (Hume Region), which included the conversion of gravel road to a two-lane sealed road
- construction of a new forest bridge over Little Murray River to Campbell's Island State Forest, downstream of Barham.

Feral animal control (State Plan: E4, E8)

Hunting is now available in 180 state forests under the NSW Game and *Feral Animal Control Act 2002*, with hunters applying for special licences from the Game Council NSW. As a result, over 6 000 feral animals have been culled.

Legalised hunting complements other strategies to control feral animals on rural lands.

Service delivery models, systems and processes based on innovative solutions.

Business service centres (State Plan: S8)

Forest NSW reviewed the delivery of business services and, as the result, moved from a decentralised model to a more centralised approach.

Three business service centres located in Coffs Harbour, Albury and West Pennant Hills now deliver transactional and processing services to the organisation. This structural change, coupled with development of new business systems, has led to significant improvements in the efficiency and effectiveness of service delivery.

Information security

In 2004-05 Forests NSW implemented an information security management system to meet government requirements for security of electronic information. During 2006-07, an accreditation audit process was completed. Certification was achieved for the disaster recovery capabilities of Forests NSW sales and payroll systems complying with the requirements of ISO/IEC 27001:2005 standard.

Fleet management

Forests NSW has a large fleet of light and heavy vehicles such as water tankers, tractors and bulldozers. A detailed review of the composition of the fleet, its match to business needs and the associated management practices is in progress and has already led to prioritisation of vehicle replacements and new policies for more efficient use of the equipment.

Significant issues

Climate change (State Plan: E3, E4)

Climate change is a global issue and one which Forests NSW is tackling on a number of fronts. Not only has the organisation been involved in carbon trading since its inception in Australia, we have also integrated climate change research and risk assessment into our business planning. For us, key risks include bushfires, droughts, storms, pests and diseases and competition for land and water resources.

In terms of research, July 2006 marked the beginning of a three-year project to breed trees suitable for timber production in drier areas of Australia. The project, funded by a \$346 000 grant through the NSW Department of Environment and Climate Change, will build on earlier work in the area, notably trial plantings of trees potentially suited to low rainfall and marginal agricultural sites. Our aim is to assess these plantings for growth, form and wood property and identify genetically superior trees for improved planting stock.

Timber salvage from forest fires (State Plan: E4)

Prompt action by Forests NSW minimised timber losses when major fires struck state forests in Tumut and Pilliga areas in December 2006. While the Tumut fire was the largest ever plantation fire in NSW, Forests NSW was able to salvage burnt timber before it degraded. Further details are provided in a case study later in this chapter. At the Pilliga in the west of the State, salvage harvesting of burnt cypress, yielded 20 000 tonnes of wood for industry processing.



Salvaged burnt logs ready for cartage to mill.

Investment services (State Plan: P6)

We successfully promoted our forestry management services to potential clients over 2006-07. Plantation establishment relationships were developed with Coal & Allied, Agriwealth Pty Ltd, Macleay River Hardwoods and Country Energy. In future years we will generate revenue through establishing and managing plantations for a range of customers who wish to establish plantations for different purposes.

Future directions

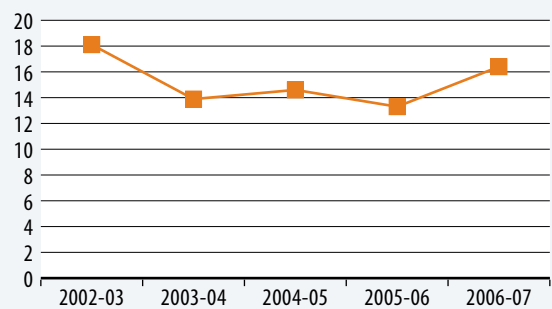
Forests NSW future directions are in line with the State Plan – our focus being increased business investment in rural and regional NSW, better outcomes for native vegetation, biodiversity, land, rivers and coastal waterways, and increased public use of state parks and forests.

