



Forests NSW Annual Report 2011–12

Social, Environmental and Economic Performance

Letter to the Minister



The Hon. Katrina Hodgkinson, MP

Minister for Primary Industries
Minister for Small Business

Level 30 Governor Macquarie Tower
1 Farrer Place
SYDNEY NSW 2000

Dear Minister

I am pleased to submit for presentation to Parliament the Annual Report of Forests NSW for the period 1 July 2011 to 30 June 2012.

The report complies with the requirements of the *Annual Reports (Statutory Bodies) Act 1984*, and the *Public Finance and Audit Act 1983*.

Copies have been made available for tabling in Parliament.

Yours sincerely

Nick Roberts

Chief Executive Officer
Forests NSW



Coffs Harbour 'MV Kopua' loading timber for New Zealand at Coffs Harbour Jetty. Photo © Forests NSW Fred Bailey Collection.



Coffs Harbour Jetty as it stands today. Photo by Howard Spencer.

Coffs Harbour Jetty – standing the test of time

For more than 100 years, Coffs Harbour Jetty, constructed entirely of timber, has stood the test of time.

Built in 1892, it is the largest coastal timber jetty in New South Wales (NSW) and is the only remaining large ocean jetty of timber construction in NSW which dates from the 19th century.

During the 1870s and 1880s, Europeans settled the Coffs Harbour area to log cedar and they soon began to campaign for a Government jetty to transfer goods to and from anchored boats.

The jetty was constructed by the Harbours and Rivers Section of the NSW Department of Public Works, with Mr Thomas L Lawson the builder.

Timbers such as ironbark, grey gum, white mahogany, tallowwood, grey box and turpentine, most of them obtained from forests of the local area, were used in its construction.

The new jetty stretched 500 metres into the harbour, and by the 20th century hundreds of vessels made use of its facilities. The timber industry and regional economy thrived with the

completion of the jetty, allowing goods such as timber and agricultural produce from the surrounding hinterland to be exported to Sydney and other markets.

The major extensions to the jetty were the result of an increased demand for timber before World War I and following World War II.

In 1974, the last commercial shipment of timber left the jetty aboard the 'Abel Tasman'.

Today the jetty is a focal point for locals and tourists to the area.

This heritage listed jetty won a National Trust Heritage Award for the jetty conservation work completed in 1997. These works used the same methods employed by its builders 100 years ago: driven timber piles. Salvaged timbers and new hardwoods were used for the conservation work.

Forests NSW customers including Koppers Wood Products and Coffs Harbour Hardwoods have supplied timber for jetty maintenance work.

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On 15 December 2011, NSW Premier the Hon. Barry O'Farrell, MP officially opened the Forest Sky Pier at Sealy Lookout in Orara East State Forest – an impressive \$600 000 viewing platform funded by Forests NSW which commands extensive views from mountains to the scenic coastline of Coffs Harbour.

It was designed by a local architect and civil engineer and built with local tradespeople and local timber. Turpentine decking, blue gum hand railing and tallowwood seating were sourced from J Notaras and Sons of Grafton. Comprised mainly of spotted gum, ironbark and grey gum, the large dimension bearers supporting the decking were sourced from Hyne Timber. Both these companies are customers of Forests NSW.

An Aboriginal land repair group, Darrunda Wajaarr, Repair to Country, assisted with rehabilitating the worksite with weed removal and replanting of local species and a Conservation Volunteers Australia project upgraded the walking track to the lookout.

Sealy Lookout has at least 70 000 visitors a year and this number is expected to increase markedly now the viewing platform is complete.

Photo: Norm Farmer.



Our organisation



Image: Forests NSW Image Library

Our vision

To be the best and safest commercial forest manager in Australasia

Our mission

To provide safe and commercially sustainable forest management services to the Government and people of New South Wales and independent investors while increasing the value of their investment

Forests NSW is a public trading enterprise within the Department of Primary Industries (DPI), part of the Department of Trade and Investment, Regional Infrastructure and Services (NSW T&I) and is the largest manager of native and plantation forests in NSW.

Forests NSW is the trading name of the Forestry Commission of NSW, established under the *Forestry Act 1916*. We manage more than two million hectares of native and planted forests across NSW to the internationally recognised Australian Forestry Standard (AFS) (AS 4708:2007), delivering a range of economic, environmental and social benefits to the people of NSW and future generations.

Forests NSW primary focus is sustainable forest management and ensuring the sustained supply of timber to our customers. As a public trading enterprise, this is undertaken within the context of running a profitable business and returning a dividend to the NSW Government.

Safety is our first priority for our people, contractors, visitors and users of State forests. In all our forest management activities, the observance of safe work practices is the guiding principle by which we operate and we work towards achieving a world's best practice safety record.

Our business

Forests NSW manages a wide range of forest types across NSW. The coastal native forests are dominated by eucalypts, from the fast growing blackbutt and flooded gum in the north, stringybarks and Sydney blue gum along the central coast, to the spotted gum and silvertop ash forests common in the south. The tablelands and ranges have tall forests with messmate, New England blackbutt and brown barrel some of the important timber species. In the west, native cypress pine is the timber species of the plains and river red gum is the valuable species of the Riverina forests. Main plantation areas of radiata pine are found on the tablelands in the central west and south.

Our operations are distributed across regional NSW and include planting and regeneration, planning and managing timber harvesting and marketing and delivering timber to a wide range of customers located within NSW, across Australia and overseas.

Forests NSW currently harvests more than 2.5 million m³ of sawlogs and around 2 million tonnes of pulpwood from State forests annually, with sales of these products generating almost \$300 million a year. The State's timber industry contributes nearly \$1 billion to the NSW economy each year.

Our people

Forests NSW employs over 700 people throughout NSW – accountants, ecologists, safety and fire experts, community educators, carbon specialists, administration staff, mechanical workshop technicians, sales and marketing managers, engineers, Geographic Information System analysts, timber inspectors, researchers, nursery and fieldworkers and of course foresters – the list of skills we draw on is extensive.



Image: David Barnes

Forests NSW



In addition to this, Forests NSW engages more than 100 contract companies employing about 1400 people, primarily in the harvesting and haulage of timber products.

Our community

People who have an influence on what we do or people that are affected by what we do are our stakeholders. They include the NSW Government, our regulators including DPI – Fisheries NSW, DPI – Plantation Assessment Unit, the Office of Environment and Heritage (OEH), the NSW Environment Protection Authority (EPA), the timber industry, associations, peak and professional bodies, scientific organisations, Aboriginal communities, rural and regional communities, neighbours and the people of NSW.

Our customers

Forests NSW key customers include hardwood and softwood timber sawmillers, plywood, medium density fibreboard and particleboard manufacturers, pulp and paper manufacturers, international woodchip and log export companies and plantation and carbon investors.

Other customers include telecommunications and utility providers who locate their infrastructure in State forests and other businesses that use State forests such as apiculture, grazing, gravel, sand and rock quarries, commercial firewood, broombrush and charcoal operations, seed collection and ecotourism operators.



AFS / 01-21-05



PEFC/21-23-05

Area	Major species	Customer	Products/Services
Plywood	Softwood/Hardwood	Big River Group	Plywood
Major sawmillers	Hardwood	Boral Timber, Australian Solar Timbers, Blue Ridge Hardwoods, Coffs Harbour Hardwoods, Grants Holdings, Gunnedah Timbers/Baradine Sawmilling, Hurlfords Building Supplies, Koppers, J Notaras & Sons, Thora Sawmilling, Newells Creek Sawmilling and SA Relf & Sons	Structural timber; flooring, furniture and joinery timber; plywood products
	Softwood	Carter Holt Harvey, Highland Pine Products, Hyne Timber, Tarmac, Dongwha, Allied Timber Products	Structural timber
MDF and particleboard	Softwood	Borg Panels, Carter Holt Harvey	Panel products
Woodchip and log export	Softwood/Hardwood	Boral Timber Fibre Exports, Pentarch, South East Fibre Exports	International fibre markets
Pulp and paper	Softwood/Hardwood	Norske Skog, Visy Pulp and Paper	Newsprint, cardboard
Investors	Not applicable	AgriWealth, ST Microelectronics and Snowy Mountains Forests	Plantation investment
Utilities and infrastructure	Not applicable	Origin Energy, Crown Castle, National Broadband Network, Optus, Essential Energy, Telstra, Vertel, Vodafone	Telecommunications and electricity supplier

Organisational structure



Overview

The 2011–12 year was a significant year in the history of Forests NSW and an eventful one with many achievements and challenges highlighted in this report.

Corporatisation announced

This year brought an historic change with the Government's decision to corporatise Forests NSW. Under the direction of a skilled commercial board, Forests NSW will be able to focus sharply on its core business of growing and harvesting timber to meet the community's needs for hardwood and softwood products, while protecting the environment and still providing recreational opportunities for the people of NSW.

This change to the organisation's governance structure is intended to provide greater commercial focus and flexibility.

As a State-owned corporation, Forests NSW will remain publicly owned. The nature of the business and business relationships will remain largely the same, although there will be new opportunities to improve the business. The process of creating a new State-owned corporation is under way and is expected to be completed in the near future.

Improved safety performance

The most pleasing result for the year was improved safety of Forests NSW employees. There was a significant improvement in all key safety indicators and achievement of the primary target of a 35 per cent reduction in the recordable incident rate, ending the year at 3.1 against a target of 3.6.

Notwithstanding that the benign fire season meant that there were fewer hazardous situations, this result is testament to the focus and effort of Forests NSW staff to improve safety.

Forests NSW also underwent a surveillance audit by WorkCover in Hume Region as part of

the requirements of our self insurer's licence. We successfully maintained our licence.

Financial performance

Forests NSW revenue for the year was \$318 million, which was \$9 million lower than the prior year before significant items. Sawlog revenue was affected by the ongoing decline in the domestic housing market, exacerbated by increases in timber imports on the strength of the appreciating Australian dollar. This, along with exceptionally wet conditions in the north coast of the State, affected harvesting in several of our native forest regions.

We recorded an operating profit, before significant items and taxes, of \$14 million for the year, which was lower than the prior year due to reduced sales and increases in plantation establishment costs and harvest and haul expenses. Reduction in capital expenditure contributed to positive cash flows, enabling Forests NSW to pay \$14 million to NSW Treasury for prior year dividend and recorded \$5.3 million as dividend payable for the year ended 30 June 2012.

During the year, Forests NSW undertook an independent valuation of its property, plant and equipment, resulting in a net increase in the asset base of the business. Significant items recorded in the year were a \$76 million expense resulting from increases in superannuation obligations and leave liabilities due to actuarial assessment and change in discount rate, a \$16 million expense from reduction in the biological asset value and a \$6 million expense related to revaluation impact on land and buildings.

Key changes to the business

Reflecting the focus on our core business and improving our financial performance, business improvements and organisational changes continued this year.

Significant progress was made on forest value recovery in softwood plantations.

Planted Forest Operations also implemented a series of process improvement initiatives centred on resource planning, improving the accuracy of forward estimate of log availability.

The non-commercial thinning program of white cypress in Western Region concluded in June 2012. Cypress thinning programs in the future will be on a commercial basis where Forests NSW receives payments for the timber produced.

The coastal mechanical workshops closed on 30 September 2012. This change was driven by improved access to modernised facilities and services by vehicle dealers in regional NSW and to increased use of contract heavy plant for operations.

Forests NSW undertook a public tender process to lease its retail nursery businesses. Three of the nurseries have so far been divested with discussions continuing around the future of the remaining three. Our two major production nurseries in Tumut and Grafton will be retained to grow seedlings used to establish the State's public softwood and hardwood plantation estate.

Major new contracts

Forests NSW awarded \$75 million of new harvest and haulage contracts for plantation grown softwood log products in the Monaro Region over a six-year period.

These new contracts provide a solid commitment by the NSW Government to the timber industry in the region and the communities that depend on this important sector, providing a major boost to the local economy.

A tender for harvesting capacity was conducted for south coast and tablelands native forests with 34 000 m³ of timber volume awarded for up to eight years, providing security of employment for our contractors and their employees and certainty around investing in new technology and equipment.

Compliance issues

The case in relation to an alleged breach of an endangered ecological community during harvesting operations in Doubleduke State Forest was dismissed by the Land and Environment Court in July 2012.

Forests NSW has recently been advised by the EPA they intend to proceed with a prosecution in relation to a hazard reduction burn conducted in Mogo State Forest in 2011.

Certified sustainable forest management

Successful surveillance audits were undertaken in Southern and Hume Regions as part of the continued efforts to maintain Forests NSW certification as an operator of sustainable forestry.

Forests NSW holds Australian Forestry Standard and ISO 14001 certification for its forests, which allows our customers to sell their products into domestic and international markets demand demonstrable sustainability.

Achievements in ecotourism

Forests NSW won two major tourism awards in the 2011 Hunter and Central Coast Awards for Excellence in Tourism.

The Forest Sky Pier at Sealy Lookout, Coffs Harbour was completed and officially opened by the NSW Premier the Hon. Barry O'Farrell, MP. The Forest Sky Pier is a major

new tourism attraction on the NSW north coast developed and funded by Forests NSW. It has just been awarded gold for the best new development at the 2012 North Coast Tourism Awards.

New Government initiatives

During the year, the NSW Government established two important committees for the timber industry in NSW and Forests NSW is a member of both.

The Forest Industries Task Force, brought together by the Minister for Primary Industries, the Hon. Katrina Hodgkinson, MP, provides members of the softwood and hardwood industries the opportunity to consider issues affecting the industry and advise the Minister accordingly.

An interdepartmental steering committee is also looking at issues related to the supply of hardwood timber on the north coast of NSW up to and beyond the current wood supply agreements which run to 2023.

Change to senior management

Anshul Chaudhary was appointed as Director Finance and Technology in January 2012, coming from a private sector background. His wealth of experience will be valuable as we move through the corporatisation process and beyond.

Focus for 2012–13

Corporatisation is a significant change for Forests NSW and a major turning point in its close to 100-year history. Establishing the corporation to position this important publicly-owned business for greater successes in the 21st century is a challenging goal for the next financial year. We are certain this can be achieved with the continued support and dedication of Forests NSW staff.

We would like to thank staff for their contributions to what was achieved this year and what will be achieved in the future as we go through this change process to build on the successes of the past 96 years and create an even more successful forestry organisation into the future.



Dr Richard Sheldrake
Director General
Department of Primary Industries
Commissioner for Forests



Nick Roberts
Chief Executive Officer
Forests NSW

“Corporatisation is a significant change for Forests NSW and a major turning point in its close to 100-year history.”



Our history

Forests NSW is proud of its long and rich history over the past century, during which foresters have been stewards of the land, sustainably managing the State's native and planted forest resources for the benefit of all people in NSW, for today and the future.

Over the years, the organisation has seen many changes in name and governance. On 9 May

2012, the Minister for Primary Industries, the Hon. Katrina Hodgkinson, MP, announced that Forests NSW will become a State-owned corporation to improve the organisation's commercial performance while still ensuring the long history of forest stewardship continues.

Another exciting chapter in the organisation's history begins.

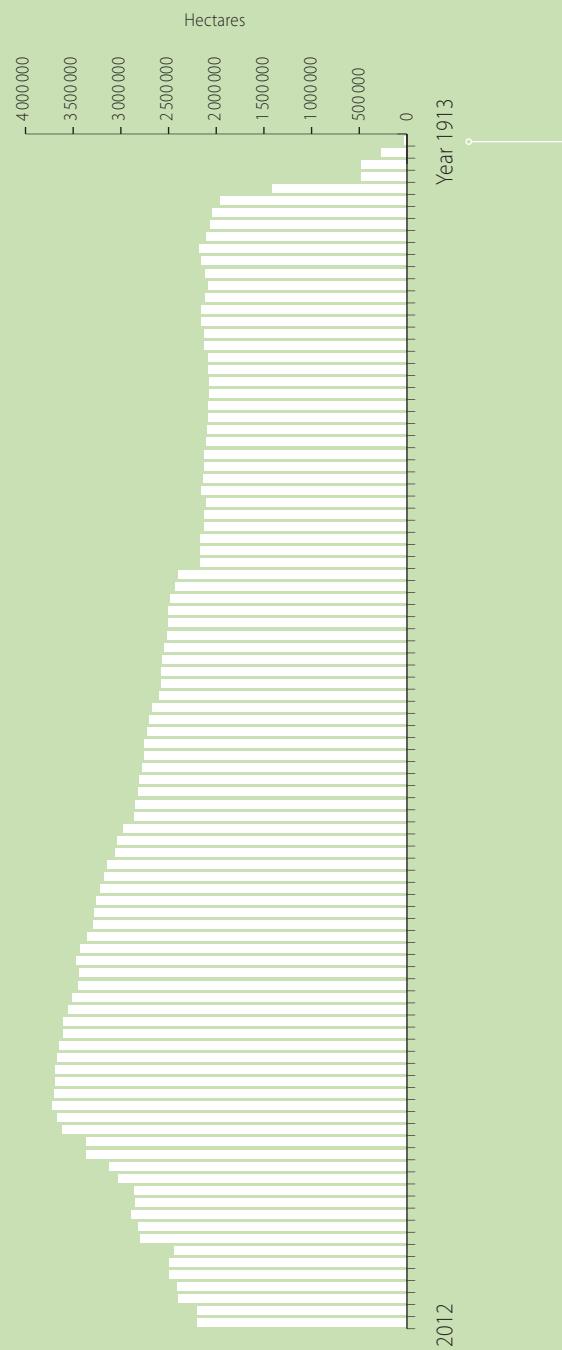


The first State forest was dedicated on 26 March 1913, Acacia Creek and Koreelah State Forest No. 1, adjacent to the NSW/Qld border near Legume. Photo: Forests NSW Image Library.



'The Cedargetters'.
Photo: Forests NSW Image Library.

Forests NSW estate 1913–2012



A log in time

Year 1871

- 1871 — As settlement advanced throughout the State, with land cleared for cultivation, trees ringbarked for grazing and timber used for the development of the colony, the first forest reserves were proclaimed in NSW, with the aim of preserving the timber resources of the colony.
- 1875 — 22 September, Mr J A Manton was appointed a forest ranger in the Occupation of Lands Branch, the first forest ranger in NSW.
- 1876 — Forest Conservancy first established as part of the Occupation of Lands Branch under the Secretary for Lands.
- 1879 — Timber reserves reached 1.2 million hectares in NSW.
- 1881 — 21 April, poet Henry Kendall was appointed Inspector of Forests, supervising technical work in the field, holding the position until his death on 1 September 1882.
- 1882 — 1 March, Forest Conservancy was moved from the Occupation of Lands Branch to become a separate branch. Mr W F Piper was appointed chief clerk.
- 1887 — The Forestry Branch opened the first forestry nursery at Gosford with Mr John McCraig as the overseer. Seedling production began and experimental plantations were established. The Forestry Branch's first experimental plantation of *Pinus radiata* was undertaken at the nursery, probably sometime around 1894.
- 1890 — A Forestry Department (rather than a Forestry Branch that had been attached to several departments since 1876, including the Department of Lands, the Occupation of Lands Branch, the Department of Mines and the Colonial Secretary), was established. Mr John Brown was appointed Director General of Forests on 1 July. The Department was amalgamated with the Department of Agriculture in 1893 to form the Department of Agriculture and Forests and later the Forestry and Agriculture Branch in 1896.
- 1897 — 1 October, the Forestry Branch was re-established and transferred to the Department of Lands, with Mr Richard Dalrymple Hay the Officer in Charge.
- 1905 — Timber reserves reached 3 million hectares in NSW.
- 1907 — With concerns about the impending shortage of timber, a Royal Commission of Inquiry on Forestry was established on 15 July and submitted a final report on 29 October 1908 that recommended 'the planting of exotic softwood trees of commercial value on suitable lands throughout the State'.
- 1909 — 1 June, the Forestry Branch was transferred to the Department of Agriculture.
- 1910 — 1 January, the Department of Forestry was established by the *Forestry Act 1909*. The first act to deal separately with forestry in NSW, and made provision for the permanent dedication of State forests. Mr Richard Dalrymple Hay was appointed the first Director General of Forests.
- 1912 — The first attempt at a commercial pine plantation was made at Tuncurry State Forest (dedicated in 1916), mainly with *Pinus radiata* and *Pinus pinaster*.
- 1913 — The first of eight afforestation camps on State forests was established at Tuncurry on the mid-north coast. These camps were set up to accommodate prisoners to undertake forestry work, in particular the establishment of pine plantations.
- 1913 — 26 March, the first State forest was dedicated, Acacia Creek and Koreelah State Forest No. 1, adjacent to the NSW/QLD border near Legume.
- 1916 — On 1 November, the Forestry Department was abolished and the Forestry Commission of NSW was established by the *Forestry Act 1916*. The Commission was responsible for the management of State forests, timber reserves, flora reserves and some Crown land for 'the best advantage of the State'. Mr Richard Dalrymple Hay was appointed the first Chief Commissioner.
- 1917 — Nearly 200 staff employed by the Commission. The second nursery opened at Dubbo.
- 1918 — The Commission had dedicated the bulk of State forests (around 2 million hectares), largely based on the old timber reserves. The Commission began to expand the planting of pines and other conifers.
- 1924 — The first sale of pine by the Commission was made when 55 m³ from the experimental *Pinus* plantation at Gosford nursery was sold to a local mill to make fruit cases.
- 1935 — Due to variable success of the program, the planting of pines and other conifers ceased until after World War II.
- 1935 — Under Commissioner Swaine, the Division of Wood Technology (later the Wood Technology and Forest Research Division in 1976) was established. This was to provide 'assistance to the sawmilling trade and the promulgation of the wider utilisation of native timbers'. During World War II, the Division focused on testing NSW timbers for aircraft manufacture and charcoal, with staff working in shifts so testing could be maintained 24 hours a day. The Division originally operated at the Technological Museum in Harris Street and then moved to 96 (and later 98) Harrington Street, Sydney between 1937 and 1972.
- 1939 — Land was purchased for a forest experimentation station in West Pennant Hills in 1938 and was dedicated as Cumberland State Forest in 1939. As well as a nursery, an arboretum of Australian species was planted with walking trails built through the groves – the beginning of a policy of deliberate recreational development in the forest which led to the facilities of today.
- 1939 — During 1939–40, the first eucalypt plantations were established at Wallaroo State Forest (grey ironbark) near Raymond Terrace and at Whian Whian State Forest (blackbutt) near Mullumbimby.
- 1946 — Following the end of World War II, the pine plantation program recommenced at an ever increasing rate.
- 1959 — During 1959–60, a computer was first used to undertake timber resource assessments in preparing forest management plans. Statewide coverage of management plans was completed in the late 1980s.
- 1970 — The Forestry Commission employed around 2500 staff – 900 public servant officers (more than 200 of them being foresters) and over 1600 employees under the *Forestry Act*.
- 1971 — 85 000 hectares of pine plantation established by the Forestry Commission in NSW.
- 1972 — The Wood Technology and Forest Research Division relocated to new premises built at Cumberland State Forest including an extensive forestry library.
- 1973 — Although the recreational use of State forests had been occurring for many years, the objects of the Forestry Commission under the *Forestry Act 1916* were changed to include the promotion and encouragement of recreation.
- 1979 — Terania Creek forest protests held against logging in rainforest. This, and subsequent protests in other forest areas, sparked the NSW Government's decision to gazette the remaining rainforest in NSW as national park under the *Forestry Revocation and National Parks Act of 1983–84*. In general, the 1970s and 1980s saw public perception of forests begin to change. More than just a source of timber, State forests were also seen to contain a rich variety of plants and animals, clean water and air, and recreation sites.
- 1988 — More than 3.6 million hectares of State forests in NSW.
- 1991 — The Commission's head office moved from York Street, Sydney to Pennant Hills.
- 1993 — The Commission began trading under the name State Forests of NSW as a registered business monitored by a board of governance.
- 1999 — NSW first Regional Forest Agreement or 20-year plan for the sustainable management and conservation of native forests was completed.
- 2004 — Under the new brand name of Forests NSW, the organisation was established as a public trading enterprise within NSW Department of Primary Industries.
- 2006 — Ecologically Sustainable Forest Management plans published. These describe how Forests NSW provide for timber supply and recreation while maintaining ecological processes and environmental values. Forests NSW achieved certification to the Australian Forestry Standard.
- 2007 — Forests NSW head office relocated to the corporate facility at Cumberland State Forest, West Pennant Hills.
- 2012 — Minister for Primary Industries, the Hon. Katrina Hodgkinson, MP, announced that Forests NSW will become a State-owned corporation.

Primary source: TC Grant, *History of Forestry in New South Wales 1788 to 1988*, typeset and printed by Star Printery Pty Ltd, Erskineville, NSW.

2012

Year in review

July

- Forests NSW participated in many National Aborigines and Islanders Day Observance Committee (NAIDOC) week celebrations across the State
- South Western Cypress Integrated Forestry Operations Approval (IFOA) came into effect
- 1800 LOGHAUL program began in Tumut Region – a program to drive improvements in log truck driver safety and behaviour
- Forest learning website launched www.forestlearning.edu.au
- New Memorandum of Understanding (MOU) for Forests NSW funding of research undertaken by the Forest Science Centre of DPI came into effect this financial year

August

- New Safety Strategy — 'First Priority 2011–14' released and personally sent to all staff by CEO Nick Roberts
- Pre-season fire training days based on six fire scenarios commenced in Coffs Harbour and rolled out across the State in preparation for the fire season
- Central Region won two major tourism awards in the 2011 Hunter and Central Coast Awards for Excellence in Tourism
- Forests NSW appeared before and presented information to the Senate Inquiry into the status of the koala in NSW
- Forests NSW attended the turning of the first sod for the construction of Dongwha Timbers Pty Ltd new \$74 million sawmill in Bombala
- Five new harvest and haulage contracts awarded for plantation grown softwood log products in the Monaro worth up to \$75 million over a six-year period

September

- World Car Rally Championships showcased 13 State forests on the north coast

October

- Native forest visitor survey program began with surveys carried out at popular tourist destinations in the Watagan State forests, later followed by surveys in Coopersnook, Orara East and Kerewong State Forests
- Forests NSW was notified of OEH's intention to prosecute in relation to an alleged breach of an endangered ecological community during harvesting operations in Doubleduke State Forest. The case was dismissed by the Land and Environment Court in July 2012

November

- Successful surveillance audit of ISO 14001 and Australian Forestry Standard (AS4708:2007) undertaken in Southern and Hume Regions
- Amendments to Hastings River mouse prescriptions contained in the Upper North East and Lower North East IFOAs increased access to harvestable areas and sawlogs available under the Forest Agreements while maintaining appropriate levels of protection
- Amendments to yellow bellied glider prescriptions in the Southern IFOA permitted access for limited timber harvesting only into areas clearly identified as low quality glider habitat on the Bago Plateau
- The first issue of *e-log*, Forests NSW new electronic newsletter, was published. *e-log* continues in the tradition of the *Bush Telegraph* magazine offering informative stories on a range of forest and forestry-related issues

December

- Forests NSW returned a trail in Newnes State Forest to its traditional name of Maiying Marragu Trail
- NSW Premier the Hon. Barry O'Farrell, MP officially opened the Forest Sky Pier at Sealy Lookout, Coffs Harbour



Operation of Forests NSW six retail nurseries offered for lease by tender



Following Forests NSW pleading guilty in the Land and Environment Court in June 2011 for accidental burning of a smoky mouse habitat in a low intensity hazard reduction burning operation in Nulliga State Forest in Southern Region, Forests NSW paid a court ordered fine of \$5600 towards a program to monitor smoky mouse habitat in the region

January

- Forests NSW published a new Health and Safety Policy to ensure compliance with the new *Work Health and Safety Act 2011*

February

- TV show *Going Bush* aired in NSW – Forests NSW operations in the north-east of NSW featured on the first episode of the 2012 series, later episodes featured Forests NSW water quality studies on the south coast. Forests NSW was one of 15 organisations from around the country joining together to tell their part of the forestry story

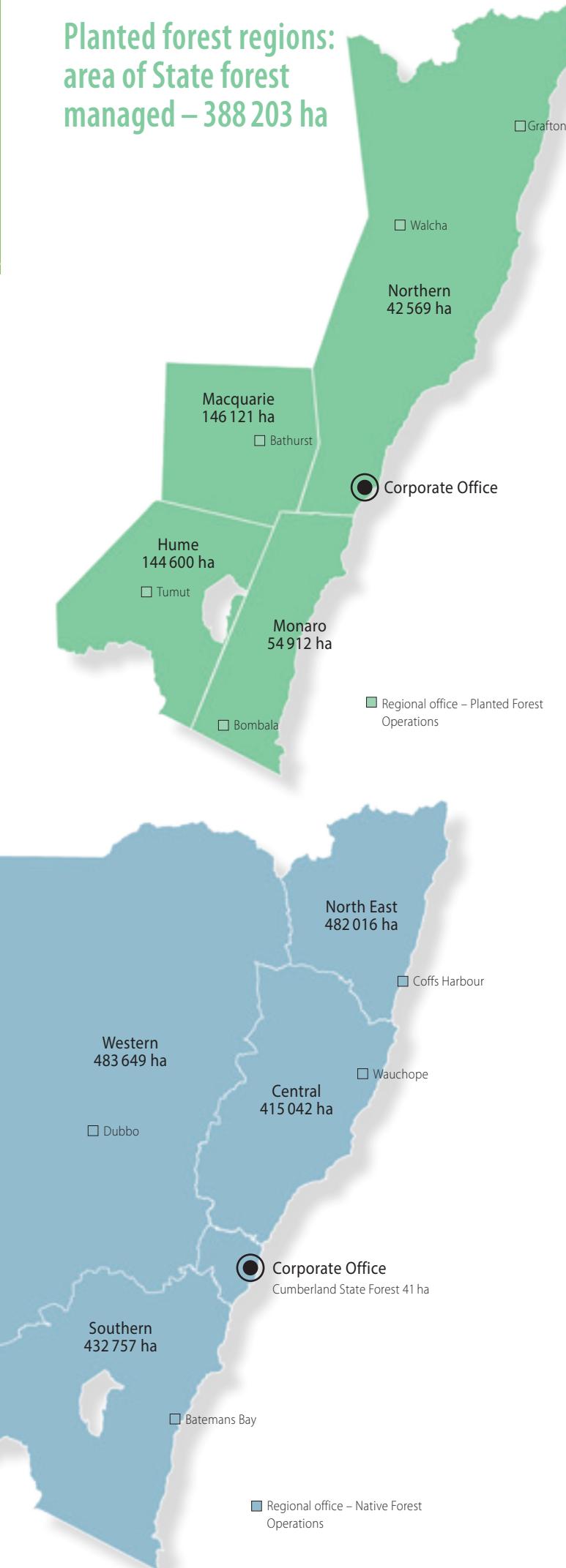


Tenders called for the Penrose State Forest sand quarry project. The sand resource is expected to be of sufficient size and quality to redress a projected shortfall in the supply of sand to the Sydney building market

Native forest regions: area of State forest managed – 1 813 465 ha



Planted forest regions: area of State forest managed – 388 203 ha



March

- New Forests NSW community engagement training program began
- 'Communities in Forests' program began for 2012 with a project removing exotic pine wildlings from the Newnes State Forest plateau swamp, an endangered ecological community – 2012 marked the 10-year anniversary of the partnership between Forests NSW and Conservation Volunteers Australia
- Review commenced by the NSW EPA, DPI – Fisheries NSW and Forests NSW to further streamline the licences within the coastal IFOAs to contribute to better management outcomes. This followed amendments during the year to a number of conditions of the coastal IFOAs that were considered inefficient and not contributing to good forest management practices

April

- Inaugural meeting of the Forest Industries Task Force held – comprised members from softwood and hardwood industries to both advise and highlight issues to the Minister for Primary Industries

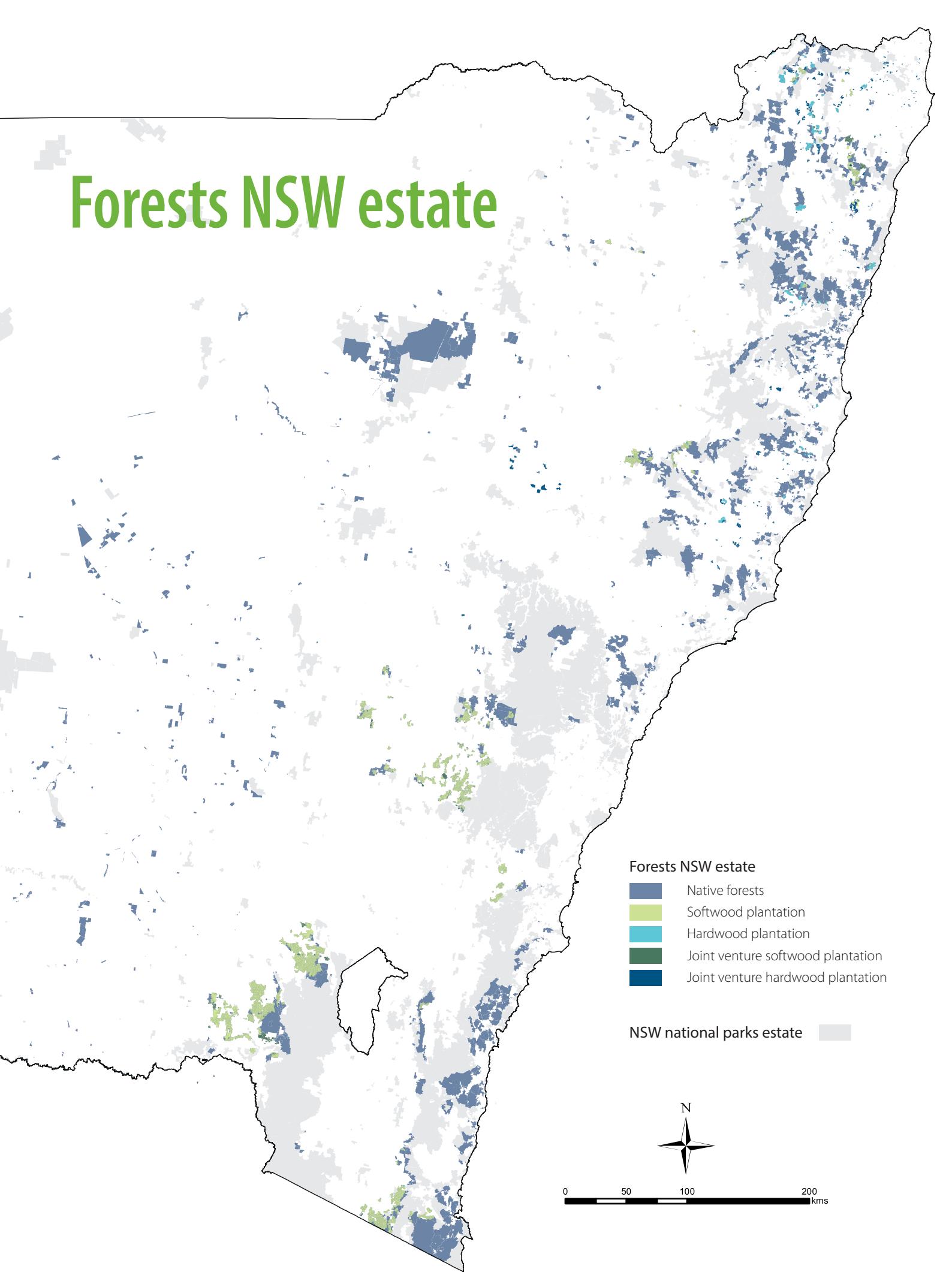
May

- Minister for Primary Industries the Hon. Katrina Hodgkinson, MP, announced that Forests NSW will become a State-owned corporation
- Hume Region passed WorkCover's Self Insurers Licence Audit, successfully reaching and exceeding requirements
- Forests NSW, with the NSW EPA and OEH, succeeded in attaining a \$1.9 million grant from the Australian Government's Biodiversity Fund to assist protection of koalas on the far south coast
- Closure of mechanical workshops in the coastal regions, to take effect later in the year, was announced
- The MOU between Forests NSW and the Orienteering Association of NSW, which establishes the basis for a co-operative working relationship between the two organisations and provides practical outcomes such as the streamlining of the permit process for organised orienteering events, was reviewed and renewed

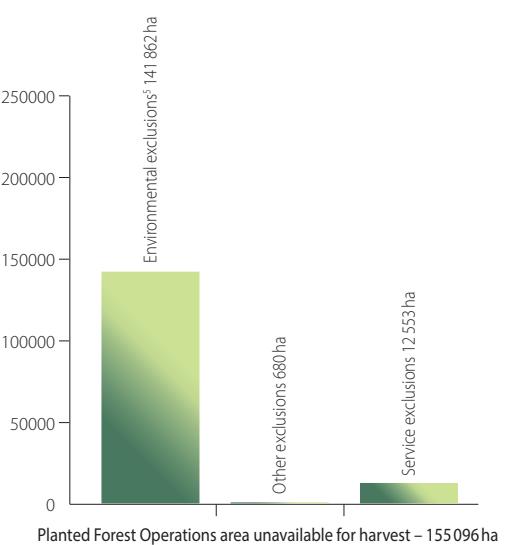
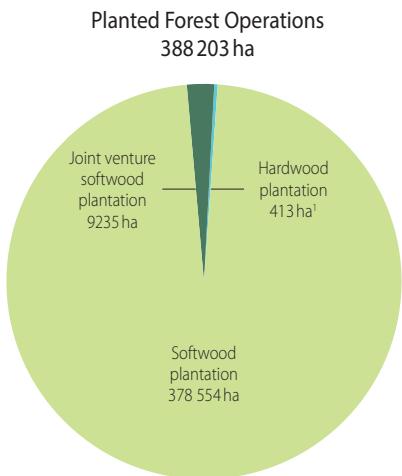
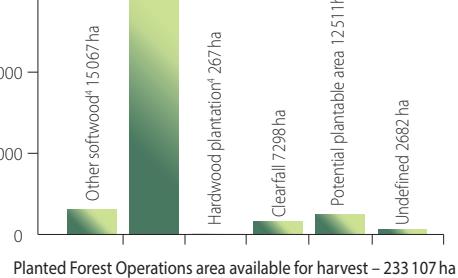
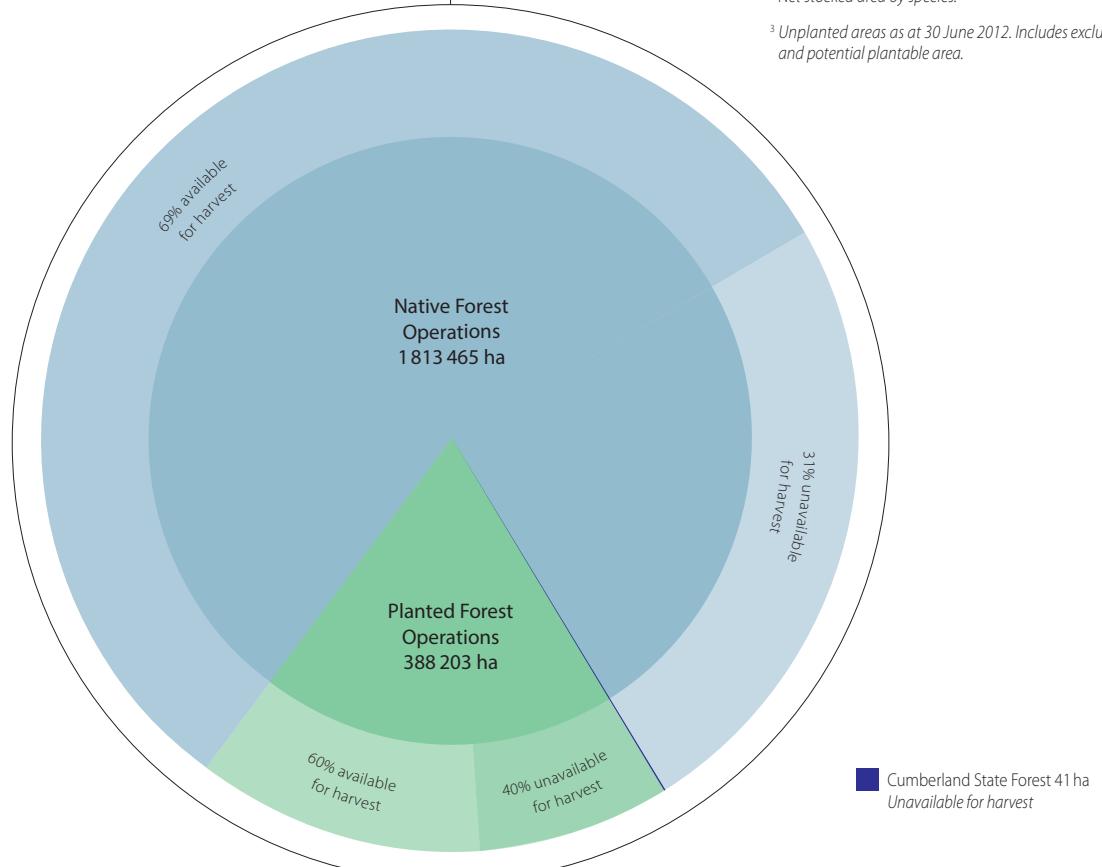
June

- Planting season commenced – Forests NSW will plant approximately nine million pine seedlings across 7500 hectares around the State, predominantly in areas that have previously been planted to pine. For the first time, all Forests NSW seedlings came from its innovative container grown program
- Inaugural meeting of the interdepartmental '2023 Committee' that reports to Cabinet – advising on the supply of hardwood timber on the north coast of NSW up to and beyond the current wood supply agreements which run to 2023
- New Forests NSW corporate business strategy for 2012–13 released
- Conclusion of the white cypress non-commercial thinning program in Western Region
- The NSW Greenhouse Gas Reduction Scheme closed on 30 June 2012 to make way for the Commonwealth's carbon pricing mechanism on 1 July 2012. This decision affected the NSW Greenhouse Gas Abatement Certificates (NGAC) market, resulting in no NGAC sales for Forests NSW during the year. At the time of writing this report it is uncertain whether Forests NSW will continue with its carbon trading business as it currently does not have access to a carbon market
- Excellent end of year safety performance with all key indicators showing significant improvement when compared with 2010–11. Forests NSW also achieved the primary target of a 35 per cent reduction in the recordable incident rate, ending the year at 3.1 against a target of 3.6
- Forests NSW delivered revenue of \$318 million and an operating profit of \$14 million before significant items and taxes.

Forests NSW estate



Forests NSW estate 2201709 ha



Our financial performance

Profitability analysis

Forests NSW faced a challenging year in 2011–12, amidst market downturns and adverse weather conditions. Operating revenue of \$318 million was \$9 million lower than last year and almost \$40 million worse than budget expectations. This was predominantly due to the continued softening in the housing market which significantly impacted softwoods sales.

Volumes of softwood sawlogs were down on last year by 195 000 m³ and worse than budget by 255 000 m³. Budget assumptions were expecting the housing market to recover, which did not eventuate. More recently this situation was exacerbated by imported wood products taking market share from domestic producers, aided by the strength of the Australian dollar.

The current market position also placed significant commercial pressures on log pricing, which, in turn, affected the underlying profitability. Additionally, the cost of harvest and haulage expenditure increased over last year with increases in fuel costs and contractor expenses.

Forests NSW drove a number of cost initiatives to mitigate the revenue shortfall which resulted in the business returning an operating profit before taxes of \$14 million. Some of the strategic initiatives which will assist the year ahead are:

- closure and outsource of coastal mechanical workshops;
- leasing of the retail nurseries;

- review of the north coast wood supply in native forests; and
- conclusion of non-commercial thinning of white cypress in Western region of native forests.

These initiatives combined with the decision to corporatise Forests NSW are aimed to improve the underlying profitability and commercial value of the business.

Key financial data

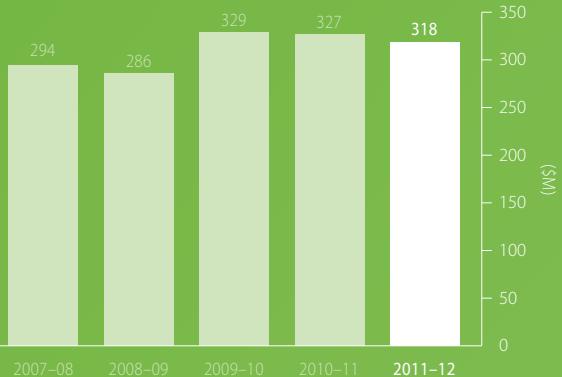
Year ended 30 June	2007–08	2008–09	2009–10	2010–11	2011–12
Revenue ¹	\$m	294	286	329	327
Operating profit ¹	\$m	14	(16)	20	34
EBIT ¹	\$m	26	(4)	32	43
Dividend payable	\$m	1	0	10	14
Borrowings	\$m	169	165	141	132
Biological assets	\$m	625	670	662	751

Key ratios

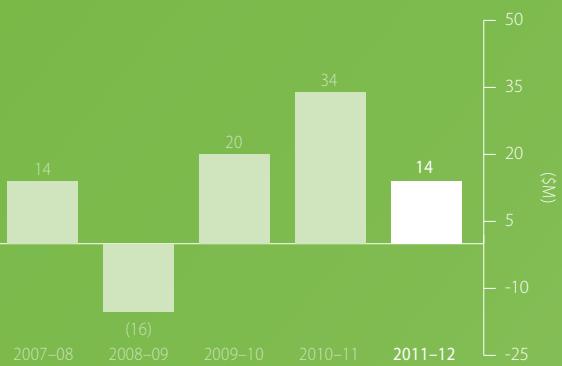
Return on assets	%	0.8	(0.9)	1.1	1.8	0.7
EBIT margin ¹	%	8.7	(1.5)	9.7	13.2	7.3
Liquidity ratio	times	1.6	1.0	1.4	1.0	1.1
Debt ratio	%	27.8	30.1	42.9	42.1	45.3
Interest cover	times	2.3	(0.3)	2.6	4.6	2.5

¹ Excludes significant items such as revaluation impact, impairments and impact on superannuation funds, before taxes.

REVENUE
\$318 million



OPERATING PROFIT
\$14 million



BIOLOGICAL ASSETS \$734 million



REVENUE PER EMPLOYEE \$431 000



Key ratios

Earnings before interest and tax (EBIT) to sales percentage was 7.3 per cent, which was lower than last year and budget, attributable mainly to the revenue shortfall affecting the operating profit. This also affected the return on assets ratio. Forests NSW maintained a strong balance sheet with the value of its key resources – biological assets – increasing to \$734 million. Cash flows and working capital management were also carefully controlled and this was reflected in the satisfactory liquidity ratios.

Productivity ratios also indicated that the business is driving efficiencies with revenue per employee improving over the years to \$431 000 revenue earned per full time equivalent employee.

Forests NSW did not increase its debt level in the 2011–12 year and can meet its interest obligations with the interest cover being 2.5 times. The increase in the debt ratio is mainly due to increase in superannuation liabilities resulting from actuarial changes.

Significant items recognised in the income statement were a \$76 million expense resulting from increases in superannuation obligations and leave liabilities due to actuarial assessment and change in discount rate, a \$16 million expense from reduction in the biological asset value and a \$6 million expense related to revaluation impact on land and buildings.

Business segments

Native Forest Operations was able to produce more sawlogs than last year due to slightly improved weather conditions this year, however production levels were lower than budget by 130 000 m³. Native forests had significant expenses in the year relating to severance and legal costs, and the business now also includes the cost of hardwood plantations. Excluding, these items, the underlying business improved in profitability by \$7 million over last year. The objective for the native forests business is to return at least a breakeven EBIT. Challenges for the business

include the softening pulp market and wood supply on the north coast.

Planted Forest Operations had a challenging year with the housing market not showing any signs of improvement. Sawlog and pulp volumes were down on last year. All plantation reestablishment and roading costs are expensed as they occur, only major construction costs and equipment purchases are capitalised. Earnings before interest, taxes and overheads for the year of \$49 million or 25 per cent of sales was a strong performance for the business. Challenges ahead include pressure on log pricing and further deterioration of the housing market.

Segment information

Year ended 30 June	2010–11	2011–12
Native Forest Operations		
Revenue	\$m	95
Volume ²		
- Sawlog	'000 m ³	518
- Pulp	'000 tonnes	589
EBIT ¹ and before overheads	\$m	(1)
Operating profit after overheads before tax ¹	\$m	(13)
Planted Forest Operations		
Revenue	\$m	228
Volume ²		
- Sawlog	'000 m ³	2128
- Pulp	'000 tonnes	1580
EBIT ¹ before overheads	\$m	65
Operating profit after overheads before tax ¹	\$m	45

¹ Excludes significant items such as revaluation impact, impairments and impact on superannuation funds, before taxes.

² See indicator 22 for volumes by product type rather than by operating branch as reported here.



Our social performance

Operating as the safest commercial forest manager in Australasia, while building partnership and generating economic and social benefits within the community, particularly for rural and regional communities.

INDICATOR ¹	RESULTS	PERFORMANCE
FOREST VALUE: COMMUNITY BENEFITS		
1. Social responsibility	286 community participants in voluntary programs	●
2. Public participation	At least 2751 hours of staff time invested in attending stakeholder meetings and forums	●
3. Recreation and tourism	102 recreational sites providing a range of facilities, with information for specific locations available through the website	●
4. Research and education	406 permits issued for organised recreational activity with \$2.54 million spent on recreational service provision	○
5. Regional employment	\$1.35 million on research	○
6. Other forest products	\$1.46 million on education and over 3149 participants in educational programs	○
7. Quality of management	Based on 2006 census data, more than 12 000 indirect jobs are dependant on timber processing in NSW	●
8. Management and training	Access maintained to State forests for apiary, grazing and other products appropriate to forestry	●
FOREST VALUE: STAFF		
9. Health and safety	733 people directly employed by Forests NSW; more than \$1.81 million on staff management \$1.89 million spent on training	○
10. Protection of cultural heritage	Staff attended 1870 training courses and contractors attained 1172 competencies	●
10. Protection of cultural heritage	Recordable incident rate of 3.1 and lost time incident rate of 0.5	●
FOREST VALUE: CULTURAL HERITAGE		
10. Protection of cultural heritage	1377 ha managed for cultural heritage values, with five co-management agreements and seven partnership agreements	●

¹ For further information refer to the Supplementary Sustainability Indicator Data 2011–12 available online at: www.forests.nsw.gov.au

Performance is measured against stated objectives listed with each of the indicators in the online Supplementary Sustainability Indicator Data.

Symbol interpretation: ● Target achieved or maintained ○ On track to meeting target ■ Target not achieved – action required

Number of recreational sites providing a range of facilities:

102



Amount spent on recreational service provision:

\$2.54 million



> Connected

Forests NSW continued to connect with the communities in which we operate through fostering partnerships with Aboriginal communities, working with local communities and volunteers, developing the skills of our staff, improving our website in response to user needs, developing forest education resources, encouraging people to participate in sharing their forest experiences via social media or better understanding the needs of visitors to forest tourist destinations.

Partnerships with Aboriginal communities

Maintaining the connection between Aboriginal people and forests and protecting areas of cultural heritage significance is an integral part of forest management.

Forests NSW continued to work in partnership with local Aboriginal communities to ensure ongoing access to forests for cultural purposes. Through the MOU between Forests NSW and the Anaiwan Elders in Central Region, Forests NSW continued to fund site improvements at the Riamukka camp, for which the Anaiwan hold an occupation permit, with the erection of a shelter that is used for cultural gatherings and teachings.

This year, the Black Fellows Hand Trail in Newnes State Forest near Lithgow was returned to its traditional name of Maiyingu Marragu Trail (meaning 'peoples with hands'). It was a result of the partnership between the traditional owners of the Newnes State Forest area, the Mingaan people (part of the Wiradjuri Nation) and Forests NSW Macquarie Region. The trail leads to the Maiyingu Marragu Aboriginal place.

As part of the Koondrook-Perricoota Forest Flood Enhancement Works near Barham on the NSW/Victorian border, an Indigenous Partnership Program was established to consult with local traditional owner groups and land councils over cultural heritage issues associated with the construction of the project. During 2011–12, several meetings

were held with the Joint Indigenous Group of traditional owners and land councils to discuss cultural heritage issues, in particular the management of burial sites within the construction zone.

Southern Region continued to work closely with Eden Local Aboriginal Land Council (LALC) on their Bundian Way project, a cultural track that stretches from Twofold Bay up to the Snowy Mountains. Along the way there will be two camping areas within Forests NSW managed land.

Other initiatives undertaken during the year include:

- holding a bark canoe building workshop on the south coast, using bark from stringybark trees from Boyne State Forest, in an effort to bring back these skills to the local Aboriginal community;
- co-hosting one full-time and two school-based Aboriginal trainees in the Eden area;
- an employee of North East Region being named as the Aboriginal and Torres Strait Islander Trainee of the Year in the North Coast category;
- employing Central Region's first female Aboriginal Cultural Heritage Officer based in the Maitland area;
- participating in many NAIDOC week celebrations across the State;
- continuing to support the Batemans Bay LALC in developing its own timber harvesting team for its forested land; and

- participating in the NSW Rural Fire Service (RFS) Hot Spots Community Fire Programs, including one held at the Maiyingu Marragu Aboriginal Place, where Forests NSW conducted a presentation and assisted members of the local Wiradjuri community and private landowners with fire protection planning.

Working together with volunteers

Forests NSW and Conservation Volunteers Australia (CVA) celebrated 10 years of their successful partnership on the Communities in Forests program this year. Volunteers and local communities once again donated their time to help improve facilities and environmental outcomes in forests across the State.

During the year, CVA volunteers contributed 236 volunteer days, weeded a total of 6000 m², repaired nearly six kilometres and constructed more than three kilometres of walking track across five different sites:

- Bruxner Park Flora Reserve in Orara East State Forest, Coffs Harbour – improved the walking track to the rejuvenated Sealy Lookout;
- Burrawan State Forest, near Wauchope – upgraded the walking track to a magnificent bloodwood tree, given the nickname 'Old Bottlebutt', that features on the National Register of Big Trees;

- Nalbaugh and Bondi State Forests, near Bombala – repaired and maintained the recreation facilities at Nalburgh and Rockton Falls;
- Nulliga State Forest, far south coast – restored the walking track and improved the recreation facilities at Nethercote Falls; and
- Newnes State Forest, Lithgow – removed exotic pine wildings from the Newnes Plateau Swamp, an endangered ecological community.

Forests NSW has also long had a team of dedicated volunteers undertaking bush regeneration at Cumberland State Forest at West Pennant Hills to improve the forest environment. This year, a new, volunteer program with a major neighbour of the forest, IBM Australia, began. As part of IBM Australia's corporate commitment to volunteering, teams of IBM staff dedicated a day every three months to bush regeneration in the forest.

Developing our staff

Forests NSW focused on developing the skills and abilities of key staff in better engaging with communities in which we operate, with 30 staff participating in a training program customised for Forests NSW (see case story page 22).

Forest education

Forests NSW is a keen partner in a new nation-wide forest education resource, www.forestlearning.edu.au. The site, launched in 2011, was developed by the Forest and Wood Products Association (FWPA) through a collaborative network of forest educators and communication specialists from across Australia, including from Forests NSW.

Forest learning can reach into schools across the country by providing a one-stop-shop for forest and wood products education resources from various State agencies. The site allows teachers to search easily for activities, fact sheets and multimedia resources that align with the curriculum to support their teaching.

Forests NSW has promoted the site through our education networks, school excursion program and website and partnered with forest learning to attend events such as the Youth Eco Summit held at Homebush in October 2011, which attracted thousands of school students.

Forests NSW also developed an educational 'app' during the year, called Wildlife Detective. It can be downloaded free from our website or school students visiting Cumberland State Forest can enjoy it on an iPad stand at the visitor centre. Through playing the app,

The new look website at: www.forests.nsw.gov.au

students learn about how foresters protect animals in the forest, including rare and endangered species.

e-log launched

In November 2011, Forests NSW published the first issue of *e-log*, a new, electronic newsletter. *e-log* continues in the tradition of the *Bush Telegraph* magazine, offering informative stories on a range of forest and forestry-related issues. To become a subscriber, visit www.forests.nsw.gov.au

- easy access to information such as harvest plans for native forests;
- enhanced visitor information for some of our most popular forests;
- login button for the customer/contractor portal;
- integrated news function which feeds our electronic newsletter *e-log*; and
- those web essentials such as RSS feeds.

The project was part of a broader web project in NSW T&I with Forests NSW being the first site revamped – www.forests.nsw.gov.au

Popular forest areas upgraded

Forests NSW upgraded a further two picnic areas in the popular Cumberland State Forest at West Pennant Hills. The two improved picnic areas, Shepherds and Bellamy, are close to the nursery and cafe as

Forests NSW new electronic newsletter 'e-log' was launched in November 2011.



Photo: Bronwyn Ellis

well as the start of the sensory and forestry walking trails. The works included new picnic tables, upgraded barbecue facilities, new interpretive signage and resurfacing of the adjacent sensory trail – a trail accessible for people with prams, strollers and mobility issues.

CASE STORY Social licence to operate

Engaging with people, particularly those who care about how the forests are managed, is a major component of modern forest management.

Getting the community engagement right is important to Forests NSW business success and in meeting the community's expectation for sustainable management of State forests. Meeting these expectations is often expressed as maintaining our 'social licence to operate'. Our commitment is reinforced through specific actions required as part of our voluntary certification to the Australian Forestry Standard AS 4708:2007.

This year, Forests NSW firmly put community engagement at the top of the agenda by adopting a new Stakeholder Engagement Policy and the rollout of an intensive training program to improve the way we engage with the communities in the areas in which we operate, such as harvesting and bushfire management.

Forest maps updated

Three maps in Forests NSW popular map series, the Mid North Coast, Central Coast and Central West maps were updated and reprinted during the year. The Lower North Coast map was also reprinted.

As well as showing all the State forests and national parks in the area, these maps highlight all regularly maintained roads and trails, walking tracks, recreation areas and lookouts. The reverse side contains photographs and commentary on the history of the regions' forests and forestry in the area, along with details of recreation sites and facilities. Forest maps are available for purchase online from Forests NSW website.

Visitor surveys

As part of Forests NSW native forest tourism program, visitor surveys were undertaken during the year at popular visitor destinations on the north coast in Olney, Heaton, Strickland, Coopernook, Kerewong and Orara East State Forests. Visitor surveys were also undertaken during some recreational events held in State forests. The data collected informs and improves management about the use of our visitor areas. It also provides data about the economic contribution of these destinations and events to local and regional areas.

The program was delivered to 30 key staff from a cross section of the organisation.

The workshop also provided an opportunity for the CEO Nick Roberts, operational branch directors and regional managers to demonstrate their commitment to community engagement by participating in the workshops.

The four-day training program consisted of two-day workshops, with a break of around a month in between sessions. This allowed the theory and skills learned in the first workshop to be applied in a practical work setting with the outcomes from this explored at the second workshop.

The course was delivered by research fellows from the Australian National University and the Co-operative Research Centre (CRC) for Forestry, who have experience in community engagement in a forest management context, both abroad and in Australia. The course drew

heavily on the CRC for Forestry's publication, *Handbook for operational community engagement within Australian plantation forest management*, which was written by the trainers. By taking the approach of using material, research and experts from the forestry industry, the training was particularly relevant for Forests NSW staff.

The workshops covered a wide range of modules including different methods for engagement, stakeholder analysis, managing expectations and building capacity to engage, conflict resolution, understanding power and group dynamics and reviewing relevant forest industry case studies.

By participating in the training, staff gained skills and confidence to consistently and effectively engage with neighbours and key community groups and to identify the best approach to undertake engagement in different circumstances.