Work programs include:

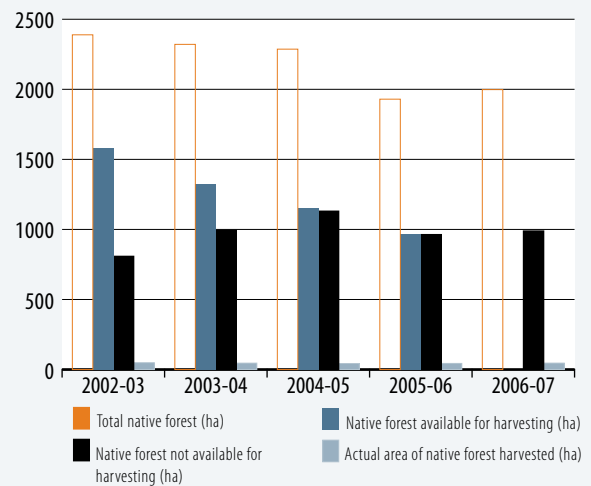
- implementation of the strategic directions identified in Forests NSW Plantations Strategy (State Plan: P1, P6, E4)
- consideration and implementation of the Major Price Review recommendations in consultation with Forests NSW customers and contractors (State Plan: P1, P6)
- development of climate change policies and strategies and associated risk assessment and research activities (State Plan: P1, P6, E3, E4)
- further development of a carbon abatement certificate marketing strategy. The strategy will set the direction for future generation and sales of carbon credits and cover market positioning and pricing for the forestry sequestration products (State Plan: P1, P6, E3, E4)
- linked with the above strategy, the refinement of Forestry Management Business Services to meet investors' expectations for returns for different types of business (State Plan: S8, P1, P6)
- development of biomass marketing strategies in conjunction with the feasibility study in the Macquarie Region
- revise and improve forest valuation and inventory processes.

Safety Frequency Rate

(Number of Lost Time Incidents per million hours worked)



Native Forest Harvested (Area in '000 ha)



Five Year Comparison as at 30 June 2007

| | 2007 \$'000 | 2006 \$'000 | 2005 \$'000 | 2004 \$'000 | 2003 \$'000 |
|--|------------------|----------------|----------------|----------------|----------------|
| Revenue* | 270 550 | 259 747 | 247 546 | 240 634 | 219 515 |
| Profit | | | | | |
| Trading Profit* | 28 037 | 31 116 | 36 819 | 37 860 | 23 959 |
| Significant Items and Biological Assets Rev.** | (166 357) | (19 696) | (29 163) | 17 392 | (11 805) |
| Profit/(Loss) from Ordinary activities (before tax) | (138 320) | 11 420 | 7 656 | 55 252 | 12 154 |
| Distribution to Government | 16 000 | 26 322 | 32 544 | 13 096 | 4 162 |
| Distribution payable | | | | | |
| Capital Expenditure | 45 039 | 31 451 | 31 531 | 36 315 | 32 235 |
| Balance Sheet | | | | | |
| Value of Biological Assets*** | 1 403 831 | 1 558 674 | 1 594 934 | 1 609 389 | 1 573 389 |
| Total Assets | 2 703 913 | 2 528 907 | 2 643 403 | 2 588 164 | 2 360 725 |
| Borrowings | 159 743 | 138 276 | 138 062 | 121 273 | 135 576 |
| Total Equity**** | 1 921 105 | 1 816 670 | 1 842 342 | 2 127 270 | 1 903 624 |
| Ratios % (excl Abnormals & MVI) | | | | | |
| Return on Equity* | 1.41% | 1.71% | 2.00% | 1.78% | 1.26% |
| Return on Assets* | 1.07% | 1.20% | 1.41% | 1.53% | 1.02% |
| Debt to Equity | 8.01% | 7.61% | 7.49% | 5.70% | 7.12% |
| Return on Equity (including MVI) | (7.25%) | (1.74%) | (0.17%) | 2.20% | 4.26% |