Significant events held in State forests this year

- Coffs Harbour Mountain Bike Club's Pleasure and Pain cross-country mountain bike event held in August in Pine Creek State Forest with around 400 riders competing
 - NSW Rogaining organised the Paddy Pallin six-hour Rogaine in June in Clandulla State Forest attracting 390 participants
 - The Sunny Corner Enduro hosted by the Central Tablelands Motorcycle Club in Sunny Corner State Forest attracted around 800 trail bike riders in September
 - The Back Yamma Bigfoot Bike ride organised by Central West Off Road Bicycle Club in September attracted 407 riders to Back Yamma State Forest – an endurance mountain bike event conducted over three distances: 25, 50 and 100 kilometres
 - Mountain Bike Australia's Awaba All Mountain and Gravity Cup was held in Olney State Forest in March at the Hunter Mountain Bike Association occupation permit area. This is a competitive mountain bike national event focusing on downhill and cross-country disciplines and attracted 193 participants from all over Australasia
 - Scouts Australia held ScoutHike 2012 in Belanglo State Forest in May with 1056 scouts participating
 - Scouts Australia held Dragon Skin 2012 in Penrose State Forest in April with 878 scouts attending
 - Burning Seed, Australia's regional Burning Man event, a community and arts festival, was run by Red Earth City Pty Ltd in November 2011 in Matong State Forest, attended by 500 participants
 - Wild Horizons' 3 Ring Circus mountain bike event held in Wingello State Forest in July attracted 691 participants
 - Wild Horizons' Highland Fling mountain bike event in Wingello State Forest in November attracted 1716 riders
 - Southern Highlands Endurance Ride Inc hosted the NSW State Championships in Wingello State Forest in April with 117 endurance horse riders participating
 - The 2011 World Car Rally Championships convened by the Confederation of Australian Motor Sport was based at Coffs Harbour in September and showcased 13 State forests with forest roads comprising 50 per cent of the total circuit. Around 100 vehicles competed and the event attracted tens of thousands of spectators
- 
- 
- Photo: Howard Spencer*
- Southern Highlands Cycling Club held the James Williamson Enduro Mountain Bike Challenge in Wingello State Forest in May attracting 470 riders
 - The Rally of the Bay, organised by Australian Sports Action Group, was held in July with 72 cars competing through Benandarah, Boyne, South Broome, North Broome, Shallow Crossing, Currowan, Buckenbowra, Bolaro and Mogo State Forests on the south coast

CASE STORY

Forests NSW wins tourism awards



State forests mean a lot of different things to people. They provide for the sustainable timber needs of the people of NSW and a home to a diverse range of biodiversity. At the same time, State forests' natural attractions draw people into a true natural playground. More and more, State forests are being recognised as an important tourist destination for metropolitan and regional visitors.

In recognition of Forests NSW work in developing tourism opportunities in State forests, Forests NSW Central Region picked up two major tourism awards in the 2011 Hunter and Central Coast Awards for Excellence in Tourism. This is an annual competition for tourism businesses, suppliers to the industry and outstanding individuals.

Forests NSW won the gold award in the ecotourism category for Strickland State Forest west of Gosford, which was also a finalist in this category in the 2011 NSW Tourism Awards. A bronze award was received in the tourist attraction category for the State forests of the Watagan Mountains. Privately-owned and managed by Ecoline Pty Ltd, the TreeTop Adventure Park (TTAP)

in Ourimbah State Forest won a silver award in the ecotourism category and a bronze in the adventure tourism category. Ecoline Pty Ltd also won the award for outstanding contribution by an individual.

Described as a playground in the trees, the TTAP comprises a number of challenges linking trees, where participants traverse suspension bridges, ladders, trapezes, Tarzan jumps and the odd flying fox. The course aims for minimal environmental impact on the forest. The platforms are built without any drilling or nailing to the trees and all structures are designed to allow the trees to grow unrestricted. Safety is also paramount and participants are required to wear safety harnesses which attach to guiding lines and, on the children's course, a continuous belay safety system is used, similar to the one currently used on the Sydney Harbour Bridge Climb. Further information is available at www.treetopadventurepark.com.au

Tourism initiatives such as TTAP provide employment opportunities and contribute to local economies.

These awards were a wonderful achievement for sustainably managed working State forests, demonstrating that there is a place for imaginative nature-based tourism and entertainment ventures that complement the other uses of State forests.

Currently plans are under way for a new commercial tourism venture in Coffs Harbour. An aerial zipline or flying fox fully-guided experience, will begin near the Forest Sky Pier, and will allow visitors to soar through the treetops in Orara East State Forest. A similar experience is also being planned in Cumberland State Forest at West Pennant Hills in Sydney, along with a mountain bike facility in the State forests of the southern highlands following a recent expression of interest process.

Forest visitors are encouraged to follow @visitNSWFores on Twitter and participate in sharing their forest experiences by uploading photographs and stories at www.facebook.com/forestplayground

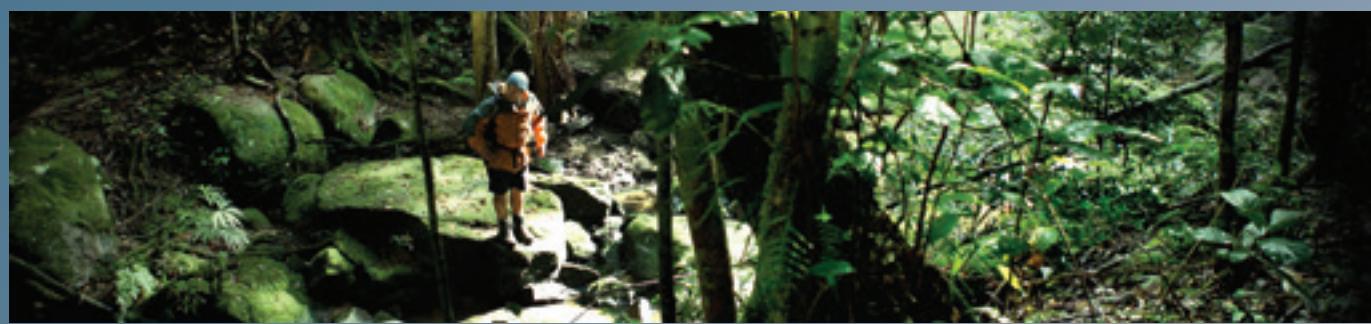


Photo: Andrea Buschner

Our safety performance

Pillar: Engagement	
Foundation activities	Outcome
Engage employees in the development of localised health and safety planning and self assessment of system implementations	2011–12 health and safety plans were developed in conjunction with staff and health and safety committees
Encourage greater self sufficiency through improved safety awareness	Positive performance (lead) indicators being tracked to bring focus on activities that positively impact on safety
Drive greater levels of urgency around incident notification and investigations	Incident notification continued to be highlighted in a range of forums, such as all staff safety days and toolbox talks. Quarterly reviews with the Senior Management Team drives accountability
Develop and implement a safety behavioural observation program	This initiative is still under development and is reliant on the delivery of other programs
Develop the role of supervisors as the key to influencing cultural change	This initiative is underway and is one element of the supervisor development program
Coach supervisors in delivering safety outcomes in their capacity as change agents	Training sessions for work health and safety in contract management were held for all supervisors involved in managing external service providers. These sessions provided supervisors with the necessary skills required to ensure safety was being effectively managed
Provide training to ensure that staff have the skills and competencies required to do their work safely	All staff safety days were conducted at each operational region with staff engaged in activities that raise and reinforce safety awareness. Specialised safety training was also provided where it was directly aligned to position competencies
Expand and monitor the practical implementation of the 'Take 2' process	'Take 2' continued to be highlighted with many regions capturing 'Take 2' events and reporting these monthly. Staff were trained in hazard awareness and provided with pens that have a risk matrix and 'Take 2' process inbuilt into the pen for ongoing reference
Empower employees to take action where there are identified unsafe work practices or acts	The business continued to reinforce the principles of stopping unsafe acts. Employees were issued a stop work card empowering them to stop any identified unsafe practices or behaviours
Partner with contractors to improve safety performance and drive sustainable behaviours	The business continued to work with contract service providers to audit and improve safety performance. A number of contractor safety training sessions were held in the regions
Work with industry bodies to develop initiatives that improve industry behaviours and enhance the Forests NSW brand	Forests NSW safety team continued to work with WorkCover NSW as part of the industry safety partnership initiative. A number of joint audits were conducted with other forest industry enterprises
Pillar: Leadership	
Foundation activities	Outcome
Operationalise safety leadership behaviours to all levels	This initiative was completed and is reflected in the new Health and Safety Strategy
Incorporate mandatory safety requirements into all performance development scheme plans	Safety behaviours were included in all position descriptions
Continue the roll out of leadership in safety development to all levels of the organisation.	Safety development continued through the Supervisors Development and Leadership Program
Pillar: System and Processes	
Foundation activities	Outcome
Ensure contractor safety performance is captured and reported as part of the regular reporting cycle	Contractor safety performance is being captured for all harvest and haul contractors with the program being extended to other contractor types
Continue to enhance safety management tools to be intuitive, practical and easy to use	The new Forest NSW Intranet was launched and work continues on ensuring a practical and easy to use safety management system
Develop resources that target preventative safety initiatives	Regular communication continued to drive our preventative health strategy. The development of a health and wellbeing strategy will ensure a targeted approach over the next three years
Establish a centralised database for the capture on non-conformances and the reporting of corrective actions (NCR/CAR)	This is under development and is planned to be integrated into the existing Forests NSW Non-Conformance and Improvement Reporting system for forest management
Promote greater levels of near miss reporting with a target of 30 near miss reports for every one recordable incident	Near miss reporting was targeted through toolbox talks and all staff safety days. Work in this area is ongoing

Safety – our first priority

Forests NSW released a new three-year Health and Safety Strategy — ‘First Priority 2011–14’ — to continue towards our objective of being the safest commercial forest manager in Australasia. The new strategy was delivered to all employees’ homes to ensure that safety objectives are clearly understood at all levels of the organisation.

The strategy continues to focus on creating a sustainable safety environment, by looking not only at occupational behaviours, but by viewing responsible safety as a way of life. The new strategy maintains the three key pillars of safety – engagement, leadership and systems and processes.

The table on page 25 shows how Forests NSW performed in 2011–12 against the activities identified in the new strategy.

Changes to work, health and safety Legislation

A new *Work, Health and Safety Act 2011* and Regulation came into effect in January 2012. The object of the new legislation is to provide for a balanced and nationally consistent framework to secure the health and safety of workers and workplaces.

The safety team is working with local health and safety committees on implementing safety representation in line with a new element in our Health and Safety Strategy reflecting legislative changes.

Safety performance

This year Forests NSW achieved very good safety results with all key indicators showing significant improvements. Importantly, Forests NSW achieved its primary target of a 35 per cent reduction in the recordable incident rate, ending the year at 3.1 against a target of 3.6. This was an excellent effort and a credit to everyone in the organisation for making safety the first priority.

The lost time incident rate reduced from 2.9 in June 2011 to 0.5 in June 2012.

There were only four lost time injuries recorded this year, which is a considerable reduction from the 21 lost time injuries incurred last year. While this in itself is an excellent result, the severity of this year’s injuries were also reduced with only 16 lost days recorded compared to 2010–11 where there were 233 days lost due to workplace injuries.

Workers compensation claims also reduced from 50 in 2010–11 to 32 in 2011–12.

Self insurance safety audit

Forests NSW underwent a surveillance audit by WorkCover as part of the requirements of our self insurer’s licence. The audit was conducted in Hume Region, in accordance with the National Self Insurer’s Operational Health and Safety (OHS) Audit Tool. WorkCover reviewed two elements of the Health and Safety System over a four-day audit covering management responsibility and risk management.

Forests NSW performed well, scoring 96 per cent in the area of management responsibility, which reviews planning, responsibility and accountability within the organisation. According to WorkCover, this is a high level score and demonstrates an excellent management commitment to health and safety. In the element of risk management, where the audit reviews the risk assessment process including hazard identification, risk assessment and control of risk, a score of 86 per cent was achieved.

The results of the audit highlighted that our safety management system has matured and provides access to numerous tools that support operational business groups in improving safety performance. The result ensures that Forest NSW can maintain its WorkCover self insurer’s licence and that the current three-year audit cycle remains in place.

Positive performance indicators

From July 2011, a range of positive performance (lead) indicators were introduced to the monthly health and safety incident reporting snapshot. The positive performance indicators were designed to focus on activities that positively impact on safety. These positive performance indicators included the following:

- performance development scheme safety discussions held (not inductions);
- hazard and risk assessment forms completed and submitted;
- ‘Take 2’ observation forms returned;
- health and safety committee meetings held; and
- incident investigations undertaken.

Current health and safety performances in simple graph form are located on the home page of Forests NSW intranet. Every time a staff member accesses the intranet they can see how many days have gone by since the last lost time injury or medical treatment. Comprehensive monthly health and safety statistics are also available on the intranet to ensure that every employee has access to the latest performance data.

Regional safety initiatives

Macquarie Region, in conjunction with the timber industry in the Central West, held a start-up safety breakfast in January to welcome people back to work after the holiday break and to put safety at the forefront of their minds from the first day back at work.

A health and wellbeing program was rolled out in Hume Region to assist staff to move to better nutritional and exercise based lifestyles. The program consisted of an initial health check to benchmark staff health at the start of the program as well as a second health check to assess improvement over a three-month period. A series of seminars was conducted during the program to provide staff with general information on health and exercise as well as to maintain enthusiasm for dietary and exercise changes adopted during the program. The program was well received and has resulted in early identification of some health issues among the staff that were referred to health professionals. Some elements of the program have been adopted in other Planted Forest regions.

Planted Forest Operations also focused on the inclusion of contractors in their safety program and engaged with them on a variety of issues including static rollover thresholds, overloading and incident reporting. The branch now tracks contractor recordable injury frequency rates and gets involved in investigations of serious contractor incidents. There has been an enormous improvement in the incidence of truck overloading by haulage contractors since the introduction of the overloading policy three years ago.

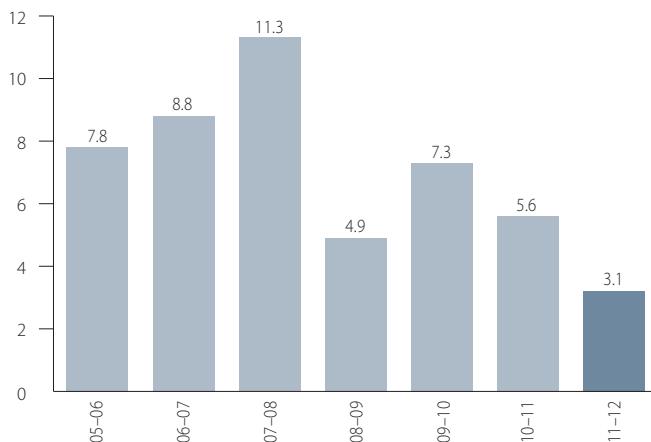
Native Forest Operations also had a dramatic improvement in the performance of harvesting contractors reporting safety statistics this year, an important step toward being able to analyse trends and identify opportunities for improvement.

All Forests NSW operational regions met the corporate standard for independent audit of contractor safety systems and safety in operations.

The log truck safety project, 1800 LOGHAUL, began in Hume and Macquarie Regions this year. More information about this initiative can be found in the case story on page 27.

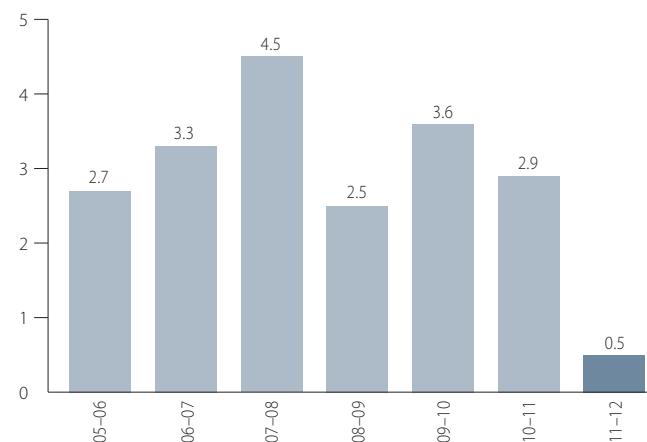
An engineering review was conducted on all fire tower structures. The purpose of this review was to ensure the structural integrity of each tower, identify any potential safety risks and develop appropriate measure to control risks.

Recordable incident rate¹



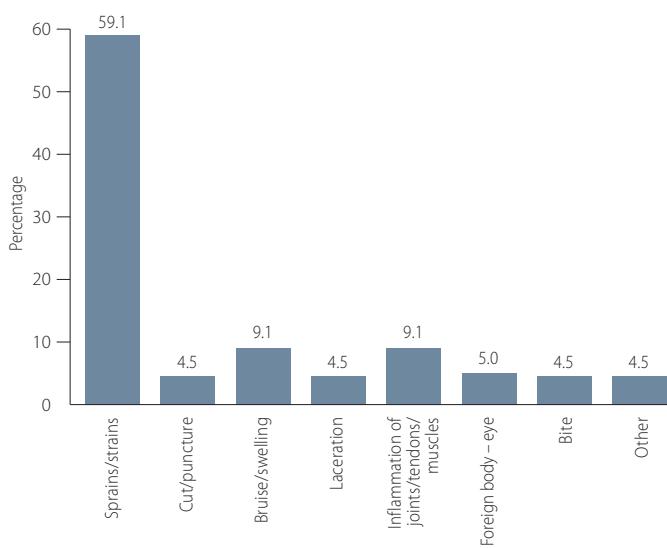
¹ The recordable incident rate (aka all frequency rate) is the measure of all recordable incidents, including medical treatment only incidents and lost time incidents. A medical treatment only Incident is any incident that requires medical intervention such as stitches, a prescription or a referral. A lost time incident results in time lost from work of one day/shift or more.

Lost time incident rate²

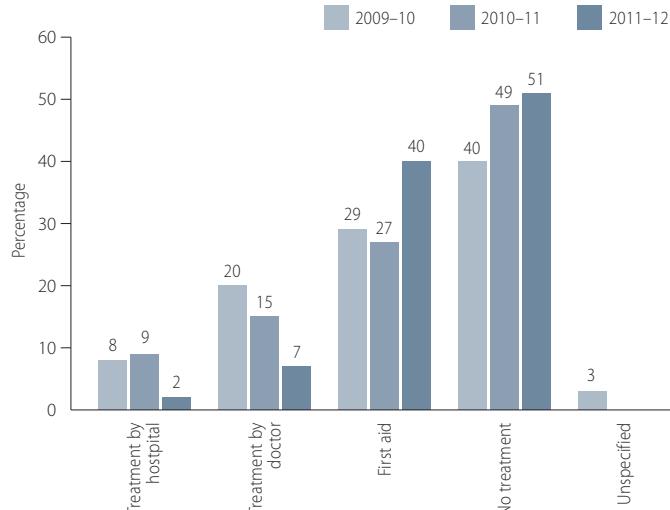


² The lost time incident rate is the measure of more serious recordable injuries, which result in time lost from work of one day/shift or more.

Recordable incidents by type of injury



Treatment of injuries sustained



CASE STORY

Log truck safety initiative gets on the road

Forests NSW is committed to improving all aspects of safety and log truck driver behaviour is part of that process. The past year saw the launch and rollout of the log truck safety initiative with the new 1800 LOGHAUL number that will drive improvements in log truck driver safety and behaviour. The 1800 LOGHAUL number (1800 5644285), developed jointly by Forests NSW and the Forest Industry Council to give other road users the opportunity to comment on log truck safety, gathers data on driver behaviour and highlights positive driving as well as other safety areas that are causing concern to the public.

So far the program has been implemented in Forests NSW Hume and Macquarie Regions. Each log truck operated by contractors to Forests NSW in these regions has a sign bearing the 1800 telephone number as well as an individual truck identification number. An advertising campaign helped promote the new initiative.

Road users driving behind a logging truck that notice any safety issues such as loose logs or speeding, or if they notice that the driver is being particularly courteous, can call 1800 LOGHAUL and quote the truck ID number. These calls from the public connect to an independent call centre where the date, time, location and incident details are recorded, along with caller details

and truck identification number. The details of callers are kept confidential.

Messages are passed on to the contractors, who conduct investigations into all complaints and use the outcomes to improve safety across their fleets. Contractors then provide feedback to callers, if requested, as to the steps that have been taken to prevent the reoccurrence of the issue raised.

This initiative has been introduced as part of a wider campaign to improve truck safety in the regions. Forest NSW will continue to roll out this initiative across the remainder of its operations during 2012–13 and beyond.



Raw image sources: Forests NSW Image Library and Boral Timber

Our environmental performance

Sustainable management of native and planted forest to protect and enhance environmental functions and conservation values. Expanding the plantation estate to help meet future market needs.

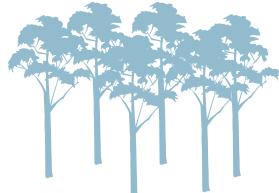
INDICATOR ¹	RESULTS	PERFORMANCE
FOREST VALUE: BIODIVERSITY		
11. Extent of forest type	Total forest estate managed 2.2 million hectares	○
Native forests	1.76 million hectares of native forest managed within the native forest estate and an additional 141 862 hectares of retained vegetation made up primarily of native forests and managed within the planted forest estate	○
Planted forests	210 349 hectares of net stocked softwood plantation and 34 175 hectares of net stocked hardwood plantation 8763 hectares of softwood and 592 of hardwood plantation re-established	○
12. Native forest structure	Growth modelling and harvest schedules, along with harvest prescriptions documented within harvest plans, ensure that specific areas are harvested at the optimal time, while keeping a range of younger growth stages distributed across the estate within harvested zones and more mature growth stages and rainforest within harvest exclusion areas	●
13. Surveyed species	86 threatened fauna and flora species found with 3018 threatened fauna sightings and 5221 threatened flora sightings	●
FOREST VALUE: FOREST HEALTH		
14. Pests and weeds	\$1.5 million spent on feral animal and weed control	●
15. Plantation health	Overall maintenance of planted forest health, based on forest health sample surveys undertaken	●
16. Fire fighting and prevention	0.1% of State forests burnt by wildfire 15% of State forests treated by fuel management strategies (hazard reduction burning and grazing) \$6.5 million spent on fire prevention and control	●
FOREST VALUE: SOIL AND WATER QUALITY		
17. Protection of soil and water	\$5.8 million spent on harvesting supervision and environmental compliance in native forests 261 612 ha of State forests primarily managed to protect water catchments	●
FOREST VALUE: COMPLIANCE		
18. Regulatory compliance	10 fines issued; 0 prosecutions	●
FOREST VALUE: ENVIRONMENTAL SERVICES		
19. Carbon sequestration	3.9 million tonnes of CO ₂ -e sequestered by plantations and an estimated net 13.8 million tonnes of CO ₂ -e sequestered by native forests	●
20. Energy consumption	2.8% of electricity sourced from green power Estimated 9693 tonnes of CO ₂ -e emitted, including previously unreported heavy truck and plant bulk fuel A continuing drop in heavy plant fleet numbers and a drop this year in passenger vehicle numbers	○
21. Material consumption and recycling	18% drop in the reported potable water usage compared to 2010–11. A 2.6% increase in the percentage of materials recycled	●

¹ For further information refer to the Supplementary Sustainability Indicator Data 2011–12 available online at: www.forests.nsw.gov.au

Amount spent on fire prevention and control:
\$6.5 million



Tonnes of CO₂-e sequestered by State forests:
18.1 Megatonnes



> Healthy

Forests NSW worked to maintain healthy State forests – forests that can sustain themselves ecologically and provide community uses, products and benefits. Increased rainfall resulted in a benign fire season and provided an opportunity to focus on fire training. Plantation health was good and we continued to improve performance in managing biodiversity and natural resources.

Fire management

Forests NSW is responsible for sustainably managing both fire sensitive pine plantations and native forest ecosystems that have evolved with fire. Both require a range of different fire regimes and protection to maintain their health, diversity and vitality.

A revised fire management policy was issued to staff that recognised the need for a risk based approach to fire management in cooperation with the community and other NSW fire authorities. Fire specific standard operating procedures, guidelines and other information was also developed for use by all Forests NSW fire fighters.

Forests NSW staff undertook a wide range of fire training programs (see case story page 32), some provided by or held in collaboration with other firefighting agencies such as the NSW RFS and the National Parks and Wildlife Service (NPWS). The focus was on ensuring employees were trained to national fire competency standards.

Leadership and teamwork within incident management teams were key issues to come

out of the Royal Commission into Victoria's 2009 bushfires. To apply these lessons to firefighting in State forests, four incident management exercises held in Wauchope, Batemans Bay, Coffs Harbour and Grafton tested the capability of regional incident management teams, resources and facilities. Exercises will continue to be rolled out to the remaining regions.

Again in 2011–12, widespread heavy rainfall greatly reduced the number and severity of wildfires. Only 2270 hectares or 0.1 per cent of the State forest estate was burnt by wildfire. Despite wet conditions, 28451 hectares was treated with hazard reduction burning. This was considerably greater than our annual State hazard reduction target of 16605 hectares. In addition to this, a significant area of the forest

estate was fuel reduced by leased grazing, a total of 307 468 hectares.

Environmental prescriptions

Integrated Forestry Operations Approvals contain rules that direct Forests NSW in assessing and managing risks to the environment during forestry activities in native forests, including risks to threatened species, soil resources and water quality (aquatic habitat). These protection measures are known as environmental prescriptions.

Threatened species prescriptions are based on current scientific knowledge about the habitat requirements of the species and individuals discovered during pre-harvest surveys. Typical prescriptions include harvesting exclusion zones in and around threatened species

Wildfires and prescribed burns trend as percentage of Forests NSW estate

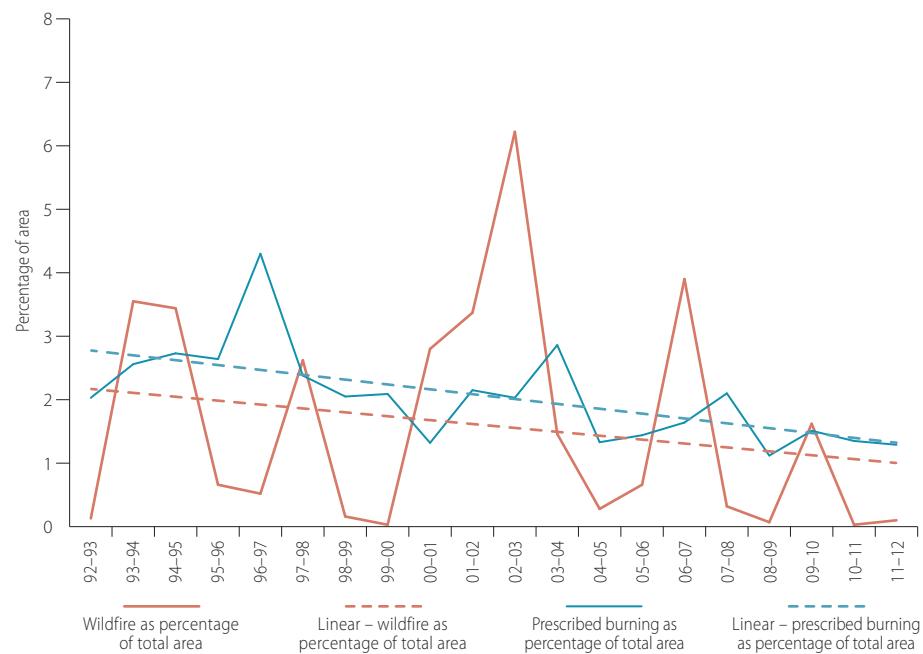


Photo: Howard Spencer

habitat, harvesting exclusions along drainage lines and measures to control soil movement along roads.

During the year, amendments were made to the Hastings River mouse prescriptions contained in the Upper North East and Lower North East IFOAs and to the yellow-bellied glider prescriptions in the Southern IFOA.

The amendments to the Hastings River mouse reflected current knowledge, gathered largely from pre-harvest surveys, about the mouse's occurrence, home-range and preferred habitats. The amendments increase access to harvestable areas and sawlogs available under the forest agreements while maintaining appropriate levels of protection for the mouse.

The amendment to the Southern IFOA was made to manage the endangered population of yellow-bellied gliders on the Bago Plateau. It provides for interim harvesting exclusion zones in all areas of moderate and high habitat, with timber harvesting limited to low quality habitat only. A review of the impacts of timber harvesting on the glider population will occur through a new population management plan.

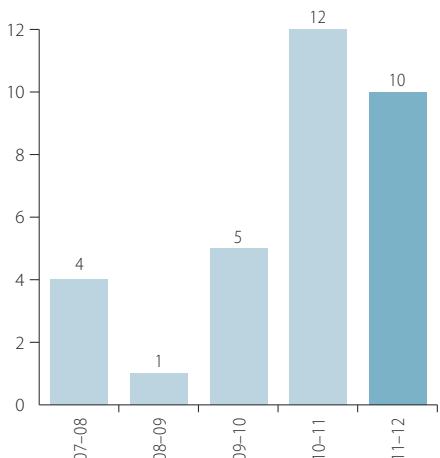
Compliance

Forests NSW regulators issued several penalty infringement notices for breaches of forestry regulations.

The alleged breach of environmental prescriptions during harvesting operations in Doubleduke State Forest was dismissed by the Land and Environment Court in July 2012.

Forests NSW has recently been formally advised by the EPA that it intends to proceed with a prosecution in relation to a hazard reduction burn conducted in Mogo State Forest in 2011.

Number of penalty infringement notices issued to Forests NSW by regulators



Prosecutions are rare for Forests NSW, having only three prosecutions raised in the past decade. Forests NSW takes these issues extremely seriously. Under both our environmental management systems (EMS) and the requirements of our AFS certification, continuous improvement systems have been brought to bear to understand the root cause of these incidents. Continually improving regulatory compliance is a priority for Forests NSW.

Forest research

New arrangements were negotiated this year regarding Forests NSW funding of research by the Forest Science Centre of DPI. Forests NSW will also continue to fund research through Forest and Wood Products Australia, Forestry and Bushfire CRCs and the Radiata Pine Breeding Company Pty Ltd. The research funded by Forests NSW is directly linked to business needs.

Forest health

The majority of softwood and a large proportion of hardwood plantations were surveyed by helicopter in winter-spring 2011 with all aspects of forest health mapped and ground surveys undertaken where necessary.

The return to good rainfalls across much of the softwood plantation estate resulted in a substantial reduction in tree mortality associated with drought and a reduction in the area damaged by the Monterey pine aphid. Negative effects included a doubling in the area affected by dothistrioma needle blight, which is normally restricted to the northern tablelands but large areas were recorded in Hume Region.

Overall, the softwood plantation estate is generally in good health and hardwood plantation health remains static.

Eastern pygmy possums

Investigations continued into the ecology of the Eastern pygmy possum before and after logging in Macpherson State Forest. Extensive field work was undertaken during 2005–07 (pre-logging) and 2010–11 (post-logging).

An animal's home range encapsulates the food and shelter (that is, resource requirements) and the social needs of an animal. The home range of the pygmy possum was estimated from den sites located by radio-tracking. Preliminary analyses showed that home range size is similar between regrowth and unlogged sites and is stable after logging.

Video footage taken during field work can be viewed online at: www.dpi.nsw.gov.au/research/forestry

These results may provide an opportunity to review environmental prescriptions for this species.

Koala management

Forests NSW, with the EPA and OEH, successfully obtained a \$1.9 million grant from the Australian Government's biodiversity fund to assist the protection of koalas on the far south coast.

The grant will be used to establish and monitor the koala population in the Eden RFA Region, particularly focusing on the Tanja, Murrah, Mumbulla and Bermagui State Forests. The grant also provides for establishing harvesting exclusion zones and developing technologies to assess alternative timber supplies. The exclusions will provide connectivity between the largest known population of koalas on the south coast with suitable habitat in State forests and in national parks.

One of the milestones is to formalise these arrangements in an amendment to the Eden IFOA. Overall, the funding will help strike a balance between koala conservation and a sustainable native timber industry for the region.

Wild dogs

Forests NSW has a responsibility to work with other land managers to control wild dogs as part of an integrated pest animal management program.

One of Forests NSW experienced wild dog trappers from Tumbarumba featured in a national self-help DVD this year that showed farmers how to trap wild dogs and foxes as part of integrated wild dog and fox control programs.

Endangered ecological communities

Forests NSW staff conducted field days across the State to improve the identification of endangered ecological communities (EECs).

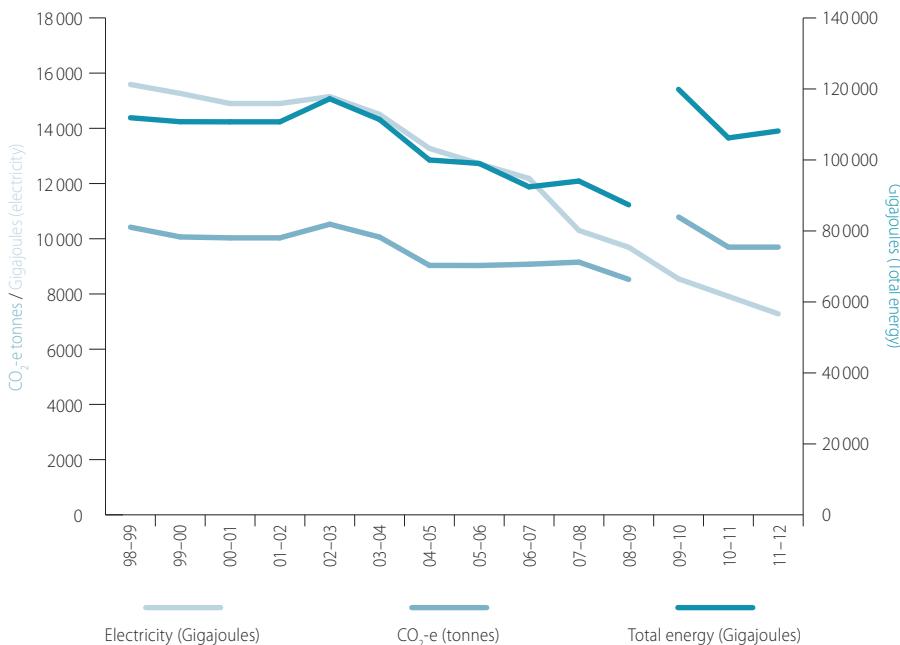
Updated field guides developed by Forests NSW senior ecologists were used to improve staff ability to identify EECs from similar surrounding forest types.

The use of remote sensing technology is also being investigated to further assist the identification and management of the EECs.

Community partnerships

A community engagement program associated with harvesting activities on the north coast resulted in a partnership between the Never Never Catchment Group and Forests

Energy and carbon emissions trends¹



¹ Note that data for CO₂-e emission and total energy include diesel from large trucks and plant that was not reported prior to 2009–10. Previously only non bulk purchase fuel data had been available for reporting.

NSW North East Region. This partnership obtained an Australian Government grant of \$600 000 in biodiversity funding to conduct riparian rehabilitation, recreation management and weed control over the next six years in State forests in the catchment.

Water management in native forests

The Koondrook-Perricoota Forest Flood Enhancement Works are part of the

Living Murray Program. The works have been designed to reinstate the natural flooding processes critical to river red gum forest health, through the installation of engineering structures and channels to divert and control flows through the forest. This infrastructure will mimic a natural flooding event. The works began in February 2011 and were ironically delayed by flooding and other operational factors. It is anticipated they will be completed during 2012–13.

Water management in plantations

The Murray Darling Basin Authority released a revised draft of the proposed basin plan in May 2012. The plan attempts to account for water used by various land use change activities including plantation forests.

As the cost of water entitlements is significant, Forests NSW is concerned about the ramifications of possible future legislation around the use of water by plantations and the impact this may have on the long term economic sustainability of plantation forestry. Forests NSW continues to participate in discussions and submissions on the draft basin plan.

CASE STORY

Statewide approach to fire training and safety

Pre-season fire training days that focus on firefighter and community safety and asset protection are a yearly event to help prepare Forests NSW for the coming fire season. It is essential that Forests NSW staff are ready and able to deal with emergencies in State forests in an effective, efficient and safe way.

This year was the first time that these important training days were run using the same program across the entire State, helping to build a uniform approach to firefighting, important when staff are called on to assist in fire operations in other regional areas.

Innovative scenarios were incorporated into the training sessions that were designed to test the firefighters' skills in command and control, communications and team work. Pumping, search and rescue, public information, fire over run drills and dangerous tree treatment were some of the subjects dealt with during the day. The scenarios all linked back to the Public Safety

Training Modules – Fire Fighting Competency Units that are used Australia wide.

Forests NSW is one of four fire authorities in the State. At some locations, Forests NSW staff were joined by firefighters from the RFS and NPWS, as well as State Emergency Service (SES) volunteers and NSW Ambulance Service officers to ensure the agencies could work together proficiently.

The fire training program was held in Coffs Harbour, Grafton, Wauchope, Baradine, Maitland, Bathurst, Narrandera, Narooma, Bombala and Tumut. A total of 12 training days were conducted, with more than 500 staff involved in the program. The sessions are part of a continual training program employees undertake throughout the year in preparation for the fire season.

Fire training records for all staff with fire fighting qualifications were also reviewed during the year to ensure they were complete and accurate. This is important to ensure that firefighting competencies are current.

Forests NSW adopted a simple and cost effective firefighter helmet marking system used by other fire authorities in NSW, to clearly indicate an individual's firefighting competency. Being able to easily recognise a firefighter's level of competence when working on the fireground is important to ensure that only appropriately qualified individuals are issued tasks suitable for them to undertake. This also allows staff on fire lines to know that the person allocating tasks has the authority to do so.

Colour-coded, reflective, two letter stickers were applied on the side of firefighters' helmets, indicating that they have completed all course requirements for that level, including 20 hours of practical experience.

Moving to uniform systems helps to improve the safety of fire crews when called upon to work on operations with other agencies such as RFS, NPWS or those from other States.

CASE STORY

Forest management tool

Forests NSW is expanding the use of remote sensing technology as a native forest management tool.

The tool is known as LiDAR, which stands for Light Detection and Ranging, a radar-like system that uses near-infrared laser light instead of radio waves. In a forest context, light pulses are sent from and received by a sensor in an aircraft and reflect off trees, shrubs, grass or the surface of the earth. This data can be processed to produce two layers of data – the ground level and the forest canopy level.

The ground level data is processed to produce a digital elevation model that accurately depicts the ground surface and can be used to derive modelled stream networks and slope classes and show the location of roads and many other features. As LiDAR penetrates the forest canopy, this provides a more accurate representation of these landscape features than was previously available from aerial photo interpretation.

This more accurate information assists foresters to plan harvesting operations by allowing staff to quickly and easily identify areas with specific management requirements, while significantly reducing the amount of field work. This in turn has many safety benefits as much of the planning work can be done in the office, which reduces the amount of time spent by staff working in steep, uneven, overgrown, wet and slippery conditions.

From the LiDAR canopy level data, estimates of the height of the tree canopy across the forest can also be obtained. This provides a useful proxy for the productivity of the forest and enables ground-based assessments to target areas of more productive forest when estimating the volume of timber available for harvesting. Forests NSW has found over many harvesting operations that the information from LiDAR has proven correct on the ground and accurate in providing timber volume estimates.

During harvesting operations in some regions, the data has also been incorporated into operational machinery using global positioning systems (GPS). This assists harvesting contractors and field staff to more accurately know their location in relation to important landscape features.

To date, Forests NSW has collected more than 1 000 000 hectares of LiDAR data across the estate, either funded by the organisation or sourced from other Government agencies and local authorities. One of the future challenges will be to find ways to keep the data up to date in a cost-effective way, possibly by utilising other data sources.

LiDAR is now used to varying extents as an operational forest management tool in all native forest regions. In 2012, coverage across North East Region will be completed and then extended to Southern Region.

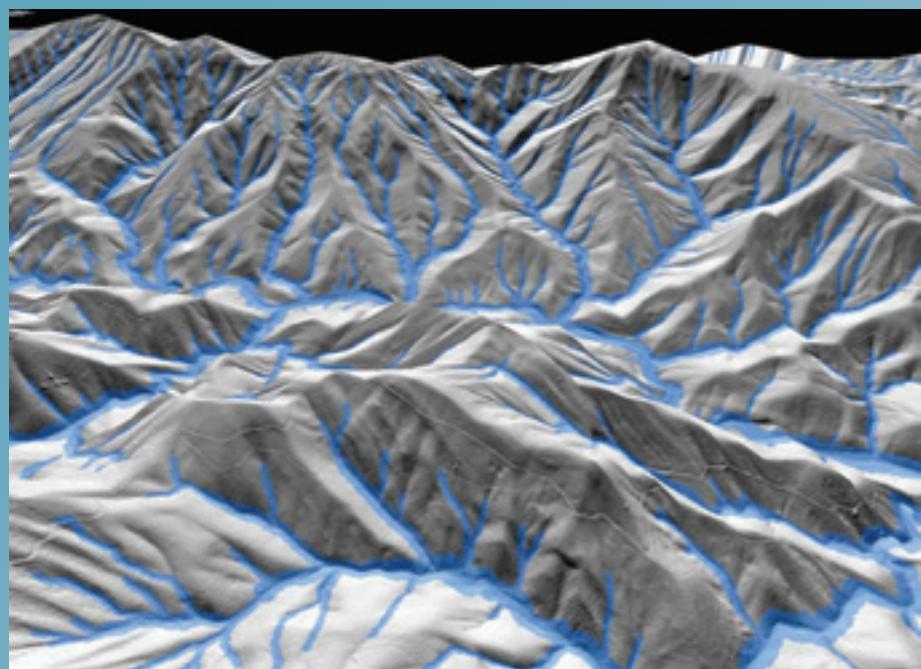
LiDAR also has the potential to be a useful tool in planted forests, particularly for inventory purposes. Because of the different nature of planted forests, individual trees and their height can be detected. This year, Forests NSW built on earlier work by DPI forestry researchers and undertook a pilot project to investigate the use of LiDAR to update net stocked area boundaries and support management planning in plantations near Walcha. Recently, a number of Australian softwood growers, including Forests NSW, agreed to support a collaborative project to further develop the operational use of LiDAR in softwood plantations.

Benefits of LiDAR in native forest management

- > Accurate information about slope classes and stream locations
- > Improved efficiencies in harvest planning and operations
- > Identification of old roads that can possibly be reused during harvesting
- > Assists with planning creek crossings
- > Provides an indicator of forest productivity
- > Improved staff and contractor safety
- > Use in operational harvesting machinery using GPS

Benefits of LiDAR in planted forests

- > Tree heights for individual trees
- > Counts of individual trees
- > Inventory efficiencies
- > Improved mapping of net stocked area



LiDAR shaded relief and modelled stream network based on the digital elevation model.



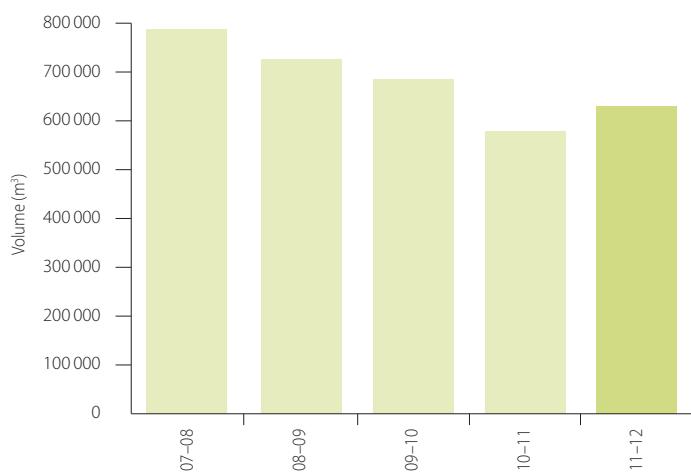
Our economic performance

Provide commercially sustainable forest management services to the Government and people of NSW and independent investors while increasing the value of their investment.

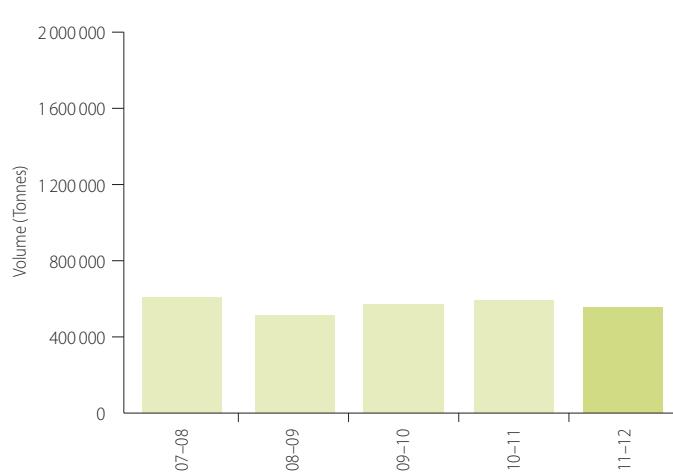
INDICATOR ¹	RESULTS	PERFORMANCE
FOREST VALUE: MARKETING AND SALES		
22. Volume of timber harvested	Decrease in logs harvested from 2.70 down to 2.61 million m ³ of logs and a decrease in pulp harvested from 2.15 to 2.02 million tonnes	●
23. Product mix of timber harvested	The proportions of broad product types sold remained relatively stable	○
24. National Greenhouse Gas Abatement Certificates (NGAC) created	100% (31 864 hectares) of eligible plantation accredited for carbon trading No NGAC sales due to the effect of the closure of the NSW Greenhouse Gas Reduction Scheme	●

¹ For further information refer to the Supplementary Sustainability Indicator Data 2011–12 available online at: www.forests.nsw.gov.au

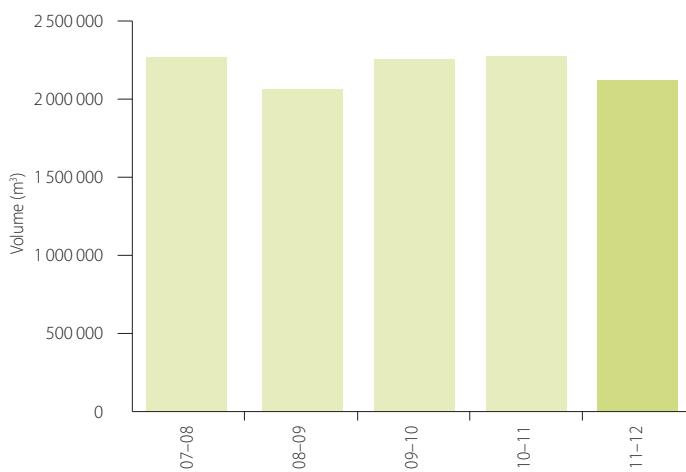
Hardwood sawlogs harvested



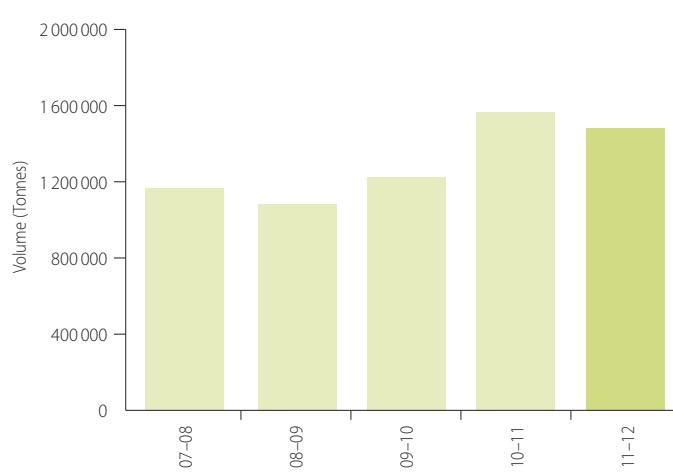
Hardwood pulpwood harvested



Softwood sawlogs harvested²



Softwood pulpwood harvested



² Includes preservation timber.

> Resilient

Forests NSW continued to perform well despite challenging timber market conditions, a sign of a resilient business. Key organisational changes reflected the focus on core functions and improving financial performance.

The timber market

Uncertainty in overseas economies affected consumer confidence in NSW and contributed to the ongoing slump in the domestic housing construction market. This, in conjunction with increasing timber imports from overseas on the back of the appreciating Australian dollar, meant that demand for domestic building materials was down.

Planted forests

As a result of these challenging timber market conditions, sawlog sales were 255 000 m³ less than expectations.

The pulpwood market continued to be buoyant with the Visy pulp mill drawing logs from Bathurst and Bombala in addition to its traditional Tumut area. Sales of post harvest residues to Visy commenced this year, in addition to small dimension sawlogs that were not required by sawmills due to the timber market situation.

The export log market in China diminished in terms of volume and price, which led to the collapse of two of Forests NSW export customers during the year and severely curtailed operations out of Forests NSW Walcha District as a result.

Overall, timber revenue¹ was down \$17.8 million on budgeted levels. This was offset to some extent by expenditure restraint with operating expenditure² down \$9.6 million on budget.

Native forests

Profitability targets were unable to be met this year due, in large part, to the combination of the reduced demand for building materials and the exceptionally wet conditions. Ongoing

negotiations regarding some threatened species licence conditions also affected supply in certain areas.

For the second consecutive year, periods of exceptionally wet weather and flooding, on the north coast of NSW in particular, affected harvesting in several of Forests NSW native forest regions, significantly impacting native timber supply. As a result, Forests NSW again relied on the *force majeure* provisions in contracts for under supply of timber against Wood Supply Agreements in a number of cases.

As a result of these factors, timber revenue was down by \$3.1 million on budget. Once again, this was offset by expenditure restraint with operating expenditure² down \$2.6 million on budget.

Implementation of the program of hardwood structural price increases was achieved for high quality sawlogs. Further work is required to realise similar gains for other products.

The carbon market

The New South Wales Greenhouse Gas Reduction Scheme, a certified carbon sequestration and trading scheme, terminated on 30 June 2012 to make way for the new Commonwealth Carbon Farming Initiative (CFI) on 1 July 2012. This decision had an impact on the NGAC market, with no NGAC sales for Forests NSW during the year.

At this stage, it is not possible for Forests NSW carbon sequestration scheme to transition to the CFI as commercial forestry is not included in this initiative. As a result, Forests NSW does not currently have access to a carbon market, removing a significant revenue stream from the business.

Production nurseries

Forests NSW production nurseries provided a total of 9.25 million commercial nursery seedlings and cuttings for the Forests NSW

planting program. There were no sales to private customers this year as production capacity at the nursery facilities was totally dedicated to the internal program. There were some good revenues from sales of elite clonal seed from joint venture orchards established in conjunction with Commonwealth Scientific and Industrial Research Organisation (CSIRO) and private landholders.

Business efficiency programs

A key focus for the year was implementing a wide range of business improvements and organisational changes with the overriding aim of improving financial performance.

Sawlog value recovery

Significant progress was made during the year on forest value recovery in softwood plantations. An in-forest optimisation project was undertaken in Bombala where on board computers were used in harvesting machines to automate log making decisions based on the dimensions, quality and location of individual trees. This initiative has already provided significant gains in value recovery of sawlog products and will be extended to all plantation operations over the next 12 months (see page 49).

Tactical planning

All operations within Planted Forests were processed mapped on an 'as is' and 'to be' basis resulting in a series of process improvement initiatives centred on resource planning. This included the reorganisation of regional planning structures and the augmentation of technical staff in forest resource planning. The new planning teams successfully delivered the 2012 valuation using improved resource data and modelling tools and will now move on to delivery of a detailed five-year tactical plan.

¹ Excluding delivery revenue on harvest and haul.

² Excluding contract harvesting and haulage.

Non-commercial thinning program

The non-commercial thinning program of white cypress in Western Region was funded by the NSW Government up until June 2010 as a consequence of the NSW Government's Brigalow decision. Since then, Forests NSW has been paying for the activity from savings it made from the implementation of the original funding program. Forests NSW concluded the program in June 2012 when the funding was finally exhausted and any cypress thinning programs in the future will be on a commercial basis.

Changes to mechanical workshops

The coastal mechanical workshops located in Grafton, Wauchope, Toronto, Batemans Bay and Eden closed on 30 September 2012.

This decision resulted from a number of considerations including the financial performance of the workshops and improved access to modernised facilities and services by vehicle dealers in regional NSW. Forests NSW has also moved increasingly to contracted heavy plant for operations and maintenance of light fleet as part of vehicle purchase agreements.

The workshops at Bathurst, Batlow and Bombala will continue to maintain and repair the predominantly heavy plant used in the major plantation areas.

Retail nurseries for lease

As a result of reviewing its strategic business assets, Forests NSW undertook a public tender process to lease its retail nursery businesses at Dubbo, Muswellbrook, Gunnedah, Narrandera, Wagga Wagga and West Pennant Hills.

These retail nurseries evolved from providing seedlings for soil conservation and environmental plantings and, over time, transitioned into largely retail nurseries.

The main objective of the tender program was to encourage these nursery businesses to be retained and grow within the regional communities over the next five years, providing an opportunity for private sector investment in regional areas. Preference was given to operators who had a good nursery management track record and who intended to continue to employ existing nursery staff, with their knowledge and skills.

Recently, transition of the nursery businesses at Gunnedah and Wagga Wagga were completed and the Muswellbrook nursery will continue to operate under the control of a local land management group in a leasing arrangement.

Forest NSW is continuing to negotiate with parties that expressed an interest in the other three nurseries on a private treaty basis.

Forests NSW will retain the production nurseries at Tumut and Grafton to grow seedlings used to establish the State's public softwood and hardwood plantation estate.

New licensing system

Forests NSW issues permits and licences for a range of products and activities including research, organised events and activities, hunting, filming, firewood collection, some forest products, grazing and apiary sites.

Forests NSW decided to move from the existing in-house system to the Government Licensing System (GLS) to manage the hundreds of permits and licences issued or renewed every year more efficiently. The GLS issues around four million licences annually.

The new system allowed Forests NSW to rationalise the number and type of licences and permits. Once operational, it will provide significant improvements to the information about our customers and the permits and licences they hold from Forests NSW. In time, this system will provide web based functionality to enable self-service for customers.

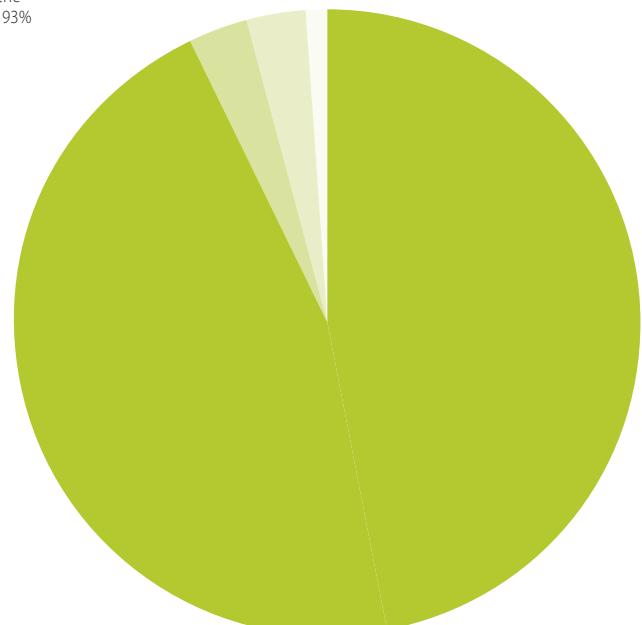
Testing of the new system began in June 2012. The new service is expected to be operational during 2012–13.

Electronic forms

A pilot project began in two Forests NSW regions that involved the design and implementation of electronic forms to replace the current paper formats.

Revenue sources

- █ Revenue generated from timber sales (includes royalties and the cost of harvest and haulage) 93%
- █ Grants 3%
- █ Other services rendered 3%
- █ Rental income and interest received 1%



Twenty smart phones were bought and loaded with a number of electronic forms and some relevant applications such as the latest fire and weather news that can be used by foresters working in the field.

At the conclusion of the pilot program, a cost benefit analysis will be completed. If significant efficiencies are found, it is anticipated the project will be rolled out across Forests NSW during 2013.

Customer disputes

Forests NSW was in arbitration with one native forest and one softwood customer. All aspects of the arbitration remain confidential.

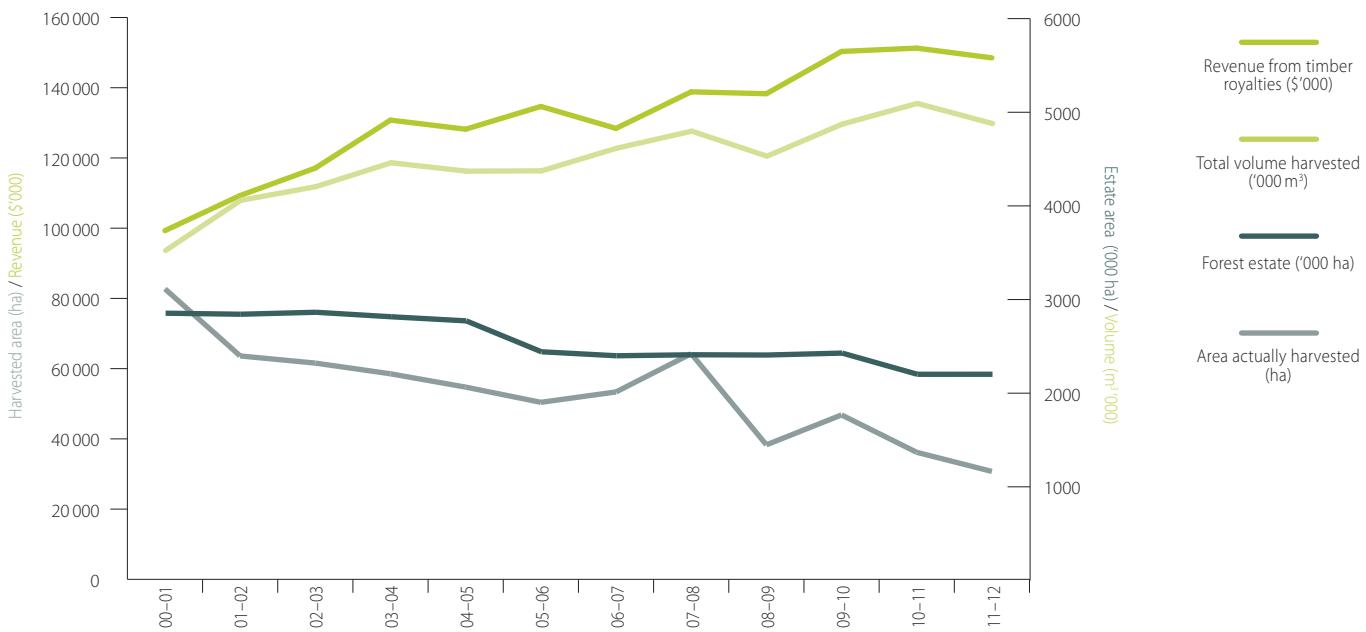
The disputes have not impacted on ongoing operations.

Other products and services

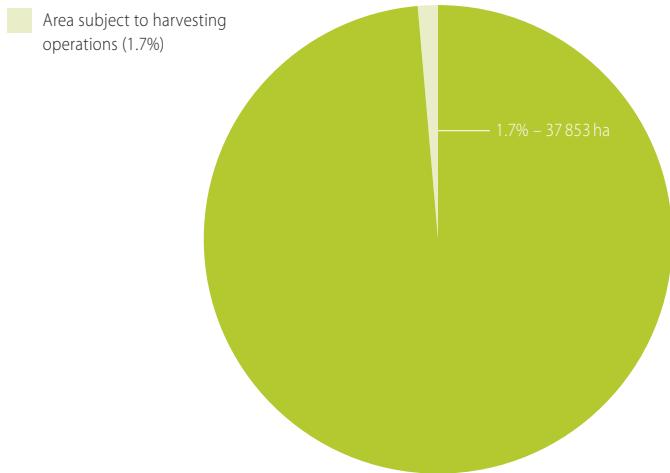
The Penrose State Forest sand deposit is a significant, high quality, building sand deposit. The quantities of sand potentially available from this resource are expected to be able to fill the anticipated gap in the supply of building sand for the Sydney construction market.

The Penrose Sand Quarry Project was put out to tender in February 2012, closing in May 2012. The tenders are now being evaluated with a view to awarding a 20-year forest product licence. The successful tenderer will be required to undertake an environmental assessment in line with Government legislation prior to any production activities commencing.

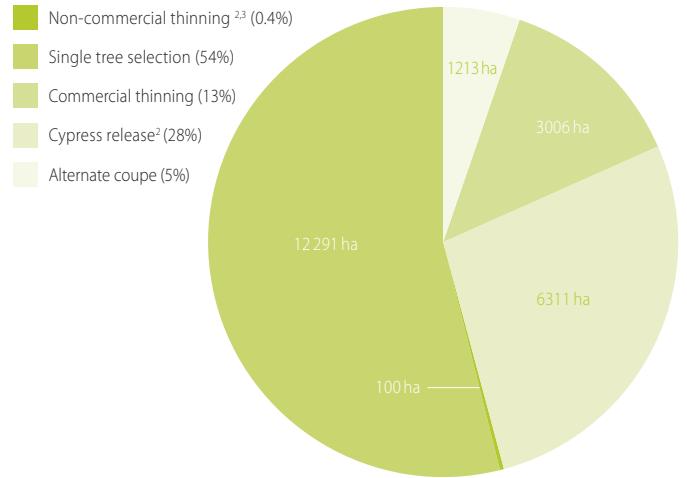
Forest productivity



Area of State forest harvested (37 853 ha) as a percentage of total estate



Native forest area harvested (22 921 ha) by type of harvest operation¹

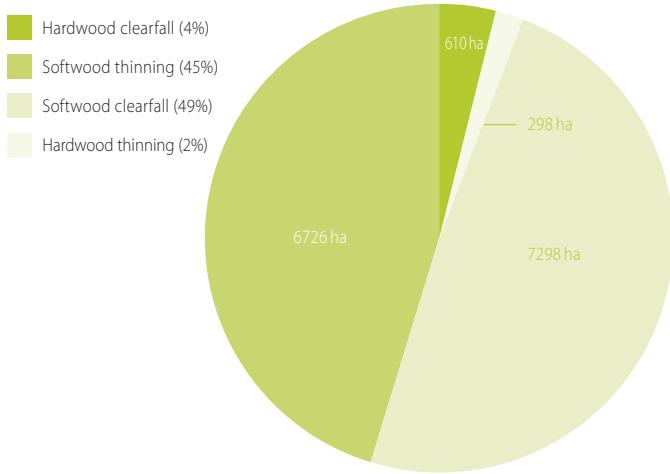


¹ Descriptions of the native forest harvest methods can be found in the Forests NSW Native Forest Silviculture Manual, and involve retaining a percentage of trees in the harvested area.