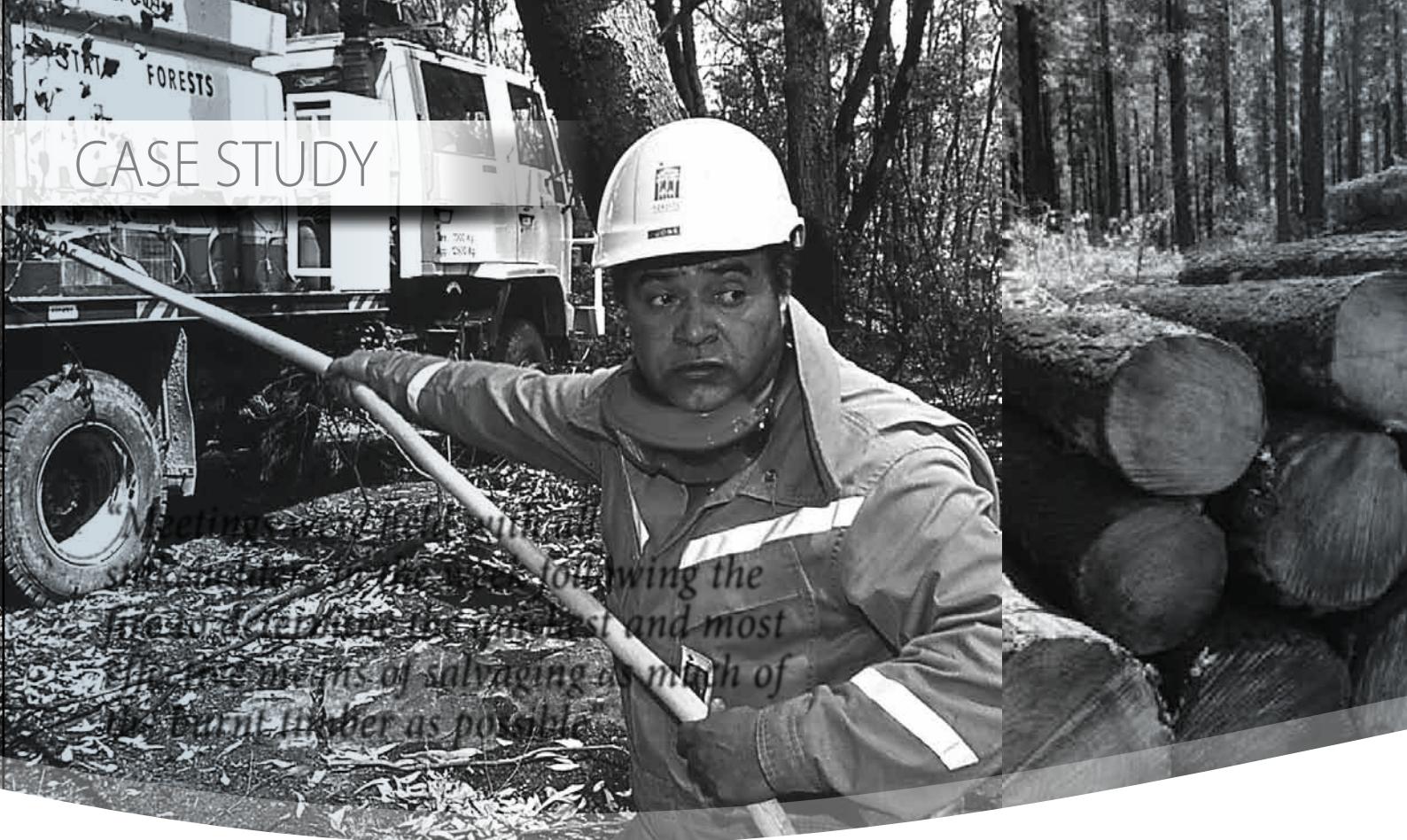
* Exclusive of forest revaluation, capital grants and superannuation fund interest and significant items

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*** Biological Assets represent the commercial value of Forests NSW timber resources (previous year's figures altered accordingly)

**** Australian Equivalents to International Accounting Standards (AEIFRS) was effective from 01/07/04

CASE STUDY



Fire salvage operations set the benchmark

(State Plan: E4)

When fire burnt out over 11 500 hectares of State forest in the Tumut area, including over 8 000 hectares of *Pinus radiata* plantation, the potential timber losses were \$50 million plus. A cooperative effort led by Forests NSW, however, minimised the longer-term industry impacts of the December 2006 fire and set the model for future salvage operations.

As fire-affected timber must be harvested within months, Forests NSW formed a salvage team immediately after the fire to work with contractors and customers on timber harvesting and processing. The team identified four distinct phases in recovery:

- short-medium term resource impact assessment
- salvage operations, including estimation of costs and resources
- re-establishment
- resource impact assessment on long-term wood supply agreements.

Meetings were held with all stakeholders in the week following the fire to determine the quickest and most effective means of salvaging as much of the burnt timber as possible – speed being crucial as burnt timber degenerates rapidly. Stakeholders included representatives from processing industries, harvesting contractors, other private growers, government agencies, local government, the media and the community.

By the end of January 2007, harvesting contractors sourced from as far afield as Queensland were at work in fire-affected areas. By the end of June they had recovered about 500 000 tonnes of sawlog and 150 000 tonnes of pulpwood worth over \$25 million for immediate processing by industry. This result was possible only through the close collaboration of many different agencies.

Other highlights of the salvage operation, which is expected to continue through to October 2007, included provision of advice by other states, a proactive approach to on-site safety, and development of re-establishment plans.