² Western Region estimates.

³ Non-commercial is defined as areas thinned according to silvicultural practices for the purpose of improving future productivity of a stand, but which do not yield a commercial product.

Plantation area harvested (14 932 ha) by type of harvest operation





Raw image sources: Forests NSW Image Library and © iStockphoto

Native forest to product – poles, piles and girders

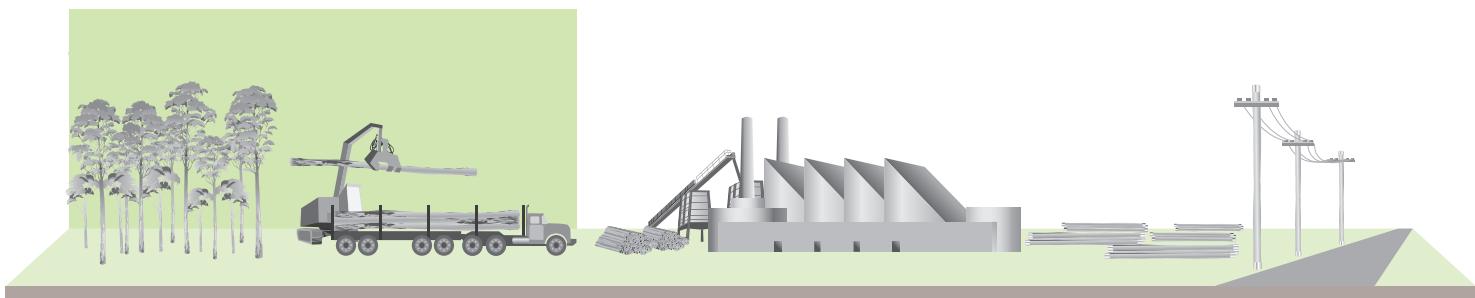
In 2011–12, Forests NSW sold 49 963 m³ of poles, piles and girders from native forests and hardwood plantations, but what exactly are they?

Poles, piles and girders are generally round timber, supplied in log form (not sawn).

They are high value products and are mainly used for structural

applications including utility service poles ('power poles'), pole frame homes, foundation supports for wharves, boardwalks and buildings (piles) and support beams in bridges (girders).

These products require very little processing and make the best use of the tree's density and strength characteristics.



1. Forest management

- Sustainably manage native forests and hardwood plantations to international standards, for the supply of timber products - engineering and construction timbers, paper products particleboard, decorative uses
- Market and deliver timber with 20-year Wood Supply Agreements (contracts) in place with major customers
- Plan and manage forestry operations including planting and regeneration, timber harvesting, road construction and maintenance and fire management
- Schedule harvesting operations in native forests - determined by the time taken for forest areas to reach a minimum merchantable volume. The interval between harvesting events varies with species, site productivity and the type of harvesting undertaken
- Prepare timber harvesting plans that provide instructions about how to carry out harvesting operations to produce forest products and minimise impacts on environmental and heritage values; specify measures to comply with regulatory requirements; include a safety plan, maps and site specific information based on comprehensive pre-harvest surveys

2. Harvest and haulage

- Before any trees are felled, Forests NSW marks trees to be retained or removed and identifies harvesting exclusion zones
- Forests NSW manages contractors to undertake tree harvesting (tree felling and log extraction) and log haulage (delivery to timber processing sites) to ensure compliance with the harvesting plan and regulations
- Mix of timber products are normally harvested in the one operation
- Trees felled using chainsaws or mechanised harvesters, head and limbs of tree removed and left to decompose in the forest
- Bulldozer or skidder takes tree to log dump, bark removed by a timber processing machine
- Logs sorted and graded into timber products based on species, size and quality – poles are selected from high quality, long, straight logs of a durable species
- Logs loaded onto log truck by a timber processing machine. Logs are secured to the load by chains and straps
- Hauled and delivered to Forests NSW customers for processing into poles - customers pay for the cost of harvesting and delivering the timber and a royalty for the value of the timber

3. Processing

- Poles are racked up for air seasoning for around two to four months
- Poles placed into treatment cylinders – the sapwood (the outer annulus) is treated with preservative under high pressure and vacuum conditions
- The treated sapwood provides a protective outer barrier to the (inner) heartwood of the pole, improving durability against fungal decay and termite attack
- Poles are finished to meet customer requirements, that is capped, identity tagged with information about the pole (species, length, etc.)

4. Timber product

- Timber utility poles produced
- Sold by processors and delivered to utility service (for example, electricity supply, telecommunication) providers in NSW and other states
- Poles also sold and exported to customers overseas including to New Zealand, the Pacific Islands and the Philippines

5. Consumer

- Power and other utilities delivered via timber poles to people of NSW and beyond

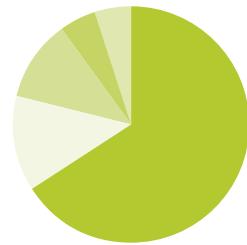
Here we track the production chain of a timber utility pole, all the way from the forest to your street.

There are more than 6.5 million hardwood poles in service in Australia today. They serve a range of purposes from supporting overhead power lines and various other public utilities such as telephone cables, coaxial cable for cable TV, fibre optic cables and related equipment such as transformers and street lights.



Photo courtesy of Koppers Wood Products Pty Ltd.

Poles sold by species 2011–12



Timber utility poles

Photo courtesy of Koppers Wood Products Pty Ltd.

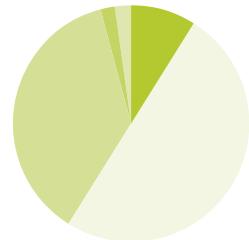
A large percentage of the electricity network was built in the 1950s and 1960s and the electricity supply industry is now undertaking a significant utility pole replacement program to renew ageing infrastructure. This has seen an increase in demand for poles.

- Benefits of timber poles:**
- Excellent electrical resistance
 - Long service life
 - Naturally high strength and durable
 - Cost effective
 - Store carbon – one power pole stores around 600 kilograms of carbon

In 2011–12, Forests NSW:

- Major pole customers: Koppers Wood Products, Coffs Harbour Hardwoods, Boral Timber and L J Williams & Sons
- Received double the timber royalty rate for poles compared to high quality sawlogs

Piles sold by species 2011–12



Wharf piles

Photo by Richard Forrester.

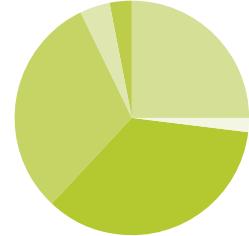
Timber piles are used for foundation supports in buildings and marine applications such as wharves and jetties.

- Benefits of timber piles:**
- Durable and cost effective
 - Excellent service life performance in a wide range of conditions
 - High strength and fatigue resistance
 - Easy to handle and drive into the ground
 - Store carbon

In 2011–12, Forests NSW:

- Major pile customers: Coffs Harbour Hardwoods, Tawmar Timbers, Boral Timber and RA Sweetman and Sons
- Received double the timber royalty for poles compared to high quality sawlogs

Girders sold by species 2011–12



Bridge girders and timbers

Photo courtesy of NSW Roads and Maritime Services.

Since the 19th century, timber bridges have played a significant role in the expansion of the NSW road network and many are still in use today.

Rossi Bridge c. 1899 (above) – located over the Wollondilly River in Goulburn, this heritage listed timber truss bridge underwent a \$7.6 million restoration by NSW Roads and Maritime Services. Completed in August 2011, the project preserved the heritage status of the bridge and extended its life. Timber trusses, the deck and supporting beams were replaced. Nearly 600 m² of blackbutt timber decking and more than 200 m³ of hardwood timber, predominantly tallowwood, grey gum, ironbark and spotted gum, were used. Some of Forests NSW customers, including Ironwood and Coffs Harbour Hardwoods, supplied the timber.

In 2011–12, Forests NSW:

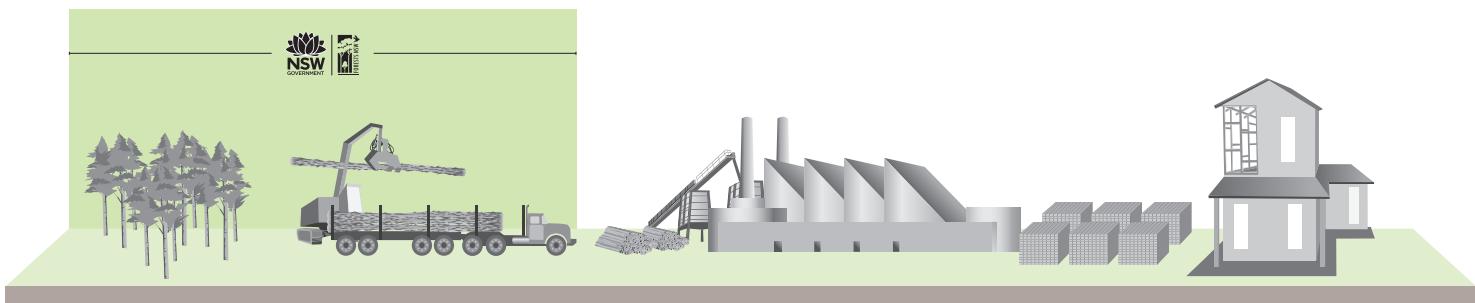
- Major girder customers: Coffs Harbour Hardwoods, J Notaras and Sons, Australian Iron, L J Williams and Sons
- Received three times the timber royalty for girders compared to high quality sawlogs

Softwood plantation to product – structural timber

In 2011–12, Forests NSW delivered around 2.1 million m³ of softwood plantation sawlogs. Using these logs, Forests NSW customers produced around 1 million of the 4 million m³ of softwood sawn timber consumed in Australia each year¹.

¹ BIS Shrapnel 2012, *Sawn Timber In Australia 2012–2026*.

Softwood sawn timber is primarily used in structural applications in the construction of houses. A significant proportion of softwood timber is treated to improve its durability. More recently the industry has been employing a new generation of treatment chemicals. An example of this is Hyne Timber's T3 treated sawn timber products produced in Tumbarumba NSW.



1. Softwood plantation management

- Sustainably manage softwood plantations for the supply of log products used in the production of structural sawn timber, plywood, paper, particleboard and medium density fibreboard
- The plantations are primarily *Pinus radiata*, an introduced pine species originating from California, USA
- Forest NSW plantations are managed on a 35 year cycle (or rotation) with the aim of maximising the volume of large diameter sawlogs. Trees are thinned at 13 to 16 years and then again at 20 to 25 years before final harvest (clearfall) at 30 to 35 years. Thinning operations increase the growth of the largest, best formed trees by removing smaller, low quality trees during the rotation
- In managing the plantations, Forests NSW undertakes tree propagation, tree planting, weed control, fertilisation, roading, fire suppression and harvest and haulage operations
- These operations include a site specific operational plan which address's legal requirements and on ground instructions, a map highlighting features such as soil and water, drainage, cultural heritage values and a safety management plan

2. Harvest and haulage

- Forests NSW manages contractors to undertake tree harvesting (tree felling and log extraction) and log haulage (delivery to timber processing sites) to ensure compliance with the harvesting operational plan and regulations
- The harvesting plan provides clear, concise instructions for harvesting contractors
- A mechanised harvester fells, debranches and cuts the trees into different lengths obtaining sawlog and pulp products. The tree heads and branches are left to decompose in the forest
- A forwarder sorts the different products into piles and stockpiles them along the forest road – marked by product, grade, felling time, sales information and site identification
- Truck based loaders and forwarders load logs onto specifically designed log haulage vehicles. Logs are secured to the load by chains and straps to ensure they remain secure during haulage
- Hauled and delivered to Forests NSW customers for processing - customers pay for the cost of harvesting and delivering the timber and a royalty for the value of the timber

3. Processing

- Higher quality large logs are delivered to large scale, highly automated sawmills. Logs are weighed and sorted into stockpiles based on length and diameter
- Logs are debarked and individually scanned to determine an optimal cutting pattern to generate the highest value return from that log
- Sawlogs are then sawn by high speed band saws that cut the logs into different dimensions to optimise value. The sawn timber is then graded into bins based on length and end section (that is, the dimensions of the sawn product) and are then kiln dried
- Timber passes through the dry mill where it is mechanically graded into different structural strength categories and then planed to consistent dimensions
- Some of the sawn timber is treated with preservative to improve its resistance to deterioration due to weathering and insect or fungal attacks

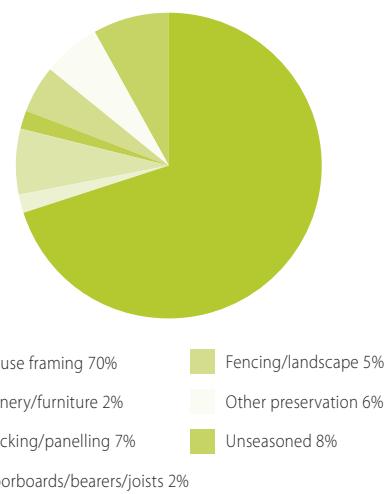
4. Timber product

- Softwood structural timber produced - the primary mechanical graded pine (MGP) products sold in Australia are MGP10 and MGP12. Under the relevant Australian Standards, MGP 10 and 12 have prescribed minimum bending strength characteristics
- Products sold by processors to timber merchants and frame and truss plants
- Frame and truss plants remanufacture sawn timber into wall and floor frames and roof trusses

5. Consumer

- Structural timber products purchased by consumers for use in a vast range of applications including internal and external house framing, pergolas, decks, garages and carports

Sawlog product mix from softwood plantation 2011–12²



² URS Forestry, *Timber Market Survey 2012*.



Pergolas, carports and decks

T3 Green is machine graded pine structural softwood framing for use in outdoor weather exposed, above ground applications like pergolas, carports, decks, verandahs, outdoor furniture, playground equipment or any other external, above ground application requiring structural softwood framing.

T3 Green treatment was developed by Hyne Timber – a major customer of Forests NSW and Australia's largest privately owned timber company.

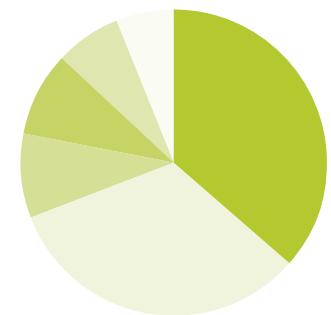
T3 Green is manufactured at Hyne Timber's Tumbarumba mill. This mill been upgraded using the latest North American technology to process 900 000 m³ per annum of radiata pine sawlogs, making it Australia's largest softwood operation.

T3 Green structural timber:

- Uses machine graded pine (MGP10 and MGP12) to ensure strength and reliability
- Is treated to protect against decay and termites (guaranteed for 25 years) giving it consistent reliability and outdoor durability
- The treatment is non toxic (contains no chrome or arsenic) and the timber is safe to handle – is easily recognisable by its light green colour
- The treatment enhances stability, providing a straighter and more user friendly outdoor structural timber
- Is available in commonly required sizes for outdoor end use applications
- Stores carbon



*Softwood sawn timber use 2011
– Australia¹*



In 2011–12, Forests NSW:

- Major softwood structural timber customers: Highland Pine Products, Carter Holt Harvey, Hyne Timber
- Forests NSW customers produced around one quarter of the softwood sawn timber consumed in Australia¹

¹ BIS Shrapnel 2012, *Sawn Timber In Australia 2012–2026*.

Photos courtesy of Hyne Timber.



Our sustainability performance

Managing State forests for the long term and retaining opportunities for future generations to meet their needs and expectations, while providing for the present.

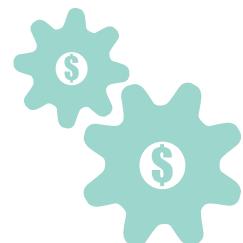
INDICATOR ¹	RESULTS	PERFORMANCE
FOREST VALUE: PRODUCTIVITY		
25. Forest management	1.496 million hectares available for timber production More than 412 500 hectares in State forest reserves 293 695 hectares of other forest managed for ecological functions	○
26. Plantation establishment and survival	206 hectares of new softwood plantation established. 9355 hectares of plantations re-established 12% of softwood plantation and 30% of hardwood plantations underwent restocking after one year	○
27. Mean annual growth of planted softwood forest	Mean annual increment for softwood plantations of 15.2 m ³ /ha/yr and 13.3 m ³ /ha/yr for hardwood plantations	●
28. Native forest regeneration	Overall 77% of all surveyed areas had regenerated effectively with commercial species. 85% of surveyed areas in alternate coup and single tree selection harvesting types had regenerated effectively with commercial species	●
FOREST VALUE: MAINTAINABILITY		
29. Committed timber harvested	Actual annual yield as percentage of committed volume: ■ 83% of native and planted hardwood forests high quality sawlog ■ 76% of cypress ■ 89% of softwood plantations	●
30. Forest certification	Certification to AFS (AS 4708:2007) and EMS Standard (ISO 14001:2004) was maintained	●
31. Operating profit	\$19 100 operating profit per employee generated	●

¹ For further information refer to the Supplementary Sustainability Indicator Data 2011–12 available online at: www.forests.nsw.gov.au

Certification to Australian Forestry Standard AS 4708:2007 and ISO 14001: 2004 standard maintained



Operating profit per employee:
\$19 100



> Ingrained

Sustainability is our business. It is ingrained in everything we do. We successfully maintained certification of our forest management to AFS (AS 4708:2007) and met the requirements of ISO 14001:2004 for our EMS, reviewed long-term timber supply, helped build and maintain strong regional economies through awarding new timber contracts, invested in research into reducing greenhouse gas emissions and started building a new sustainable State-owned corporation.

Future supply

2023 committee established

During the year the '2023' Project Steering Committee that reports to Cabinet was established. It comprises members from the Department of Premier and Cabinet, Treasury, EPA, DPI and Forests NSW and is chaired by the Commissioner of the Natural Resources Commission. The Committee has two key objectives:

- to advise on issues of hardwood timber resource supply on the north coast of NSW up to and beyond the current wood supply agreements which run to 2023; and
- to oversee the regulatory review of the legislation that governs native forest timber harvesting in NSW.

Sustaining Native Forest Operations audit

In April 2009 the Auditor-General released a performance audit report on the operations of the native forest and hardwood plantation operations of Forests NSW. The report made recommendations aimed to improve Forests NSW knowledge of timber availability and to address business risks.

In 2012, Forests NSW completed its response to the recommendations in the report. A number of reports were published on the Forests NSW website covering:

- a review of net harvest area modifiers;
- reviews of yield forecasts for south coast, Tumbarumba, Eden and hardwood plantations; and

- a five-year reconciliation between harvest volumes and Forest Resource and Management Evaluation System (FRAMES) forecast volumes covering the period July 2005 to June 2010.

Planted forests timber supply

As part of its re-establishment program, Forests NSW planted around 9 million trees across NSW in the 2011 planting season to ensure an ongoing timber supply for its customers and a strong long term future for regional communities which depend on the timber industry. With an estate that will not likely expand in area in the foreseeable future, it is important to improve the productivity of the planted estate in order to grow the business. A raft of initiatives commenced that focused on improving not only the growth of the forest but also the value and volume harvested from it (see case story on page 49).

Plantation seedling supply

Forests NSW operates production nurseries to provide sufficient stock for Forests NSW planting program cost-effectively.



Photo: Forests NSW Image Library

This year marked a significant step in the development of our nursery business with all radiata pine seedlings coming from the container grown program at the Tumut nursery.

The 2012 age class radiata pine crop produced a total of 8.5 million seedlings. In addition, just over 1.3 million native hardwood plantation seedlings and 300 000 warm climate pine seedlings were produced.

The aim of Forests NSW plantation tree improvement program is to breed trees that have exceptional growth and wood quality characteristics, namely timber strength and stability.

Through this program, Forests NSW manages the deployment of genetically improved radiata pine germplasm¹ that has been bred by the New Zealand Radiata Pine Breeding Company, of which Forests NSW is a major shareholder. This work has involved the establishment and measurement of field trials to measure increased tree growth through genetic improvement. This information informs management about how well the genetically improved trees perform across the Forests NSW plantation estate.

To ensure long term access and to mitigate against the risk of fire, disease and pests, the improved radiata pine tree breeds from New Zealand, along with some historical Forests NSW collections, have been planted in specific genetic archives in both Victoria and Tasmania.

¹ Germplasm is the genetic material of a particular pine breed.

Forests NSW eucalypt tree breeding program has involved the establishment of a number of genetic archives along with seed production orchards.

Regulatory update

South Western Cypress

Legislation was passed by the NSW Government to provide an extension of time before the transfer of some State forests to the national park estate takes effect. This was to allow for the orderly completion of approved harvesting levels in a few of the State forests that were originally nominated for reservation on 1 January 2012.

Integrated Forestry Operations Approvals

A review began by EPA, DPI-Fisheries NSW and Forests NSW to further streamline the licences within the coastal IFOAs to contribute to better management outcomes. This followed amendments during the year to a number of conditions of the coastal IFOAs that were considered inefficient and not contributing to good forest management practices.

The South Western Cypress IFOA commenced on 1 July 2011.

Certification maintained

Successful surveillance audits were undertaken in Southern and Hume Regions this year as part of the continued certifying of the forests. Forests NSW holds AFS and EMS ISO 14001 certification of its forests, which allows our customers to sell their products into domestic and international markets that demand demonstrable sustainability.

Recertification audits to both standards are planned to be undertaken later in 2012.

Major contracts awarded

Planted forests

During 2011–12, Forests NSW awarded \$75 million of harvest and haulage contracts for plantation grown softwood log products in Monaro Region over a six-year period.

The contracts were for 474 000 tonnes per year of mechanised harvesting with additional haulage contracts of 450 000 tonnes per year in the Bombala region.

The new long term contracts represent almost 70 per cent of Forests NSW business in the region and provide a substantial opportunity for forestry businesses in the Monaro.

Forests NSW activities directly contribute approximately \$20 million each year to the regional economy through harvest and haul contracts, plantation establishment activities and road construction and maintenance.

The timber industry in the Monaro region employs more than 300 people directly and close to 1000 people indirectly.

Native forests

A tender for harvesting capacity was undertaken for south coast and tablelands native forests with 34 000 m³ of timber volume awarded for up to eight years, providing security of employment and certainty around investing in new technology and equipment. Negotiations are ongoing for the remaining volume.

Significant customer developments

In August 2011, construction commenced on a new \$74 million sawmill in Bombala by Dongwha Timbers Pty Ltd. Initially, Forests NSW will be the sole supplier of sawlogs to the new mill with up to 250 000 tonnes per annum to be delivered following commissioning, which is scheduled for January 2013. More than 120 people have been employed as part of the construction phase.

Dongwha plans to complement the new sawmill with other value adding manufacturing facilities in the medium term and has secured \$4.9 million of federal funding to support the infrastructure necessary to train timber workers and support future investment in timber manufacturing at Bombala. Dongwha is matching the funding dollar-for-dollar, bringing the total project funding value to more than \$9 million.

Building a new sustainable corporation

This year the NSW Government announced its decision to corporatise Forests NSW with the new State-owned corporation expected to be in place in early 2013.

The main change will be the organisation's governance structure. Under the direction of a skilled, commercially-focused board, Forests NSW will be better able to concentrate on its core business of growing and harvesting timber to meet the community's needs for hardwood and softwood products and achieve better financial performance for the benefit of all the taxpayers of NSW.

Forests NSW will remain publicly owned and the nature of its present business and business relationships will remain largely the same.

There will be no reduction in the regulatory oversight of Forests NSW environmental performance. The NSW Government will ensure that the State's commitments under the Regional Forest Agreements (RFAs) are met and that the environmental benefits flowing from the RFAs are realised.

All the current wood supply commitments of Forests NSW will be transferred to the new corporation and, where appropriate, will continue to be underwritten by the Government.

As a State-owned corporation, Forests NSW will:

- transition existing employees to the new entity when the corporation comes into effect;
- continue to provide high quality services and products to its customers, clients and continue its good relationships with local councils;
- retain its important role as a manager of State forests for recreational opportunities; and
- continue other important community roles including firefighting and fire prevention, ecological protection, forest road maintenance and feral animal and weed control.

Forests NSW is looking forward to building an even more sustainable corporation.

Latest carbon research

A recent peer reviewed study showed that sustainably managed multiple use production forests such as State forests have the capacity to abate more greenhouse gas (GHG) emissions than conservation forests – forests where timber harvesting is not undertaken.

The study, entitled *Greenhouse gas balance of native forests in New South Wales, Australia*, was a collaborative project involving a team of research scientists from DPI, Forests NSW and the University of New England. It was recently published in the international journal *Forests*. A discussion paper can also be downloaded from www.dpi.nsw.gov.au

Two coastal native forest areas in NSW, currently used for timber production, were examined. The study showed that sustainably managed, multiple use production forests not only provide wood products for use by the community but also reduce overall GHG emissions.

In summary, multiple use production forests:

- provide substitutes for more GHG intensive building products such as steel and concrete;
- produce wood products that continue to store carbon off site;
- produce residues that can be used to generate renewable energy (bioenergy), displacing fossil fuels;
- store carbon on site (in the forest);

- produce some GHG emissions from machinery used during harvesting operations; and
- produce some GHG emissions when timber products finally enter landfill.

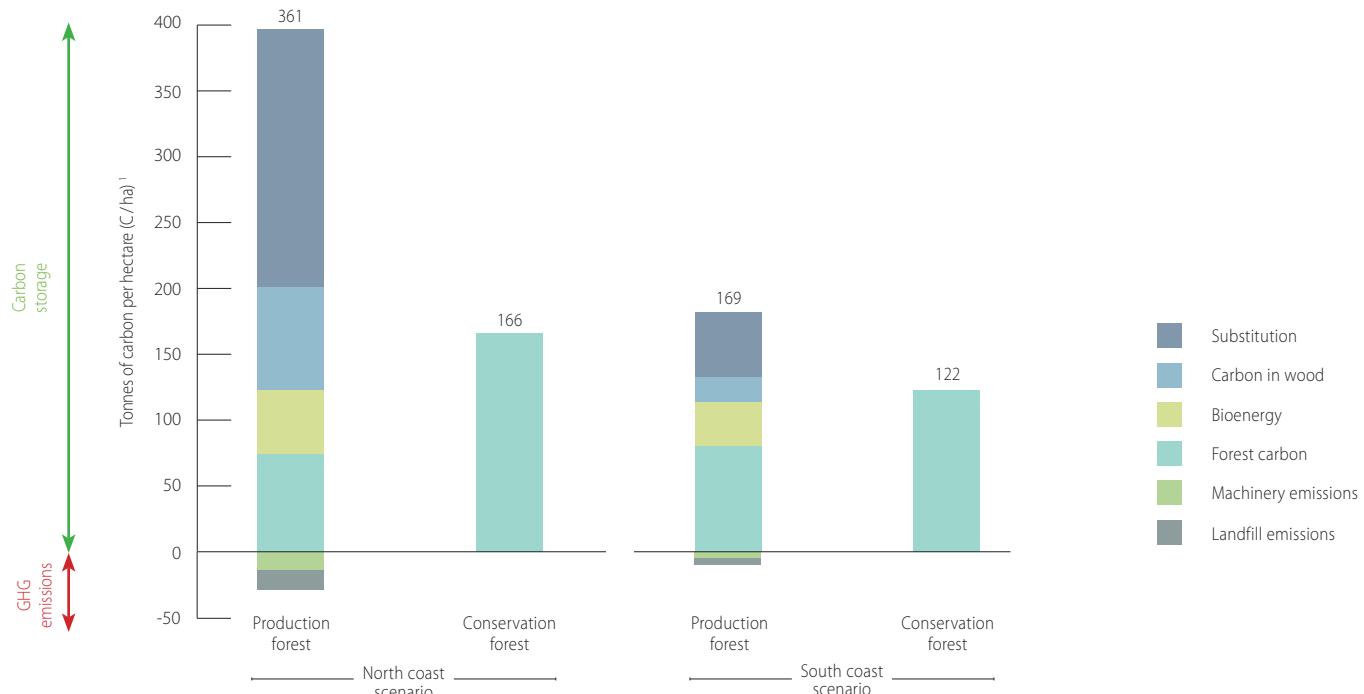
In addition, production forests minimise the demand for imported timber grown using unsustainable, GHG intensive practices.

While there are differences in production forests due to species mix and product type,

each scenario resulted in production forests providing a better GHG outcome.

Although conservation forests have more carbon standing in the forest, the multi-faceted benefits of production forests mean they have the capacity to abate more GHG emissions over time. The results suggest that a long term, evidence-based approach that considers the whole carbon cycle is required to reduce GHG emissions.

The potential benefit of production forests in storing more carbon



CASE STORY

Going Bush program throws a spotlight on forest industry

Forests NSW staff from across the business participated in the fifth series of the entertaining *Going Bush* program, which screened on regional and pay TV across Australia in early 2012. Beginning in Tasmania as an initiative of Forestry Tasmania, this program is an informative and engaging television show about Australia's forests, the people who work in them and the industries they support.

Forests NSW featured in several segments. One section focused on the water quality monitoring studies that have been under way for decades on the south coast near Eden. Staff from the water quality monitoring unit explained their work, an often forgotten part of forestry. This work can be crucial to ensure the ongoing health of the forest, with research work demonstrating the negligible negative effect forestry has on water quality over time.

Harvesting operations in the north coast around Coffs Harbour were featured with Forests NSW staff stepping viewers through the work done to survey for animals and protect threatened species before harvesting operations begin.

Also highlighted was the Bermagui Fishermans Wharf, where timber from the Bermagui State Forest was milled at Blue Ridge Hardwoods in Eden, and has become an icon building for the South Coast town. It stands on the water's edge near the fishing boat marina and co-op building, and is home to a popular restaurant, cafes and other commercial businesses.

Going Bush is an industry-wide initiative with 15 companies from around the country joining together to tell their part of the forestry story. In addition to Blue Ridge

Hardwoods, other Forests NSW customers profiled in the series included Weathertex near Newcastle and Hurford Hardwoods in northern NSW. These companies explained how they have responded to challenges in the forestry industry with Weathertex producing an innovative natural cladding product and Hurfords growing into a vertically integrated operation which will be able to harvest timber from their own plantations in years to come.

The program also visited South East Fibre Exports Pty Ltd woodchip plant near Eden, Australia's oldest woodchip plant, where it is looking to the future with plans for using its own waste for power generation in addition to a plant making pellets for domestic use.

This program allowed us to tell a small part of the story of managing State forests in NSW.

CASE STORY

Making the most of harvesting information

Computers in timber harvesting machines these days have become so powerful that they mathematically predict the best combinations of logs that can be made from each tree before the critical cuts are made.

The machine operator is still in charge, but the computer greatly assists the log making process. This involves the operator deciding the optimal way to cut the tree in order to obtain the best log yield. It makes the job of the operator easier and more productive.

Forests NSW is tapping into this Scandinavian technology and has made significant progress during the past year through an 'in-forest optimisation' project that began in Tumut and Bombala during 2011–12.

The aim of the project is to improve Forests NSW returns from harvesting its more than 200 000 hectares of softwood plantation across the State.

More than 40 harvesting machines currently work in Forests NSW softwood plantations, processing around 3.5 million cubic metres yearly and the majority of these machines are now 'in-forest optimisation' capable.

This initiative has already provided significant gains in value recovery of sawlog products and will be extended to all plantation operations during the next 12 months.

The project identified three main areas of potential operational and financial gains.

The first and initially biggest gain was 'at the stump' through the improved log making suggestions made by the new optimising computers allowing the operators and machines to be more productive.

The second area was at a regional level. Forests NSW needs to ensure that customers get the quantity and types of logs they ordered. The new computer technologies provide an important stream of information that can greatly assist Forests NSW timber supply teams make better decisions and plans.

The supply teams can be informed what was cut on a daily basis and react much more quickly to change cutting patterns to better match customer needs. Wastage is reduced and customers better served. Previously,

the information was often only available fortnightly or even monthly.

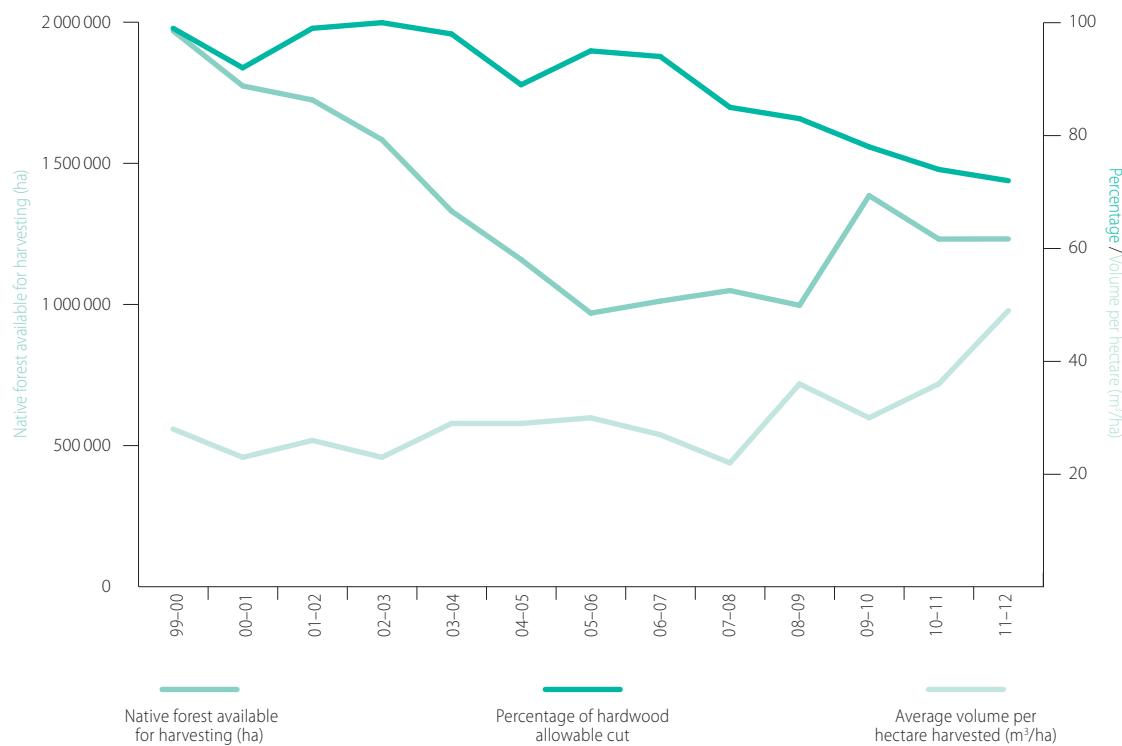
The third area identified longer term gains across the organisation though use of log production and location data collected by the harvester head.

In the long run, this wealth of detailed data will greatly assist Forests NSW to better plan harvesting strategies and plantation management to ensure the best use of the State's softwood plantation resource.



Photo: Forests NSW Image Library

Native forest sustainability



Places of business

Business hours 8:30 am – 4:30 pm (Mon–Fri)

Divisional and corporate offices

Corporate Office

Planted Forest Divisional Office
Locked Bag 23, Pennant Hills 2120
121–131 Oratava Ave
West Pennant Hills 2125
(02) 9872 0111 Fax (02) 9871 5341
DX 4713 P/HILLS

Native Forest Divisional Office

PO Box 4019
Coffs Harbour Jetty 2450
357 Harbour Drive
Coffs Harbour Jetty
(02) 6656 8800 Fax (02) 6651 2909

Regions

Hume Region

PO Box 291, Tumut 2720
Riverina Highlands Building
76 Capper Street, Tumut
(02) 6947 3911 Fax (02) 6947 2865

Central Region

PO Box 168, Wauchope 2446
Maher Street, Wauchope
(02) 6585 3744 Fax (02) 6585 2392

Macquarie Region

PO Box 143, Bathurst 2795
Cnr Browning & William Streets
Bathurst
(02) 6331 2044 Fax (02) 6331 5528

North East Region

PO Box 535, Coffs Harbour 2450
130 West High Street
Coffs Harbour
(02) 6652 0111 Fax (02) 6651 9891

Monaro Region

PO Box 83, Bombala 2632
Jonas Street, Bombala
(02) 6458 3177 Fax (02) 6458 3624

Grafton District

Grafton Forest Technology Centre
Private Bag 9004, Grafton 2460
Trenayr Road, Junction Hill (Grafton)
(02) 6640 1660 Fax (02) 6640 1650

Southern Region

PO Box 42, Batemans Bay 2536
Crown Street, Batemans Bay
1300 880 548 Fax (02) 4472 6557

Western Region

PO Box 865, Dubbo 2830
Cnr Monash & Chelmsford Streets, Dubbo
(02) 6841 4288 Fax (02) 6841 4771

Walcha District

PO Box 71, Walcha 2354
19E Hill Street, Walcha
(02) 6777 4100 Fax (02) 6777 2159

Commercial production nurseries (no public enquiries)

Grafton

Grafton Forest Technology Centre
Private Bag 9004, Grafton 2460
Trenayr Rd, Junction Hill (Grafton) 2460
(02) 6644 7001 Fax (02) 6644 7041

Tumut

PO Box 347 Tumut 2720
Blowering Nursery
Blowering Road, Tumut 2720
(02) 6947 6210 Fax (02) 6947 4890

Financial statements 2011–12

Forestry Commission of NSW (trading as Forests NSW)

Consolidated Annual Financial Statements

For the year ended 30 June 2012

ABN 43 141 857 613

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Forestry Commission Division

Annual Financial Statements

For the year ended 30 June 2012

ABN 83 326 008 792

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Statement of Comprehensive Income

For the year ended 30 June 2012

	Notes	Economic Entity 2012 \$'000	Economic Entity 2011 \$'000	Statutory Corporation 2012 \$'000	Statutory Corporation 2011 \$'000
Revenue					
Forests sales revenue	4(a)	293 204	291 457	293 204	291 457
Other revenue	4(b)	14 647	24 321	14 647	25 564
Grants revenue	4(c)	9 770	11 529	9 770	11 529
Reversal of impairment loss		1 440	-	1 440	-
Change in fair value less estimated point of sale costs	12	-	88 641	-	90 070
Total Revenue		319 061	415 948	319 061	418 620
Expenses					
Expenses from operations	5	(213 807)	(204 608)	(213 807)	(205 964)
Depreciation and amortisation	11, 15	(8 549)	(8 441)	(8 549)	(8 441)
Employee & related	26	(27 014)	(24 193)	-	-
Personnel services		(116 390)	(40 737)	(150 609)	(65 758)
Finance costs	6	(9 247)	(9 458)	(9 247)	(9 458)
(Loss) / Gain on Revaluation / Impairment	11, 13, 14, 15	(4 660)	(1 697)	(4 660)	(193)
Change in fair value less estimated point of sale costs	12	(16 304)	-	(16 304)	-
Total Expenses		(395 971)	(289 134)	(403 176)	(289 814)
Profit/(Loss) Before Income Tax		(76 910)	126 814	(84 115)	128 806
Income tax (expense)/benefit	7	2 488	(50 385)	2 488	(50 385)
Profit/(Loss) for the Year		(74 422)	76 429	(81 627)	78 421
Other comprehensive income					
Revaluation of property, plant and equipment		55 053	(259)	55 053	(259)
Defined benefit plan actuarial gains/(losses)		(7 205)	(8 30)	-	-
Income tax on other comprehensive income		(15 885)	119	(15 885)	119
Total Other Comprehensive Income for the Year		31 963	(970)	39 168	(140)
Total Comprehensive Income for the Year		(42 459)	75 459	(42 459)	78 281

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Statement of Financial Position

As at 30 June 2012

	Notes	Economic Entity 2012 \$'000	Economic Entity 2011 \$'000	Statutory Corporation 2012 \$'000	Statutory Corporation 2011 \$'000
ASSETS					
Current Assets					
Cash and cash equivalents	8	9408	8864	9408	8864
Trade and other receivables	9	51 599	48 246	51 599	48 246
Inventories	10	3755	3031	3755	3031
Biological assets	12	54 509	68 414	54 509	68 414
Current tax asset		1450	-	1450	-
Total Current Assets		120 721	128 555	120 721	128 555
Non-Current Assets					
Property, plant and equipment	11	1 143 928	1 101 222	1 143 928	1 101 222
Biological assets	12	679 815	682 214	679 815	682 214
Investment assets	13	6845	7652	6845	7652
Investments in subsidiaries	14	-	-	-	-
Intangibles	15	537	756	537	756
Total Non-Current Assets		1 831 125	1 791 844	1 831 125	1 791 844
TOTAL ASSETS		1 951 846	1 920 399	1 951 846	1 920 399
LIABILITIES					
Current Liabilities					
Trade and other payables	18	62 594	60 003	62 594	60 003
Borrowings	19	6488	17 015	6488	17 015
Dividend paid/provided for	20	5254	14 000	5254	14 000
Provisions	21	37 365	38 599	37 365	38 758
Current tax liability		-	562	-	562
Total Current Liabilities		111 701	130 179	111 701	130 338
Non-Current Liabilities					
Borrowings	19	126 976	114 987	126 976	114 987
Provisions	21	132 107	56 464	132 107	56 305
Deferred income tax liability	16	517 484	507 541	517 484	507 541
Total Non-Current Liabilities		776 567	678 992	776 567	678 833
TOTAL LIABILITIES		888 268	809 171	888 268	809 171
NET ASSETS		1 063 578	1 111 228	1 063 578	1 111 228
EQUITY					
Contributed equity	22	421 706	421 706	421 706	421 706
Reserves	22	694 475	657 549	694 475	657 549
Retained surplus (accumulated deficit)	22	(52 603)	31 973	(52 603)	31 973
TOTAL EQUITY		1 063 578	1 111 228	1 063 578	1 111 228

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

For the year ended 30 June 2012

Economic Entity	Contributed Equity \$'000	Asset revaluation reserve \$'000	Retained Profits \$'000	Total equity \$'000
Balance as at 1 July 2010	421 706	678 060	(29 946)	1 069 820
Total Comprehensive Income for the Year				
<i>Profit or loss</i>	-	-	76 429	76 429
<i>Other Comprehensive Income</i>				
Revaluation of property, plant and equipment on transfer to other government agencies (a)	-	(98)	-	(98)
Defined benefit plan actuarial gains/ (losses)	-	-	(830)	(830)
Revaluation of plant and equipment and building transfer to Investment Property	-	(161)	-	(161)
Income tax recognised on property, plant and equipment	-	119	-	119
Total Other Comprehensive Income	-	(140)	(830)	(970)
Total Comprehensive Income for the Year	-	(140)	75 599	75 459
<i>Transactions with Owners, Recorded Directly in Equity</i>				
Land revocation (a)	-	-	(29 102)	(29 102)
Land dedication	-	-	320	320
Transfer of asset revaluation reserves to retained profits	-	(29 102)	29 102	-
Income tax recognised	-	8731	-	8731
Dividends provided for or paid	-	-	(14 000)	(14 000)
Total Transactions with Owners	-	(20 371)	(13 680)	(34 051)
Balance as at 30 June 2011	421 706	657 549	31 973	1 111 228
Economic Entity	Contributed Equity \$'000	Asset revaluation reserve \$'000	Retained Profits \$'000	Total equity \$'000
Balance as at 1 July 2011	421 706	657 549	31 973	1 111 228
Total Comprehensive Income for the Year				
<i>Profit or loss</i>	-	-	(74 422)	(74 422)
<i>Other Comprehensive Income</i>				
Transfer of asset revaluation reserves to retained profits	-	(1890)	1890	-
Defined benefit plan actuarial gains/ (losses)	-	-	(7205)	(7205)
Revaluation of property, plant and equipment	-	55 053	-	55 053
Revaluation of plant and equipment and building transfer to Investment Property	-	(46)	46	-
Income tax recognised on other comprehensive income	-	(15 885)	-	(15 885)
Total Other Comprehensive Income	-	37 232	(5269)	31 963
Total Comprehensive Income for the Year	-	37 232	(79 691)	(42 459)
<i>Transactions with Owners, Recorded Directly in Equity</i>				
Revaluation of property, plant and equipment on transfer to other government agencies (a)	-	19	-	19
Land revocation (a)	-	(325)	325	-
Land dedication	-	-	44	44
Transfer of asset revaluation reserves to retained profits	-	-	-	-
Income tax recognised	-	-	-	-
Dividends provided for or paid	-	-	(5254)	(5254)
Total Transactions with Owners	-	(306)	(4885)	(5191)
Balance as at 30 June 2012	421 706	694 475	(52 603)	1 063 578

a) In 2011–12, 641.12 hectares (2010–11: 155 090.64 hectares) were revoked and transferred to other NSW related government agencies

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

For the year ended 30 June 2012

Statutory Corporation	Contributed Equity \$'000	Asset revaluation reserve \$'000	Retained Profits \$'000	Total equity \$'000
Balance as at 1 July 2010	421 706	678 060	(32 768)	1 066 998
Total Comprehensive Income for the Year				
<i>Profit or loss</i>	-	-	78 421	78 421
<i>Other Comprehensive Income</i>				
Revaluation of property, plant and equipment on transfer to other government agencies (a)	-	(98)	-	(98)
Revaluation of plant and equipment and building transfer to Investment Property	-	(161)	-	(161)
Income tax recognised on property, plant and equipment	-	119	-	119
Total Other Comprehensive Income	-	(140)	-	(140)
Total Comprehensive Income for the Year	-	(140)	78 421	78 281
<i>Transactions with Owners, Recorded Directly in Equity</i>				
Land revocation (a)	-	-	(29 102)	(29 102)
Land dedication	-	-	320	320
Transfer of asset revaluation reserves to retained profits	-	(29 102)	29 102	-
Income tax recognised	-	8731	-	8731
Dividends provided for or paid	-	-	(14 000)	(14 000)
Total Transactions with Owners	-	(20 371)	(13 680)	(34 051)
Balance as at 30 June 2011	421 706	657 549	31 973	1 111 228
Statutory Corporation	Contributed Equity \$'000	Asset revaluation reserve \$'000	Retained Profits \$'000	Total equity \$'000
Balance as at 1 July 2011	421 706	657 549	31 973	1 111 228
Total Comprehensive Income for the Year				
<i>Profit or loss</i>	-	-	(81 627)	(81 627)
<i>Other Comprehensive Income</i>				
Transfer of asset revaluation reserves to retained profits	-	(1890)	1890	-
Revaluation of property, plant and equipment	-	55 053	-	55 053
Revaluation of plant and equipment and building transfer to Investment Property	-	(46)	46	-
Income tax recognised on other comprehensive income	-	(15 885)	-	(15 885)
Total Other Comprehensive Income	-	37 232	1936	39 168
Total Comprehensive Income for the Year	-	37 232	(79 691)	(42 459)
<i>Transactions with Owners, Recorded Directly in Equity</i>				
Revaluation of property, plant and equipment on transfer to other government agencies (a)	-	19	-	19
Land revocation (a)	-	(325)	325	-
Land dedication	-	-	44	44
Income tax recognised	-	-	-	-
Dividends provided for or paid	-	-	(5254)	(5254)
Total Transactions with Owners	-	(306)	(4885)	(5191)
Balance as at 30 June 2012	421 706	694 475	(52 603)	1 063 578

a) In 2011–12, 641.12 hectares (2010–11: 155 090.64 hectares) were revoked and transferred to other NSW related government agencies

The above Statement of Changes in Equity should be read in conjunction with accompanying notes.

Statement of Cash Flows

For the year ended 30 June 2012

	Notes	Economic Entity 2012 \$'000	Economic Entity 2011 \$'000	Statutory Corporation 2012 \$'000	Statutory Corporation 2011 \$'000
Cash Flows From Operating Activities					
Receipts					
Cash receipts from customers		345 430	358 821	345 430	360 744
Interest received		588	1435	588	1418
Payments					
Cash paid to suppliers and employees		(318 925)	(320 238)	(318 925)	(321 594)
Interest paid		(8799)	(9458)	(8799)	(9458)
Income taxes paid		(5466)	(12 422)	(5466)	(12 422)
Net Cash Flows From/(Used In) Operating Activities	8	12 828	18 138	12 828	18 688
Cash Flows From Investing Activities					
Receipts					
Proceeds from sale of property, plant & equipment		3545	2297	3545	2297
Payments					
Acquisition of property, plant and equipment		(2843)	(11 767)	(2843)	(11 767)
Acquisition of subsidiary		-	-	-	-
Net Cash Flows From/(Used In) Investing Activities		702	(9470)	702	(9470)
Cash Flows From Financing Activities					
Receipts					
Proceeds from borrowings		1014	-	1014	-
Payments					
Repayment of borrowings		-	(8732)	-	(8732)
Dividends paid	20	(14 000)	(9600)	(14 000)	(9600)
Net Cash Flows From/(Used In) Financing Activities		(12 986)	(18 332)	(12 986)	(18 332)
Net Increase/(Decrease) in Cash and Cash Equivalents		544	(9664)	544	(9114)
Opening cash and cash equivalents at 1 July		8864	18 528	8864	17 978
Closing Cash And Cash Equivalents at 30 June 2012	8	9408	8864	9408	8864

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes to and forming part of the financial statements

For the year ended 30 June 2012

Note 1: Corporate Information

Forests NSW is the trading name of the Forestry Commission of NSW.

Forests NSW is aligned with the Department of Primary Industries (DPI). It continues to operate as a self funded Public Trading Enterprise (PTE).

Forests NSW is the parent reporting entity and its operations are consolidated with the activities of Forestry Commission Division to form the economic reporting entity.

Timber & Carbon Plantations Pty Ltd (TCP) (ACN 091040783), a wholly-owned subsidiary of Forests NSW, was liquidated on the 7 December 2011. For financial reporting purposes, no transactions or balances relating to this entity required presentation in these consolidated financial statements of Forests NSW.

The Forestry Commission Division is a special purpose service entity pursuant to Part 3 of Schedule 1 of *The Public Sector Employment & Management Act 2002* and Forests NSW administers and has dominant control of its day to day operation.

Forests NSW principal activities involve planting and regeneration operations, planning and managing harvest operations and marketing and delivering timber products.

Note 2: Summary of Significant Accounting Policies

(a) Statement of Compliance

This general purpose financial report complies with Australian Accounting Standards, which include Australian Accounting Interpretations. The financial report of Forests NSW for the year ended 30 June 2012 have been authorised for issue by the Acting Commissioner of the Forestry Commission of New South Wales, Ms Renata Brooks, on 20/09/2012.

(b) Basis of Preparation

This general purpose financial report has been prepared in accordance with applicable Australian Accounting Standards and Interpretations, the *Public Finance and Audit Act 1983*, NSW Treasury Circulars, and the *Public Finance and Audit (General) Regulation 2010*.

Forests NSW is a for profit entity and its financial statements are consolidated as part of the NSW

Total State Sector Accounts.

The financial statements have been prepared on an accrual basis utilising conventional historical cost bases except for certain forest, non-forest assets and investment properties which, as indicated separately in the notes and financial statements, are at fair value.

The financial statements are presented in Australian dollars and all values are rounded to the nearest thousand dollars unless otherwise stated.

(c) Significant Accounting Judgements, Estimates and Assumptions

In the application of accounting standards, management is required to make judgements, estimates and assumptions about the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various factors that are believed to be reasonable under the circumstance, the results of which form the basis to make the judgements.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that year or in the year of revision and previous years if the revision affects both.

Information about assumptions and estimation uncertainties are included in the following notes:

- Note 2 (i) Non - Current Asset Valuations
- Note 2 (t) Provisions
- Note 2 (y) Employee Benefits
- Note 12 Biological Assets
- Note 17 Employee Defined Benefits

(d) Basis of Consolidation

The consolidated financial statements comprise the financial statements of Forests NSW and its subsidiaries as at and for the period ended 30 June each year (the Group). Interests in associates are equity accounted and are not part of the consolidated Group.

(i) Subsidiaries

Subsidiaries are entities controlled by Forests NSW. Control exists when Forests NSW has the power to govern the financial and operating policies of an entity so as to obtain benefits from their activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company except for Timber & Carbon Plantations Pty Ltd (which was liquidated 7 December 2011) using consistent accounting policies.

Investments in subsidiaries held by Forests NSW are accounted for at cost in the separate financial statements of the parent entity less any impairment charges.

(ii) Joint ventures

Forests NSW is involved in softwood and hardwood plantation joint ventures.

Joint venture arrangements exist in two forms. One form is for plantations established on privately owned land with Forests NSW providing the management expertise and financing the majority of other inputs. The second is where plantations are established in state forests with Forests NSW providing varying amounts of management and other inputs as set out in respective agreements. The agreements provide for the eventual harvest to be shared between the joint venturers in proportion to the discounted value of inputs calculated over the life of the ventures.

In valuing joint venture plantations the same basic method has been used as that in place for wholly owned forests (see Note 2(i)(ii)) to recognise Forests NSW share of the joint venture except that expenditure and revenue attributable to joint venture partners are excluded.

(iii) Transactions eliminated on consolidation

Intra-group balances and any unrealised income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

(iv) Business Combinations

Business Combinations are accounted for using the acquisition method under AASB 3 Business Combinations. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of the assets transferred by the parent and the liabilities incurred by the acquirer to former owners of the acquiree. The non-controlling interest in the acquiree is measured either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition related costs are expensed as incurred. When the Group acquires a business, it assesses the financial assets and liabilities assumed for

Notes to and forming part of the financial statements

For the year ended 30 June 2012

appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operation or accounting policies and other pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

(e) Income Tax (National Tax Equivalents Regime)

As of 1 July 2001, Forests NSW was subject to the National Tax Equivalents Regime (NTER) which requires PTEs to be subject to the same taxes, including income tax and goods and services tax, as private sector organisations. Prior to this date Forests NSW was subject to the state based Tax Equivalents Regime.

Current tax

Current tax is calculated by reference to the amount of income tax payable or recoverable in respect of the taxable profit or tax losses for the year. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Tax for the current year/prior year is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the 'balance sheet liability method'. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the Statement of Financial Position. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

In principle, deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from

the manner in which the entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and Forests NSW intends to settle its current tax assets and liabilities on a net basis.

Deferred tax asset items relating to tax losses will be carried forward as an asset as this benefit has largely arisen from the deductibility of plantation establishment activity. Whilst recognising the significant year involved (to maturity of these plantation assets), as these activities constitute Forests NSW core business, there is high likelihood the benefit will be fully realised in future years.

Current and deferred tax for the year

Movements in current and deferred tax are recognised as an expense or income in the Statement of Comprehensive Income, except when they relate to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity.

Other Taxes (GST)

Revenues, expenses and assets are recognised net of the amount GST, except:

the amount of GST incurred by Forests NSW as a purchaser that is not recoverable from the Australian Taxation Office is recognised as part of the cost of acquisition of an asset or as part of an item of expense.

Receivables and payables are stated with the amount of GST included.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from or payable to the ATO are presented as operating cash flows.

(f) Trade and Other Receivables

Receivables are recognised initially at fair value, usually based on the transaction cost or face value. Subsequent measurement is at amortised cost using effective interest method, less an allowance for any impairment of receivables.

Trade and other receivables are constantly reviewed and impaired when the debt is deemed uncollectible. Bad debts are written off as incurred. Credit sales are generally on 7, 14 or 30 days settlement terms.

(g) Inventories, Work in Progress and Seedlings

Inventories and Work in Progress (WIP) are stated at the lower of cost and net realisable value. In the case of materials and parts, cost comprises purchase price and incidental expenses. The valuation of WIP and finished goods is based on direct costs plus an appropriate proportion of production overheads.

Seeds harvested from biological assets are measured at fair value less estimated point of sale costs at the time of harvest. If market determined prices are not available, seeds are measured at value in use. On the initial recognition of seeds at their fair value less point of sale costs, a value is recorded in the Statement of Comprehensive Income.

(h) Property, Plant and Equipment

Forests NSW property, plant and equipment is governed by policy TPP06-6 for capitalisation.

(i) Recognition and Measurement

Items of property, plant and equipment are initially measured at their cost, and are subsequently measured at their fair value in accordance with NSW Treasury Accounting Policy TPP 07-1 Valuation of Physical Non-Current Assets at Fair Value.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and any costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of the equipment. Borrowings costs related to the acquisition, construction or production of qualifying assets are capitalised.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other revenue" in the Statement of Comprehensive Income. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

Notes to and forming part of the financial statements

For the year ended 30 June 2012

(ii) Subsequent Costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to Forests NSW and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the regular servicing and maintenance of property, plant and equipment are recognised in the Statement of Comprehensive Income as incurred.

(iii) Depreciation

Depreciation on property, plant and equipment is recognised in the Statement of Comprehensive Income at rates which provide for the original cost or valuation to be written down over the expected useful life of the asset. Leased assets are depreciated over the shorter of the lease term and the useful lives unless it is reasonably certain that Forests NSW will obtain ownership by the end of the lease term. Land is not depreciated. Depreciation commences when assets are ready for use, even if standby assets (see *Table 1*).

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(i) Non-Current Asset Valuations

Non-current assets are reviewed and assessed periodically at each reporting cycle to assess fair value and impairment.

Valuations for non-current assets were conducted by the Land and Property Information (Valuation Services), covering land, roads, and non forests installations for 30 June 2012.

Valuations for non-current assets are carried out at least every 5 years, or earlier if significant movements in the market values of assets are detected.

(i) Property, Plant & Equipment

Land

All land, being Crown Land and Forests NSW owned land, under forests and plantations and under administrative buildings, offices,

mechanical workshops and other non-forest installations are carried at fair value.

Fair value is based on current market buying price representing value in use. The Valuation Services supported this basis of valuation by recognising that Forests NSW land was held for continued use and by performing the valuation in accordance with NSW Treasury Policy Paper TPP07-01: Valuation of Non-Current Assets at Fair Value.

The valuation recognised areas that were currently utilised for timber producing purposes and other areas such as reserves and exclusion zones where no commercial activities are carried out by Forests NSW.

Roads & Bridges

Major Roads and Bridges have been independently revalued by Valuation Services at 30 June 2012 on the basis of written down replacement cost, which approximates fair value.

Costs of building or significantly upgraded primary access roads (Class A) and secondary access roads (Class B) are capitalised as incurred. Maintenance costs on these higher classification roads are expensed as incurred. All other costs of maintaining and developing the rest of the roading infrastructure are expensed as incurred.

Heavy Plant and Equipment, Motor Vehicles and Mobile Plant

Heavy Plant and Equipment, Motor Vehicles and Mobile Plant are assessed at 30 June every financial year by management. The carrying value as at 30 June 2012 approximates fair value.

(ii) Biological Assets

Under AASB 141 Agriculture, a biological asset is defined as 'a living animal or plant'. Forests NSW assets falling into this category consist of plantation timber (softwood and hardwood) and native forest timber.

Forests NSW manage available forest areas on a sustainable yield basis. Sustainable yield means that the volume harvested will approximate, over long-term harvest cycles,

annual forest growth of the harvestable forest areas. As a result, all costs incurred in managing, maintaining and developing the timber resources are expensed as incurred on the basis that all relevant costs are incurred in maintaining a constant forest resource.

Forests NSW reports its biological assets at fair value less estimated point-of-sale costs. Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Point-of-sale costs include all costs that would be necessary to sell the assets.

As there is no observable active and liquid market for Forests NSW forest assets, Forests NSW has, in accordance with the provisions of AASB 141, adopted the Net Present Value (NPV) methodology as the most appropriate alternative for estimating the fair value of its forest assets.

Plantation Timber

Forests NSW manage approximately 235 000 (2011 – 234 236) hectares of softwood plantations and 33 000 (2011 – 28 452) hectares of hardwood plantations. The majority of Forests NSW softwood plantation estates comprise radiata pine, from the Highlands to the west of the Great Dividing Range. The hardwood plantations consist mainly of endemic eucalypts and are predominately located on the NSW north coast.

Native Forest Timber

Forests NSW manages approximately 1.9million (2011 – 1.9million) hectares of native forests. Native forests are predominantly coastal eucalypt forests and smaller areas of red gum in the state's south-west and cypress pine in the state's central west.

Valuation of Biological Assets

The Net Present Value (NPV) methodology

NPV is calculated as the net of the future cash inflows and outflows associated with forest production activities discounted back to current values at the specified pre-tax Weighted Average Cost of Capital (WACC).

Under the NPV methodology, valuation changes mainly arise from:

- Changes in timber volume associated with growth and also changes to the overall estate as a result of annual planting and harvesting activity;
- Changes in timber prices;
- Changes in forest production costs; and

Table 1: The estimated useful lives for the current and comparative years are as follows:

Type of asset	Depreciation Method	Useful Life
Property (other than Land)	Straight Line	10 to 50 years
Other Plant and Equipment	Straight Line	3 to 50 years
Roads and Bridges		
• earthworks	Straight Line	50 years
• paving	Straight Line	15 to 30 years

Notes to and forming part of the financial statements

For the year ended 30 June 2012

- Changes in the WACC rate used in the discounted cash flow calculation.

Assumptions underpinning the NPV calculation are:

- Forest valuations are based on the expected volumes of merchantable timber that will be realised from existing stands, given current management strategies and timber recovery rates;
- Only the current crop is valued. The cash flow analysis is based on the anticipated timing of the harvest of existing stands, which has been developed in the context of sustained yield management;
- Volume increments/decrements are determined both by periodic re-measurement of forest samples and by modelling growth from the date of the most recent measurement to date of harvest;
- Prices used in the NPV calculation are based on the average prices achieved over the previous year, current year, and next year's budget. The use of prior year averages reduces the impact of significant annual pricing variations;
- Ancillary income earned from activities such as the leasing of land for grazing and other occupancy rights is added to the net harvest revenues;
- Costs used in the NPV calculation are based on current operating costs, unadjusted for any increases in operational efficiency which might occur in the future;
- The discount rate used is based on the Weighted Average Cost of Capital formula in conjunction with the Capital Asset Pricing Model. The discount rate is expressed in real terms, before income tax, and has been set with reference to benchmarked forestry industry risk margins relative to overall market risk margins. The use of a 'real' discount rate effectively allows for all prices and costs to be expressed in current dollar terms. The discount rate used for the current year valuation is 8.36% (2011: 9.59%).

Sources of valuation of biological assets

Plantations

The fair value (based on NPV) of the biological assets has been determined by appropriately qualified staff employed by Forests NSW using advanced modelling techniques/methods.

The flows of logs available from the regional plantation forest estates are estimated using

an industry-standard forest estate modelling system which simulates growth, harvesting and replanting of forests over an extended time period. Timber yield estimates are made by the application of growth and yield models to forest inventory measurements and the aggregate wood flow from regional forests is constrained by the requirement to fill contracts to supply logs to existing customers.

The total standing volume of trees expected at the date of harvest is converted to an assortment of log products by the application of models which simulate the manufacture of saleable log products. The estimates of future log product yields are estimated by past experience of actual yields in similar crops.

Native Forests

The gross area of native forests from which the log supply is drawn is reduced by the extent by which logging is excluded in certain areas. In the north and south coast regions an additional "net harvest modifier" is then applied to reflect the impact of other logging exclusions prescribed by licences that are not area specific. A further "strike rate reduction factor" is used to reduce the harvest area to account for the effect of excluding areas with significant floral and faunal values.

The cash flow analysis is underpinned by projections of future wood volume flows over a 100 year period for each of the major native forest estates. The wood flows are determined using the FRAMES (Forest Resource Area Management Evaluation System) toolkit initialised with the most recent resource inventory information. It is the intention of Forests NSW to update the inventory on an annual basis to replace plots that have been disturbed due to harvesting or plots that were established in excess of 10 years from the previous measurement date.

After adjusting the volume projections for the area modifiers, "calibration factors" are then applied to the volumes of log products available from each regional resource. These calibration factors reflect the differences between the visual features recorded for standing trees (as recorded in the inventory) and those found when trees are felled and logs are manufactured, when internal defects become visible. This enables the impact of internal defects in the timber to be incorporated into the estimates of future log product volume availability.

(iii) Impairment of other tangible assets.

At each reporting date, Forests NSW reviews the carrying amounts of its tangible assets to

determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, Forests NSW estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(iv) Impairment of intangible assets.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset maybe impaired. Where an indicator of impairment exists, the asset will be written down to the recoverable amount. Recoverable amount is the greater of fair value less costs to sell and value in use.

(j) Carbon Credits

Forests NSW participated in an inaugural sale of New South Wales Greenhouse Abatement Credits (GGAS), in 2004/2005. This scheme has since ceased and for financial year ending 30 June 2012, unsold carbon credit certificates are written off at costs, due to the cessation of the GGAS as at 30/06/2012.

(k) Maintenance and Repairs

Forests NSW policy is to maintain property, plant and equipment in good order and condition requiring ongoing maintenance and repair. The costs of maintenance and repairs are generally charged as expenses when incurred, except where they relate to the replacement of a significant component of an asset or a major upgrade of an asset, in which case the costs are capitalised and depreciated. Other routine operating maintenance, repair and minor renewal costs are also expensed as incurred.

(l) Derecognition of Assets

Assets are derecognised upon disposal where there is no future economic benefits expected to arise from the continued use.

Any gain or loss from derecognition of assets upon disposal is included in the Statement of Comprehensive Income in the year the item is derecognised.

(m) Other Financial Assets

Investments are initially recognised at fair value, less in the case of investments not at fair value through profit and loss, transaction costs.

Notes to and forming part of the financial statements

For the year ended 30 June 2012

Table 2: Financial Instruments

Recognised financial instruments	Accounting policies	Terms and conditions
Financial Assets		
Cash	Short-term deposits are stated at net realisable value	Cash is deposited at call.
Receivables	Trade receivables are carried at nominal cost	Credit sales generally on 7, 14, or 30 day settlement terms.
Other financial assets	Investments are stated at net realisable value. Interest and movements in market value are recognised in the Statement of Comprehensive Income where earned.	All investments during the year were at call.
Financial Liabilities		
Accounts payable and other creditors	Liabilities are recognised for amounts to be paid in the future for goods and services received.	Trade liabilities are settled within 30 days of the month in which they are incurred in line with NSW Government policy.
Interest-Bearing Loans and Borrowings	Liabilities for loans are recognised at the time of entering into the arrangement	A liquidity risk policy has been adopted by which no more than 25% of the total debt matures in any one year. All borrowings are sourced from the NSW Treasury Corporation.

Forests NSW determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this at each month reporting date.

(n) Intangible Assets

Software

Software that is acquired or developed by Forests NSW which has a finite useful life is measured at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

Intangible assets are amortised on a straight-line basis in profit or loss over their estimated useful lives, from the date that they are available for use. The estimated useful life for Software for the current and comparative years is 5 years. Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

(o) Borrowings

Borrowings are measured at amortised cost, using the effective interest rate method. Interest is accrued over the period it becomes due and is recorded as part of other creditors.

(p) Guarantee Fee

Forests NSW is required to pay an annual Government Guarantee Fee to NSW Treasury relative to the amount of loans at balance date, based upon the differential between an independently assessed, stand alone, credit rating for Forests NSW and the NSW Government's AAA rating. The actual fee payable is calculated using factors provided by NSW Treasury each year.

This cost is recorded in the Statement of Comprehensive Income.

(q) Financial Instruments (see Table 2)

(r) Cash and Cash Equivalents

For purposes of the statement of cash flows, cash includes restricted security deposits, deposits at call which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value, net of outstanding bank overdrafts.

(s) Finance Costs

Finance costs are recognised as expenses in the year in which they are incurred, except where they are included in the costs of qualifying assets (where valid).

Finance costs include:

- (i) interest on bank overdrafts and short-term and long-term borrowings;

- (ii) amortisation of discounts or premiums relating to borrowings; and
- (iii) government guarantee fees

(t) Provisions

Provisions are recognised when past events result in a present obligation, that will involve a future sacrifice of economic resources and the amount of provision can be measured reliably.

The amount of provisions recognised at reporting date are derived after estimating the considerations required to settle the obligation taking into account both the associated risks and uncertainties.

In circumstances where there are recoveries of settlement obligations from third parties, the receivable amount will be recognised as an asset if there is absolute certainty of recovery and recoverable monies can be reliably measured.

Provisions that are measured by expected cash outflows on future settlement dates to settle the present obligation will be discounted by an appropriate rate of discount so as to obtain the present value of the expected cash outflows.

The discount rate, i.e. government bond rate, that is used to compute the present value of cash outflows reflects the specific risks pertaining to the obligation and the current market assessment of the present value of money. Any increase in the provision due to discounting is recognised as a finance cost.

Notes to and forming part of the financial statements

For the year ended 30 June 2012

A provision for onerous contracts is recognised when the expected benefits to be derived by Forests NSW from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

(u) Leased Assets

Leases are classified as finance leases if at the end of the lease term, the risk and ownership of the leased assets substantially accrued to the lessee.

Finance leases are capitalised at the inception of the lease based on the lower of fair value of the leased assets or the present value of the minimum lease payments.

All other leases are classified as operating leases. Operating lease payments are recognised as expenses in the Statement of Comprehensive Income on a straight-line basis over the lease term.

(v) Dividend

The dividend is calculated according to TPP 09-6 Financial Distribution Policy for Government Businesses. The dividend payable of \$5 254 000 (2011: \$14 000 000) is calculated based on profit / loss adjusted for certain non-cash items.

(w) Revenue Recognition

Revenues are recognised at the fair value of the consideration received net of the amount of goods and services tax (GST) payable to the taxation authority.

(i) Sale of Timber and Related Activities

Revenue from the sale of timber and related activities is recognised (net of returns, discounts and allowances) when the significant risks and rewards of ownership transfer to the buyer.

(ii) Forest Management Services

Revenue from forest management services is typically received in advance, with the amount received representing the net present value and as agreed within individual contractual arrangements. Revenue from forest management services is then recognised over the period of the contractual term unless it is refunded.

(iii) Rental Income

Revenue from investment properties is recognised on a straight line basis over the period of the lease.

(x) Grants

Government grants are recognised as income over the periods necessary to match them with related costs which they are intended to compensate, on a systematic basis.

(y) Employee Benefits

Salaries & Wages

Liability for salaries & wages is recognised in Forestry Commission Division and measured in respect of employees' services up to the reporting date at nominal amounts based on the amounts expected to be paid when the liabilities are settled.

Workers Compensation Insurance

Forests NSW public servants are insured for workers compensation with the NSW Treasury Managed Fund (TMF). Forests NSW is a licensed self insurer under the provisions of the Workers Compensation Act 1987 for employees of the Forestry Commission Division (field workers). In accordance with regulations that govern the operations of Workers Compensation, an independent actuary has determined the value of the outstanding claims liability as at 30 June 2012 for the Forestry Commission Division. In addition, separate insurance cover is held with private insurance companies for excess total incident and total claims costs for the Forestry Commission Division.

From 17 March 2006 onwards, the NSW Government proclaimed the PSELAA (Public Sector Employment Legislation Amendment Act 2006). As of that date, all related employee costs and entitlements are recognised as Personnel Services from the supply of labour related services from both DPI and Forestry Commission Division.

Employee related liabilities are transferred from Forests NSW statutory accounts to DPI and Forestry Commission Division in accordance with the established memorandum of understanding. In the Forests NSW Statement of Financial Position, they are disclosed as current and non-current provision of employment benefits and personnel services.

Annual Leave

Liability for annual leave is recognised in the Forestry Commission Division and measured in respect of employees' services up to the reporting date at nominal amounts based on the amounts expected to be paid when the liabilities are settled. Long-term annual leave that is not expected to be taken within

twelve months is measured at present value in accordance with AASB 119 Employee Benefits. Market yields on government bonds are used to discount long-term annual leave.

Long Service Leave

A liability for long service leave is recognised in the Forestry Commission Division and is measured in accordance with AASB 119 Employee Benefits as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates on notional government guaranteed securities with terms to maturity that match, as closely as possible, the estimated future cash outflows.

The long service leave liability is assessed by actuaries at 30 June each year.

Sick Leave

Sick leave is non-vesting and is expensed as incurred. In line with past results, sick leave taken in future periods is expected to be well below entitlements in those periods so no provision is necessary at 30 June.

Defined Contribution Plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

Defined Benefit Plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. In the NSW public service, defined benefit schemes (which are called the Pooled Fund Schemes) include the :

- State Authorities Superannuation Scheme (SASS)
- State Superannuation Scheme (SSS)
- State Authorities Non-Contributory Superannuation Scheme (SANCS - Basic Benefit)

The Economic Entity's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned

Notes to and forming part of the financial statements

For the year ended 30 June 2012

in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognised past service costs and the fair value of any plan assets are deducted. Expected future payments are discounted using market yields at reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

The calculation is performed annually by Pillar Administration, who are the appointed trustee of the defined benefit plans for the NSW public service. When the calculation results in a benefit to the Economic Entity, the recognised asset is limited to the total of any unrecognised past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Economic Entity. An economic benefit is available to the Economic Entity if it is realisable during the life of the plan, or on settlement of the plan liabilities. When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.

The Economic Entity recognises all actuarial gains and losses arising from defined benefit plans in other comprehensive income and all expenses related to defined benefit plans in personnel expenses in profit or loss.

The Economic Entity recognises gains and losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment comprises any resulting change in the fair value of plan assets, change in the present value of defined benefit obligation and any related actuarial gains and losses and past service cost that had not previously been recognised.

The superannuation asset or liability is recognised in Forestry Commission Division (refer Note 17).

(z) Investment Assets

Forests NSW does not actively trade or engage in the investment property market. It leases offices and other buildings sites for rental income that are surplus to its requirements.

Investment property is measured initially

at its cost, including transaction costs and subsequently restated at fair value. Gains or losses arising from changes in the fair value of investment property are included in the Statement of Comprehensive Income when they arise.

Investment properties are derecognised when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected.

(aa) Adoption of New and Revised Accounting Standards

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2012, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of Forests NSW, except for AASB 9 Financial Instruments, which becomes mandatory for the 2014 financial statements and could change the classification and measurement of financial assets. Forests NSW does not plan to adopt this standard early and the extent of the impact has not been determined.

(ab) Comparative Figures

Certain comparative amounts have been reclassified to conform with the current year's presentation. These amendments have no material impact and were made for consistency purposes only.

Note 3: Financial Risk Management

Forests NSW have exposure to the following risks from their use of financial instruments:

- Credit Risk;
- Liquidity Risk;
- Market Risk.

This note presents information about Forests NSW exposure to each of the above risks and the objectives, policies and processes for measuring and managing risk. Further quantitative and qualitative disclosures are included throughout these financial statements.

The Commissioner for the Forestry Commission of NSW (Forests NSW) has overall responsibility for the establishment and oversight of risk management and reviews any agreed policies for managing each of these risks. Risk management policies are established to identify and analyse the risks faced by Forests

NSW, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Compliance with policies is reviewed by the internal auditors on a continuous basis.

Credit Risk

Credit risk arises when there is the possibility of Forests NSW debtors defaulting on their contractual obligations, resulting in a financial loss to Forests NSW. The maximum exposure to credit risk is generally represented by the carrying amount of the financial assets (net of any allowance for impairment).

Credit risk arises from the financial assets of Forests NSW, including cash, receivables and authority deposits. Some collateral is held by Forests NSW. Forests NSW has not granted any financial guarantees.

Credit risk associated with Forests NSW financial assets, other than receivables, is managed through the selection of counterparties and establishment of minimum credit rating standards. Authority deposits held with NSW Treasury Corporation (NSW TCorp.) are guaranteed by the State and are AAA rated by Standard and Poor's.

The credit risk on the financial assets of Forests NSW has been recognised in the Statement of Financial Position at the carrying amount, net of any allowance for doubtful debts.

Forests NSW have a Credit Policy, which aims to mitigate the credit risk exposure from our sales customers. Customers are assessed for credit worthiness before payment and delivery terms are offered. Forests NSW review includes external ratings, when available, company searches, and trade references. Purchase limits are established and customers are required to lodge suitable security for the estimated maximum credit exposure to its sales. The policy requires stringent credit assessment of customers before the granting of any unsecured credit.

Forests NSW has established an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established in respect of losses that have been incurred but not yet identified. The collective loss allowance is based on historical data of payment statistics.

Liquidity Risk

Liquidity risk is the risk that Forests NSW will be unable to meet its payment obligations when they fall due. Forests NSW continuously

Notes to and forming part of the financial statements

For the year ended 30 June 2012

manages this risk through monitoring future cash flows and maturities planning to ensure adequate holding of high quality liquid assets. The objective is to maintain a balance between continuity of funding and flexibility through the use of overdrafts, loans and other advances.

During the current and prior years, there were no defaults or breaches on any loans payable. No assets have been pledged as collateral. Forests NSW exposure to liquidity risk is deemed insignificant based on prior periods' data and current assessment of risk.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Forests NSW exposures to market risk are primarily through interest rate risk on the agency borrowings and other price risks associated with the movement in the unit price of the Hour Glass Investment facilities. Forests NSW has only minimal exposure to foreign currency risk and does not enter into commodity contracts.

Interest rate risk

Exposure to interest rate risk arises primarily through Forests NSW interest bearing liabilities. This risk is minimised by undertaking mainly fixed rate borrowings, primarily with NSW TCorp. Forests NSW does not account for any fixed rate financial instruments at fair value through the Statement of Comprehensive Income or as available for sale. Therefore for these financial instruments, a change in interest rates would not affect the Statement of Comprehensive Income or equity. A reasonable possible change of +/- 1% is used, consistent with current trends in interest rates. The basis will be reviewed annually and amended where there is a structural change in the level of interest rate volatility. The agency exposure to interest rate risk is set out below.

Forests NSW exposure to interest rates is set out in notes 8 and 23. Exposures arise from liabilities bearing variable interest rates as the Forests NSW intends to hold fixed interest assets and liabilities to maturity. Interest rate exposure is limited to interest rates available at the time of entering into arrangements with NSW Treasury Corporation. The assets or liabilities are held until maturity.

Other price risk – T Corp Hour Glass Investment facilities

Exposure to 'other price risk' primarily arises through investment with NSW TCorp. Hour Glass Investment facilities, which are held for

strategic rather than trading purposes. Apart from Forests NSW investment in Timber & Carbon Plantations Pty Ltd, Forests NSW has no direct equity investments.

Forests NSW only holds units in the Hour Glass Investment Cash Facility trust. This trust only invests in Cash & money market instruments that have an investment horizon up to 1.5 years (June 2011 – Up to 1.5 years).

The unit price of each facility is equal to the total fair value of net assets held by the facility divided by the total number of units on issue for that facility. Unit prices are calculated and published daily. NSW TCorp, as trustee for each of the above facilities, is required to act in the best interest of the unit holders and to administer the trusts in accordance with the trust deeds. NSW TCorp. has appointed external managers to manage the performance and risks of each facility in accordance with a mandate agreed by the parties. However, NSW TCorp, acts as manager for part of the Cash Facility. A significant portion of the administration of the facilities is outsourced to an external custodian.

Investment in the Hour Glass facilities limits Forests NSW exposure to risk, as it allows diversification across a pool of funds, with different investment horizons and a mix of investments.

NSW TCorp. provides sensitivity analysis information for each of the facilities, using historically based volatility information. The NSW TCorp. Hour Glass Investment facilities are designated at fair value through profit or loss and therefore any change in unit price impacts directly on profit (rather than equity).

Notes to and forming part of the financial statements

For the year ended 30 June 2012

Note 4: Revenue

	Economic Entity 2012 \$'000	Economic Entity 2011 \$'000	Statutory Corporation 2012 \$'000	Statutory Corporation 2011 \$'000
Revenue				
a) Forest sales revenue				
Royalties from sale of timber and related products	148 508	151 279	148 508	151 279
Contract Harvest and Haulage	144 696	140 178	144 696	140 178
Total Forest sales revenue	293 204	291 457	293 204	291 457
b) Other revenue				
Other Services Rendered	10 663	19 766	10 663	21 026
Rental Income from Investment Properties	123	152	123	152
Other Rental	4250	2907	4250	2907
Gain/(Loss) on disposal on Non-Current Assets	(977)	61	(977)	61
Interest Received	588	1435	588	1418
Total Other revenue	14 647	24 321	14 647	25 564
c) Grants revenue				
Community service obligations	9402	9367	9402	9367
Other state government grants	368	2162	368	2162
Total Grants revenue	9770	11 529	9770	11 529
Total Revenue	317 621	327 307	317 621	328 550

Community Services and Government Grants

Forests NSW Community Service and Government Grants totalled \$9 769 774 (2011: \$11 529 247). Grants included capital and revenue components, which are detailed in the following notes:

(i) Community Service Obligations (CSO)

The State Government contributed \$9 557 000 (2011: \$9 557 000) towards the cost of providing Community Services. This contribution was included in the financial statements as revenue. In 2011/12, these services, which include provision of recreation facilities, education and advisory services, government liaison and regulatory services, community fire protection and research cost Forests NSW \$9 401 646 (2011: \$9 367 485). These costs are included in operating expenditure in Note 5. Any unspent CSO grants are carried forward to the next financial year.

(ii) Other Government Grants

The State Government also paid Forests NSW \$368 128 (2011: \$2 164 609) for the performance of specific services including tasks associated with the Interim Assessment Process and related Comprehensive Resource Assessments.

Notes to and forming part of the financial statements

For the year ended 30 June 2012

Note 5: Expenses from Operations

	Economic Entity 2012 \$'000	Economic Entity 2011 \$'000	Statutory Corporation 2012 \$'000	Statutory Corporation 2011 \$'000
Operating Expenses				
Contract harvest and haulage	142 765	137 428	142 765	137 428
Contractors	20 664	20 769	20 664	20 769
Fees	12 216	9 457	12 216	9 455
Materials	16 735	19 935	16 735	19 935
Occupancy costs	2 182	2 015	2 182	2 015
Other	(737)	(461)	(737)	904
Plantation establishment costs	16 937	12 386	16 937	12 386
Travel and Accommodation	1 897	1 916	1 897	1 909
Telephone and Communication costs	1 148	1 163	1 148	1 163
Total Operating Expenses	213 807	204 608	213 807	205 964

Note 6: Financing Costs

	Economic Entity 2012 \$'000	Economic Entity 2011 \$'000	Statutory Corporation 2012 \$'000	Statutory Corporation 2011 \$'000
Interest Expense				
Interest Expense	7743	8182	7743	8182
Government Guarantee Fee	1504	1276	1504	1276
Financing Costs Recognised in Comprehensive Income	9247	9458	9247	9458

Notes to and forming part of the financial statements

For the year ended 30 June 2012

Note 7: Income Tax Expense

	Economic Entity 2012 \$'000	Economic Entity 2011 \$'000	Statutory Corporation 2012 \$'000	Statutory Corporation 2011 \$'000
Current Tax Expense / (Benefit)				
Current Period	3781	4867	3781	4867
Prior Year	(328)	-	(328)	-
Deferred Tax Expense / (Benefit)				
Origination and reversal of temporary differences	(5621)	45 518	(5621)	45 518
Prior Year	(320)	-	(320)	-
Total Income Tax Expense / (Benefit)	(2488)	50 385	(2488)	50 385

Numerical reconciliation between tax expense and pre-tax accounting profit

Pre-Tax Accounting Profit / (Loss)	(76 910)	126 814	(84 115)	128 806
Income tax using the statutory rate of 30%	(23 073)	38 044	(25 235)	38 642
Aggregate income tax expense relation to timing difference and non deductible/non assessable items	20 520	12 341	22 682	11 743
Prior Year	65	-	65	-
Total Income Tax Expense / (Benefit)	(2488)	50 385	(2488)	50 385

Tax Recognised Directly in Equity

Economic Entity and Statutory Corporation	2012			2011		
	Before tax	Tax (expense) / benefit	Net of tax	Before tax	Tax (expense) / benefit	Net of tax
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Transfer of asset revaluation reserves to retained profit	-	-	-	(29 102)	8731	(20 371)
	-	-	-	(29 102)	8731	(20 371)

Tax Recognised in Other Comprehensive Income

Economic Entity and Statutory Corporation	2012			2011		
	Before tax	Tax (expense) / benefit	Net of tax	Before tax	Tax (expense) / benefit	Net of tax
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revaluation of property, plant and equipment	53 163	(15 885)	37 278	(259)	119	(140)
	53 163	(15 885)	37 278	(259)	119	(140)

Notes to and forming part of the financial statements

For the year ended 30 June 2012

Note 8: Cash and Cash Equivalents

Details regarding credit risk, liquidity risk and market risk arising from financial statements are disclosed in Note 3 and 23.

	Economic Entity 2012 \$'000	Economic Entity 2011 \$'000	Statutory Corporation 2012 \$'000	Statutory Corporation 2011 \$'000
a) Reconciliation of Cash and Cash Equivalents				
Cash at bank	7943	3798	7943	3798
Cash on hand	27	30	27	30
NSW Treasury Corporation Hour Glass Cash Facility	910	4137	910	4137
Restricted security deposits	528	654	528	654
Investment	-	245	-	245
Balance as per Statement of Cash Flows	9408	8864	9408	8864
The NSW Treasury Corporation Hour Glass cash facility has been subject to floating interest rates between 4.89% and 5.25% (2011 5.25% and 5.40%)				
b) Reconciliation of net profit after tax to net cash flows from operations				
Net Profit/(loss) after income tax	(74 422)	76 429	(81 627)	78 421
Add/(less) non cash items:				
Depreciation	8549	8441	8549	8441
Reversal of impairment loss	(1440)	-	(1440)	-
(Profit)/loss on disposal of non-current assets	977	1637	977	132
(Increment)/Decrement in fair value of biological assets	16 303	(88 641)	16 303	(90 070)
Income tax expense	(2488)	50 385	(2488)	50 385
Other non-cash items	(2096)	(943)	5109	(115)
	(54 617)	47 308	(54 617)	47 194
Change in operating assets and liabilities				
Movement in receivables	(3353)	669	(3353)	1331
Movement in inventories	(736)	1283	(736)	1283
Movement in creditors	2591	(19 029)	2591	(19 399)
Movement in provisions	74 409	329	74 409	701
Movement in income tax	(5466)	(12 422)	(5466)	(12 422)
	67 445	(29 170)	67 445	(28 506)
Net cash from / (used by) operating activities	12 828	18 138	12 828	18 688

Notes to and forming part of the financial statements

For the year ended 30 June 2012

Note 9: Trade and Other Receivables

Details regarding credit risk, liquidity risk and market risk are disclosed in Note 3 and 23.

	Economic Entity 2012 \$'000	Economic Entity 2011 \$'000	Statutory Corporation 2012 \$'000	Statutory Corporation 2011 \$'000
Trade Receivables	49 323	45 804	49 323	45 804
Less: Allowance for impairment	(1965)	(2469)	(1965)	(2469)
	47 358	43 335	47 358	43 335
Other Debtors	2421	2958	2421	2958
Prepayments	1820	1953	1820	1953
Total Receivables	51 599	48 246	51 599	48 246

During the year bad debts amounting to \$971 591 (2011: \$1 952 448) were written off.

	Economic Entity 2012 \$'000	Economic Entity 2011 \$'000	Statutory Corporation 2012 \$'000	Statutory Corporation 2011 \$'000
Allowance for impairment				
Carrying amount at the beginning of the year	(2469)	(1504)	(2469)	(1504)
Additional provisions made in the year	972	(965)	972	(965)
Amounts used during the year	58	-	58	-
Unused amounts reversed during the year	(526)	-	(526)	-
Carrying amount at the end of the year	(1965)	(2469)	(1965)	(2469)

At 30 June, the ageing analysis of trade receivables is as follows

	Economic Entity 2012 \$'000	Economic Entity 2011 \$'000	Statutory Corporation 2012 \$'000	Statutory Corporation 2011 \$'000
0-30 Days	28 299	30 497	28 299	30 497
0-30 Days (Considered Impaired)	209	22	209	22
31-60 Days (Past due but not impaired)	18 330	11 243	18 330	11 243
31-60 Days (Considered impaired)	-	716	-	716
61-90 Days (Past due but not impaired)	271	851	271	851
61-90 Days (Considered impaired)	7	152	7	152
> 90 Days (Past due but not impaired)	459	744	459	744
> 90 Days (Considered impaired)	1748	1579	1748	1579
Total	49 323	45 804	49 323	45 804

Note 10: Inventories

The basis for valuation of inventories is set out in Note 2(g)

	Economic Entity 2012 \$'000	Economic Entity 2011 \$'000	Statutory Corporation 2012 \$'000	Statutory Corporation 2011 \$'000
Materials and Parts - at cost	-	1955	-	1955
Work in progress and finished goods	3755	1076	3755	1076
Seedlings carried at fair value less costs to sell	-	-	-	-
Total Inventories	3755	3031	3755	3031

Notes to and forming part of the financial statements

For the year ended 30 June 2012

Note 11: Property, Plant and Equipment

Economic Entity	Crown Land \$'000	Freehold Land \$'000	Buildings \$'000	Roads and Bridges \$'000	Plant and Equipment \$'000	PPE WIP \$'000	Total \$'000
Gross at 1 July 2010	1 027 045	1664	29 099	96 019	31 264	685	1 185 776
Accumulated depreciation and impairment	99	-	(14 910)	(29 893)	(10 362)	-	(55 066)
Net carrying amount at 1 July 2010	1 027 144	1664	14 189	66 126	20 902	685	1 130 710
Additions	-	-	-	-	-	11 767	11 767
Transfers from WIP	918	-	205	-	9408	(10 531)	-
Transfers (to)/from Investment Property	-	(6)	(207)	-	-	-	(213)
Asset Dedications	320	-	-	-	-	-	320
Asset Revocation	(29 102)	-	-	-	-	-	(29 102)
Disposals	-	-	(44)	-	(2037)	-	(2081)
Depreciation expense	-	-	(748)	(2733)	(4742)	-	(8223)
Revaluation loss/income	-	-	-	-	-	-	-
(Impairment Loss) / Reversal of Impairment Loss	-	-	(54)	(1504)	(139)	-	(1697)
Revaluation recognised in ARR	(98)	-	106	-	(267)	-	(259)
Net carrying amount at 30 June 2011	999 182	1658	13 447	61 889	23 125	1921	1 101 222
Gross at 1 July 2011	999 182	1658	28 986	96 019	35 192	1921	1 162 958
Accumulated depreciation and impairment	-	-	(15 539)	(34 130)	(12 067)	-	(61 736)
Net carrying amount at 1 July 2011	999 182	1658	13 447	61 889	23 125	1921	1 101 222
Additions	-	-	-	-	-	2843	2843
Transfers from WIP	-	-	1752	703	2011	(4466)	-
Transfers (to)/from Investment Property	39	(96)	111	-	-	-	54
Asset Dedications	44	-	-	-	-	-	44
Asset Revocation	(168)	-	-	-	-	-	(168)
Disposals	(790)	-	(275)	(1239)	(1837)	-	(4141)
Depreciation expense	-	-	(778)	(2723)	(4818)	-	(8319)
Revaluation (loss) / income	190	1	(705)	(1407)	(2179)	-	(4100)
(Impairment Loss) / Reversal of Impairment Loss	-	-	1078	-	362	-	1440
Revaluation recognised in ARR	38 181	311	2967	13 554	40	-	55 053
Net carrying amount at 30 June 2012	1 036 678	1874	17 597	70 777	16 704	298	1 143 928
Gross book value	1 036 678	1874	31 389	109 782	24 539	298	1 204 560
Accumulated depreciation and impairment	-	-	(13 792)	(39 005)	(7835)	-	(60 632)
Net carrying amount at 30 June 2012	1 036 678	1874	17 597	70 777	16 704	298	1 143 928

Notes to and forming part of the financial statements

For the year ended 30 June 2012

Statutory Corporation	Crown Land \$'000	Freehold Land \$'000	Buildings \$'000	Roads and Bridges \$'000	Plant and Equipment \$'000	PPE WIP \$'000	Total \$'000
Gross at 1 July 2010	1 027 045	1664	29 099	96 019	31 264	685	1 185 776
Accumulated depreciation and impairment	99	-	(14 910)	(31 397)	(10 362)	-	(56 570)
Net carrying amount at 1 July 2010	1 027 144	1664	14 189	64 622	20 902	685	1 129 206
Additions	-	-	-	-	-	11 767	11 767
Transfers from WIP	918	-	205	-	9408	(10 531)	-
Transfers (to)/from Investment Property	-	(6)	(207)	-	-	-	(213)
Asset Dedications	320	-	-	-	-	-	320
Asset Revocation	(29 102)	-	-	-	-	-	(29 102)
Disposals	-	-	(44)	-	(2037)	-	(2081)
Depreciation expense	-	-	(748)	(2733)	(4742)	-	(8223)
Revaluation loss/income	-	-	-	-	-	-	-
(Impairment Loss) / Reversal of Impairment Loss	-	-	(54)	-	(139)	-	(193)
Revaluation recognised in ARR	(98)	-	106	-	(267)	-	(259)
Net carrying amount at 30 June 2011	999 182	1658	13 447	61 889	23 125	1921	1 101 222
Gross at 1 July 2011	999 182	1658	28 986	96 019	35 192	1921	1 162 958
Accumulated depreciation and impairment	-	-	(15 539)	(34 130)	(12 067)	-	(61 736)
Net carrying amount at 1 July 2011	999 182	1658	13 447	61 889	23 125	1921	1 101 222
Additions	-	-	-	-	-	2843	2843
Transfers from WIP	-	-	1752	703	2011	(4466)	-
Transfers (to)/from Investment Property	39	(96)	111	-	-	-	54
Asset Dedications	44	-	-	-	-	-	44
Asset Revocation	(168)	-	-	-	-	-	(168)
Disposals	(790)	-	(275)	(1239)	(1837)	-	(4141)
Depreciation expense	-	-	(778)	(2723)	(4818)	-	(8319)
Revaluation loss/income	190	1	(705)	(1407)	(2179)	-	(4100)
(Impairment Loss) / Reversal of Impairment Loss	-	-	1078	-	362	-	1440
Revaluation recognised in ARR	38 181	311	2967	13 554	40	-	55 053
Net carrying amount at 30 June 2012	1 036 678	1874	17 597	70 777	16 704	298	1 143 928
Gross book value	1 036 678	1874	31 389	109 782	24 539	298	1 204 560
Accumulated depreciation and impairment	-	-	(13 792)	(39 005)	(7835)	-	(60 632)
Net carrying amount at 30 June 2012	1 036 678	1874	17 597	70 777	16 704	298	1 143 928

Notes to and forming part of the financial statements

For the year ended 30 June 2012

Note 12: Biological Assets

	Economic Entity 2012 \$'000	Economic Entity 2011 \$'000	Statutory Corporation 2012 \$'000	Statutory Corporation 2011 \$'000
Current				
Biological assets at fair value	54 509	68 414	54 509	68 414
Non-Current				
Biological assets at fair value	679 815	682 214	679 815	682 214
Total	734 324	750 628	734 324	750 628

Sensitivity of Fair Value of Softwood Plantations to changes in significant assumptions used in the valuation modelling process

	Change	Current 2012	Non-Current 2012	Current 2011	Non-Current 2011
Discount Rate (Weighted Average Costs of Capital)	+ 1 %	(249)	(62 434)	(310)	(56 725)
	- 1 %	253	73 196	314	65 920
Expected future sales values	+ 5 %	9290	91 157	5656	48 586
	- 5 %	(9290)	(91 157)	(5656)	(48 586)
Expected future costs	+ 5 %	(6565)	(57 166)	(2235)	(14 475)
	- 5 %	6565	57 166	2235	14 475
Expected future changes in volume	+ 5 %	4886	48 679	N/A	N/A
	- 5 %	(4886)	(48 679)	N/A	N/A

Notes to and forming part of the financial statements

For the year ended 30 June 2012

Economic Entity	Hardwood Plantations \$'000	Softwood Plantations \$'000	Native Forests \$'000	Total \$'000
Balance at 1 July 2010	-	661 986	-	661 986
Additions	-	-	-	-
Reallocations	-	-	-	-
Change in fair value less estimated point of sale costs	-	88 642	-	88 642
Balance at 30 June 2011	-	750 628	-	750 628
Balance at 1 July 2011	-	750 628	-	750 628
Additions	-	-	-	-
Reallocations	-	-	-	-
Harvested timber (transferred to inventories)	-	(28 895)	-	(28 895)
Change in fair value less estimated point of sale costs	-	-	-	-
- Due to physical changes	-	(63 200)	-	(63 200)
- Due to change in discount rate	-	75 791	-	75 791
Balance at 30 June 2012	-	734 324	-	734 324
Statutory Corporation	Hardwood Plantations \$'000	Softwood Plantations \$'000	Native Forests \$'000	Total \$'000
Balance at 1 July 2010	-	660 557	-	660 557
Additions	-	-	-	-
Reallocations	-	-	-	-
Change in fair value less estimated point of sale costs	-	90 071	-	90 071
Balance at 30 June 2011	-	750 628	-	750 628
Balance at 1 July 2011	-	750 628	-	750 628
Additions	-	-	-	-
Reallocations	-	-	-	-
Harvested timber (transferred to inventories)	-	(28 895)	-	(28 895)
Change in fair value less estimated point of sale costs	-	-	-	-
- Due to physical changes	-	(63 200)	-	(63 200)
- Due to change in discount rate	-	75 791	-	75 791
Balance at 30 June 2012	-	734 324	-	734 324

Prior year comparative does not show equivalent disclosure to 2012 due to lack of information available for the disclosure last year.

Notes to and forming part of the financial statements

For the year ended 30 June 2012

Note 13: Investment Assets

	Economic Entity 2012 \$'000	Economic Entity 2011 \$'000	Statutory Corporation 2012 \$'000	Statutory Corporation 2011 \$'000
Investment assets at the beginning of the year	7652	7477	7652	7477
Additions	-	-	-	-
Disposals	(193)	(38)	(193)	(38)
Transfer from Buildings/land	96	-	96	-
Transfer to Buildings/land	(150)	213	(150)	213
Net gain/(loss) from fair value adjustment	(560)	-	(560)	-
Investment assets at the end of the year	6845	7652	6845	7652

Note 14: Investments in Subsidiaries

	Notes	Economic Entity 2012 \$'000	Economic Entity 2011 \$'000	Statutory Corporation 2012 \$'000	Statutory Corporation 2011 \$'000
Investments in controlled entities at cost	26	-	-	-	4578
Less Impairment of Subsidiary		-	-	-	(4578)
Investments in controlled entities - at cost		-	-	-	-

Note 15: Intangibles

(a) Reconciliation of the opening and closing balances of intangibles

Economic Entity	Notes	Software \$'000	Goodwill \$'000	Total \$'000
Gross value at 1 July 2010		1093	1319	2412
Accumulated amortisation and impairment		(119)	(1319)	(1438)
Fair value at 1 July 2010		974	-	974
Additions		-	-	-
Amortisation		(218)	-	(218)
Impairment		-	-	-
Fair value at 30 June 2011		756	-	756
Gross value at 1 July 2011		1093	-	1093
Accumulated amortisation and impairment		(337)	-	(337)
Fair value at 1 July 2011		756	-	756
Additions		-	-	-
Amortisation		(219)	-	(219)
Impairment		-	-	-
Fair value at 30 June 2012		537	-	537
Gross book value		1093	-	1093
Accumulated amortisation and impairment		(556)	-	(556)
Fair value at 30 June 2012		537	-	537

Notes to and forming part of the financial statements

For the year ended 30 June 2012

Statutory Corporation	Notes	Software \$'000	Goodwill \$'000	Total \$'000
Gross value at 1 July 2010		1093	-	1093
Accumulated amortisation and impairment		(119)	-	(119)
Fair value at 1 July 2010		974	-	974
Additions		-	-	-
Amortisation		(218)	-	(218)
Impairment		-	-	-
Fair value at 30 June 2011		756	-	756
Gross value at 1 July 2011		1093	-	1093
Accumulated amortisation and impairment		(337)	-	(337)
Fair value at 1 July 2011		756	-	756
Additions		-	-	-
Amortisation		(219)	-	(219)
Impairment		-	-	-
Fair value at 30 June 2012		537	-	537
Gross book value		1093	-	1093
Accumulated amortisation and impairment		(556)	-	(556)
Fair value at 30 June 2012		537	-	537

(b) Description of the Group's goodwill

Goodwill

After initial recognition, goodwill acquired in a business combination is measured at cost less any accumulated impairment losses. Goodwill is not amortised but is subject to impairment testing on an annual basis or whenever there is an indication of impairment (refer to section (c) of this note).

(c) Impairment tests for goodwill

Description of the cash generating units and other relevant information

Goodwill acquired through business combinations has been allocated to and are tested at the level of their respective cash generating units that are both an operating segment for impairment testing.

Carrying amount of goodwill allocated to each of the cash generating units

The goodwill acquired through the purchase of Timber and Carbon Plantations Pty Limited was tested for impairment and written down to a nil carrying amount as at 30 June 2010. Impairment testing as at 30 June 2012 confirmed the nil carrying amount.

Notes to and forming part of the financial statements

For the year ended 30 June 2012

Note 16: Deferred Tax Assets and Liabilities

Economic Entity	Assets		Liabilities		Net			
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000		
Property, plant and equipment	(219)	(94)	307 754	292 597	307 535	292 503		
Biological Assets	-	-	220 297	225 188	220 297	225 188		
Provisions	(4783)	(2166)	-	-	(4783)	(2166)		
Revenue in advance	(5469)	(7984)	-	-	(5469)	(7984)		
Other asset	(96)				(96)			
Net deferred tax (assets)/ liabilities	(10 567)	(10 244)	528 051	517 785	517 484	507 541		
<hr/>								
Statutory Corporation	Assets		Liabilities		Net			
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000		
Property, plant and equipment	(219)	(94)	307 754	292 597	307 535	292 503		
Biological Assets	-	-	220 297	225 188	220 297	225 188		
Provisions	(4783)	(2166)	-	-	(4783)	(2166)		
Revenue in advance	(5469)	(7984)	-	-	(5469)	(7984)		
Other asset	(96)				(96)			
Net deferred tax (assets)/ liabilities	(10 567)	(10 244)	528 051	517 785	517 484	507 541		
<hr/>								
Economic Entity	Balance 30 June 2010	Recognised in comprehensive income	Recognised in equity	Balance 30 June 2011	Recognised in profit or loss	Recognised in other comprehensive income	Recognised directly in equity	Balance 30 June 2012
	285 086	16 267	(8850)	292 503	(853)	-	15 885	307 535
Property, plant and equipment	285 086	16 267	(8850)	292 503	(853)	-	15 885	307 535
Biological Assets	198 596	26 592	-	225 188	(4891)	-	-	220 297
Provisions	(5095)	2929	-	(2166)	(2617)	-	-	(4783)
Revenue in advance	(7716)	(268)	-	(7984)	2515	-	-	(5469)
Other asset					(96)			(96)
	470 871	45 520	(8850)	507 541	(5942)	-	15 885	517 484
<hr/>								
Statutory Corporation	Balance 30 June 2010	Recognised in comprehensive income	Recognised in equity	Balance 30 June 2011	Recognised in profit or loss	Recognised in other comprehensive income	Recognised directly in equity	Balance 30 June 2012
	285 086	16 267	(8850)	292 503	(853)	-	15 885	307 535
Property, plant and equipment	285 086	16 267	(8850)	292 503	(853)	-	15 885	307 535
Biological Assets	198 596	26 592	-	225 188	(4891)	-	-	220 297
Provisions	(5095)	2929	-	(2166)	(2617)	-	-	(4783)
Revenue in advance	(7716)	(268)	-	(7984)	2515	-	-	(5469)
Other asset					(96)			(96)
	470 871	45 520	(8850)	507 541	(5942)	-	15 885	517 484

Notes to and forming part of the financial statements

For the year ended 30 June 2012

Note 17: Employee Defined Benefits

Actuarial gains and losses are recognised immediately in other comprehensive income in the year in which they occur.

Fund information

The Pooled Fund holds in trust the investments of the closed NSW public sector superannuation schemes:

- State Authorities Superannuation Scheme (SASS)
- State Superannuation Scheme (SSS)
- Police Superannuation Scheme (PSS)
- State Authorities Non-contributory Superannuation Scheme (SANCS).

These schemes are all defined benefit schemes – at least a component of the final benefit is derived from a multiple of member salary and years of membership.

All the Schemes are closed to new members

Reconciliation of the present value of the defined benefit obligation

Financial Year to 30 June 2012	SASS Financial Year to 30 June 2012 A\$	SANCS Financial Year to 30 June 2012 A\$	SSS Financial Year to 30 June 2012 A\$	Total A\$
Present value of partly funded defined benefit obligation at beginning of the year	39 583 911	4 347 937	-	43 931 848
Current service cost	596 850	186 084	-	782 934
Interest cost	1 981 188	215 620	-	2 196 808
Contributions by Fund participants	471 908	-	-	471 908
Actuarial (gains)/losses	2 868 365	351 954	-	3 220 319
Benefits paid	(4 912 407)	(852 227)	-	(5 764 634)
Past service cost	-	-	-	-
Curtailments	-	-	-	-
Settlements	-	-	-	-
Business Combinations	-	-	-	-
Exchange rate changes	-	-	-	-
Present value of partly funded defined benefit obligation at end of the year	40 589 815	4 249 368	-	44 839 183

Reconciliation of the fair value of Fund assets

Financial Year to 30 June 2012	SASS Financial Year to 30 June 2012 A\$	SANCS Financial Year to 30 June 2012 A\$	SSS Financial Year to 30 June 2012 A\$	Total A\$
Fair value of Fund assets at beginning of the year	35 652 892	4 054 473	-	39 707 365
Expected return on Fund assets	2 917 416	332 389	-	3 249 805
Actuarial gains/(losses)	(3 651 281)	(333 482)	-	(3 984 763)
Employer contributions	663 925	149 478	-	813 403
Contributions by Fund participants	471 908	-	-	471 908
Benefits paid	(4 912 407)	(852 227)	-	(5 764 634)
Settlements	-	-	-	-
Business combinations	-	-	-	-
Exchange rate changes	-	-	-	-
Fair value of Fund assets at end of the year	31 142 453	3 350 631	-	34 493 084

Notes to and forming part of the financial statements

For the year ended 30 June 2012

Reconciliation of the assets and liabilities recognised in statement of financial position

Financial Year to 30 June 2012	SASS Financial Year to 30 June 2012 A\$	SANCS Financial Year to 30 June 2012 A\$	SSS Financial Year to 30 June 2012 A\$	Total A\$
Present value of partly funded defined benefit obligation at end of year	40 589 815	4 249 368	-	44 839 183
Fair value of Fund assets at end of year	(31 142 453)	(3 350 631)	-	(34 493 084)
Subtotal	9 447 362	898 737	-	10 346 099
Unrecognised past service cost	-	-	-	-
Unrecognised gain/(loss)	-	-	-	-
Adjustment for limitation on net asset	-	-	-	-
Net Liability/(Asset) recognised in statement of financial position at end of year	9 447 362	898 737	-	10 346 099

Expense recognised in income statement

Financial Year to 30 June 2012	SASS Financial Year to 30 June 2012 A\$	SANCS Financial Year to 30 June 2012 A\$	SSS Financial Year to 30 June 2012 A\$	Total A\$
Components Recognised in Income Statement				-
Current service cost	596 850	186 084	-	782 934
Interest cost	1 981 188	215 620	-	2 196 808
Expected return on Fund assets (net of expenses)	(2 917 416)	(332 389)	-	(3 249 805)
Actuarial losses/(gains) recognised in year	-	-	-	-
Past service cost	-	-	-	-
Movement in adjustment for limitation on net asset				-
Curtailment or settlement (gain)/loss				-
Expense/(income) recognised	(339 378)	69 315	-	(270 063)

Amounts recognised in other comprehensive income

Financial Year to 30 June 2012	SASS Financial Year to 30 June 2012 A\$	SANCS Financial Year to 30 June 2012 A\$	SSS Financial Year to 30 June 2012 A\$	Total A\$
Actuarial (gains)/losses	6 519 646	685 437	-	7 205 083
Adjustment for limit on net asset	-	-	-	-

Cumulative amount recognised in other comprehensive income

Financial Year to 30 June 2012	SASS Financial Year to 30 June 2012 A\$	SANCS Financial Year to 30 June 2012 A\$	SSS Financial Year to 30 June 2012 A\$	Total A\$
Actuarial (gains)/losses				
Adjustment for limit on net asset				

Notes to and forming part of the financial statements

For the year ended 30 June 2012

Fund assets

The percentage invested in each asset class at the balance sheet date:

	30-June-12
Australian equities	28.0%
Overseas equities	23.7%
Australian fixed interest securities	4.9%
Overseas fixed interest securities	2.4%
Cash	8.6%
Property	19.5%
Other	12.9%

Fair value of Fund assets

All Fund assets are invested by STC at arm's length through independent fund managers.

Expected rate of return on assets

The expected return on assets assumption is determined by weighting the expected long-term return for each asset class by the target allocation of assets to each class. The returns used for each class are net of investment tax and investment fees.

Actual Return on Fund Assets

	SASS Financial Year to 30 June 2012 A\$	SANCS Financial Year to 30 June 2012 A\$	SSS Financial Year to 30 June 2012 A\$
Actual return on Fund assets	(10 474)	(1093)	-

Valuation method and principal actuarial assumptions at the balance sheet date

a) Valuation Method

The Projected Unit Credit (PUC) valuation method was used to determine the present value of the defined benefit obligations and the related current service costs. This method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

b) Economic Assumptions

	30-June-12
Salary increase rate (excluding promotional increases)	2.5% pa
Rate of CPI Increase	2.5% pa
Expected rate of return on assets	8.6%
Discount rate	3.06% pa

c) Demographic Assumptions

The demographic assumptions at 30 June 2012 are those that were used in the 2009 triennial actuarial valuation. The triennial review report is available from the NSW Treasury website.

Notes to and forming part of the financial statements

For the year ended 30 June 2012

Historical information

	SASS Financial Year to 30 June 2012 A\$	SANCS Financial Year to 30 June 2012 A\$	SSS Financial Year to 30 June 2012 A\$	Total A\$
Present value of defined benefit obligation	40 589 815	4 249 368	-	44 839 183
Fair value of Fund assets	(31 142 453)	(3 350 631)	-	(34 493 084)
(Surplus)/Deficit in Fund	9 447 362	898 737	-	10 346 099
Experience adjustments – Fund liabilities	2 868 365	351 954	-	3 220 319
Experience adjustments – Fund assets	3 651 281	333 482	-	3 984 763
	SASS Financial Year to 30 June 2011 A\$	SANCS Financial Year to 30 June 2011 A\$	SSS Financial Year to 30 June 2011 A\$	Total A\$
Present value of defined benefit obligation	39 583 911	4 347 937	-	43 931 848
Fair value of Fund assets	(35 652 892)	(4 054 473)	-	(39 707 365)
(Surplus)/Deficit in Fund	3 931 019	293 463	-	4 224 482
Experience adjustments – Fund liabilities	1 153 799	(81 676)	-	1 072 123
Experience adjustments – Fund assets	(241 285)	(685)	-	(241 970)
	SASS Financial Year to 30 June 2010 A\$	SANCS Financial Year to 30 June 2010 A\$	SSS Financial Year to 30 June 2010 A\$	Total A\$
Present value of defined benefit obligation	37 965 760	4 131 404	-	42 097 164
Fair value of Fund assets	(33 697 257)	(3 638 632)	-	(37 335 889)
(Surplus)/Deficit in Fund	4 268 503	492 772	-	4 761 275
Experience adjustments – Fund liabilities	1 672 112	253 617	-	1 925 729
Experience adjustments – Fund assets	405 585	(15 070)	-	390 515
	SASS Financial Year to 30 June 2009 A\$	SANCS Financial Year to 30 June 2009 A\$	SSS Financial Year to 30 June 2009 A\$	Total A\$
Present value of defined benefit obligation	36 864 865	4 052 446	-	40 917 311
Fair value of Fund assets	(33 581 561)	(3 686 949)	-	(37 268 510)
(Surplus)/Deficit in Fund	3 283 304	365 497	-	3 648 801
Experience adjustments – Fund liabilities	(940 370)	215 226	-	(725 144)
Experience adjustments – Fund assets	6 907 088	749 368	-	7 656 456
	SASS Financial Year to 30 June 2008 A\$	SANCS Financial Year to 30 June 2008 A\$	SSS Financial Year to 30 June 2008 A\$	Total A\$
Present value of defined benefit obligation	37 425 521	3 812 045	-	41 237 566
Fair value of Fund assets	(39 042 574)	(4 277 975)	-	(43 320 549)
(Surplus)/Deficit in Fund	(1 617 053)	(465 930)	-	(2 082 983)
Experience adjustments – Fund liabilities	(1 629 328)	(15 493)	-	(1 644 821)
Experience adjustments – Fund assets	5 422 540	641 672	-	6 064 212

Notes to and forming part of the financial statements

For the year ended 30 June 2012

	SASS Financial Year to 30 June 2007 A\$	SANCS Financial Year to 30 June 2007 A\$	SSS Financial Year to 30 June 2007 A\$	Total A\$
Present value of defined benefit obligation	38 737 079	3 656 706	-	42 393 785
Fair value of Fund assets	(43 038 415)	(4 588 782)	-	(47 627 197)
(Surplus)/Deficit in Fund	(4 301 336)	(932 076)	-	(5 233 412)
Experience adjustments – Fund liabilities	2 422 459	12 171	-	2 434 630
Experience adjustments – Fund assets	(2 888 629)	(268 220)	-	(3 156 849)

Expected contributions

Financial Year to 30 June 2012	SASS Financial Year to 30 June 2012 A\$	SANCS Financial Year to 30 June 2012 A\$	SSS Financial Year to 30 June 2012 A\$	Total A\$
Expected employer contributions to be paid in the next reporting period	896 625	194 400	-	1 091 025

Funding Arrangements for Employer Contributions

(a) Surplus/deficit

Financial Year to 30 June 2012	SASS Financial Year to 30 June 2012 A\$	SANCS Financial Year to 30 June 2012 A\$	SSS Financial Year to 30 June 2012 A\$	Total A\$
Accrued benefits	32 835 437	3 621 735	-	36 457 172
Net market value of Fund assets	(31 142 453)	(3 350 631)	-	(34 493 084)
Net (surplus)/deficit	1 692 984	271 103	-	1 964 087

(b) Contribution recommendations

Recommended contribution rates for the entity are:

SASS	SANCS	SSS multiple of member contributions
1.90	2.50	0.00

(c) Funding method

Contribution rates are set after discussions between the employer, STC and NSW Treasury.

(d) Economic assumptions

The economic assumptions adopted for the 2012 actuarial review of the Fund are:

Weighted-Average Assumptions	30-June-12
Expected rate of return on Fund assets backing current pension liabilities	8.3% pa
Expected rate of return on Fund assets backing other liabilities	7.3% pa
Expected salary increase rate	4.0% pa
Expected rate of CPI increase	2.5% pa

Nature of Asset/Liability

If a surplus exists in the employer's interest in the Fund, the employer may be able to take advantage of it in the form of a reduction in the required contribution rate, depending on the advice of the Fund's actuary.

Where a deficiency exists, the employer is responsible for any difference between the employer's share of Fund assets and the defined benefit obligation.

Notes to and forming part of the financial statements

For the year ended 30 June 2012

Fund information

The Pooled Fund holds in trust the investments of the closed NSW public sector superannuation schemes:

- State Authorities Superannuation Scheme (SASS)
- State Superannuation Scheme (SSS)
- State Authorities Non-contributory Superannuation Scheme (SANCS).

These schemes are all defined benefit schemes – at least a component of the final benefit is derived from a multiple of member salary and years of membership.

All the Schemes are closed to new members.

Reconciliation of the present value of the defined benefit obligation

Financial Year to 30 June 2011	SASS Financial Year to 30 June 2011 A\$	SANCS Financial Year to 30 June 2011 A\$	SSS Financial Year to 30 June 2011 A\$	Total A\$
Present value of partly funded defined benefit obligation at beginning of the year	37 965 760	4 131 404	-	42 097 164
Current service cost	613 724	182 313	-	796 037
Interest cost	1 880 374	202 259	-	2 082 633
Contributions by Fund participants	458 095	-	-	458 095
Actuarial (gains)/losses	1 153 799	(81 676)	-	1 072 123
Benefits paid	(2 487 841)	(86 363)	-	(2 574 204)
Past service cost	-	-	-	-
Curtailments	-	-	-	-
Settlements	-	-	-	-
Business Combinations	-	-	-	-
Exchange rate changes	-	-	-	-
Present value of partly funded defined benefit obligation at end of the year	39 583 911	4 347 937	-	43 931 848

Reconciliation of the fair value of Fund assets

Financial Year to 30 June 2011	SASS Financial Year to 30 June 2011 A\$	SANCS Financial Year to 30 June 2011 A\$	SSS Financial Year to 30 June 2011 A\$	Total A\$
Fair value of Fund assets at beginning of the year	33 697 257	3 638 632	-	37 335 889
Expected return on Fund assets	2 798 230	302 454	-	3 100 684
Actuarial gains/(losses)	241 285	685	-	241 970
Employer contributions	945 867	199 066	-	1 144 933
Contributions by Fund participants	458 095	-	-	458 095
Benefits paid	(2 487 841)	(86 363)	-	(2 574 204)
Settlements	-	-	-	-
Business combinations	-	-	-	-
Exchange rate changes	-	-	-	-
Fair value of Fund assets at end of the year	35 652 893	4 054 474	-	39 707 367

Notes to and forming part of the financial statements

For the year ended 30 June 2012

Reconciliation of the assets and liabilities recognised in statement of financial position

Financial Year to 30 June 2011	SASS Financial Year to 30 June 2011 A\$	SANCS Financial Year to 30 June 2011 A\$	SSS Financial Year to 30 June 2011 A\$	Total A\$
Present value of partly funded defined benefit obligation at end of year	39 583 911	4 347 937	-	43 931 848
Fair value of Fund assets at end of year	(35 652 892)	(4 054 473)	-	(39 707 365)
Subtotal	3 931 019	293 464	-	4 224 483
Unrecognised past service cost	-	-	-	-
Unrecognised gain/(loss)	-	-	-	-
Adjustment for limitation on net asset	-	-	-	-
Net Liability/(Asset) recognised in statement of financial position at end of year	3 931 019	293 464	-	4 224 483

Expense recognised in income statement

Financial Year to 30 June 2011	SASS Financial Year to 30 June 2011 A\$	SANCS Financial Year to 30 June 2011 A\$	SSS Financial Year to 30 June 2011 A\$	Total A\$
Components Recognised in Income Statement				
Current service cost	613 724	182 313	-	796 037
Interest cost	1 880 374	202 259	-	2 082 633
Expected return on Fund assets (net of expenses)	(2 798 230)	(302 454)	-	(3 100 684)
Actuarial losses/(gains) recognised in year	-	-	-	-
Past service cost	-	-	-	-
Movement in adjustment for limitation on net asset	-	-	-	-
Curtailment or settlement (gain)/loss	-	-	-	-
Expense/(income) recognised	(304 132)	82 118	-	(222 014)

Amounts recognised in other comprehensive income

Financial Year to 30 June 2011	SASS Financial Year to 30 June 2011 A\$	SANCS Financial Year to 30 June 2011 A\$	SSS Financial Year to 30 June 2011 A\$	Total A\$
Actuarial (gains)/losses	912 514	(82 361)	-	830 153
Adjustment for limit on net asset				-

Cumulative amount recognised in other comprehensive income

Financial Year to 30 June 2011	SASS Financial Year to 30 June 2011 A\$	SANCS Financial Year to 30 June 2011 A\$	SSS Financial Year to 30 June 2011 A\$	Total A\$
Actuarial (gains)/losses	12 833 848	1 757 145	6 398 313	20 989 306
Adjustment for limit on net asset				-

Notes to and forming part of the financial statements

For the year ended 30 June 2012

Fund assets

The percentage invested in each asset class at the balance sheet date:

	30-June-11
Australian equities	33.4%
Overseas equities	29.5%
Australian fixed interest securities	5.7%
Overseas fixed interest securities	3.1%
Cash	9.9%
Property	5.1%
Other	13.3%

Fair value of Fund assets

All Fund assets are invested by STC at arm's length through independent fund managers.

Expected rate of return on assets

The expected return on assets assumption is determined by weighting the expected long-term return for each asset class by the target allocation of assets to each class. The returns used for each class are net of investment tax and investment fees.

Actual Return on Fund Assets

	SASS	SANCS	SSS
Financial Year to 30 June 2011	Financial Year to 30 June 2011 A\$	Financial Year to 30 June 2011 A\$	Financial Year to 30 June 2011 A\$
Actual return on Fund assets	2812 131	303 139	-

a) Valuation Method

The Projected Unit Credit (PUC) valuation method was used to determine the present value of the defined benefit obligations and the related current service costs. This method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

b) Economic Assumptions

	30-June-11
Salary increase rate (excluding promotional increases)	3.5% pa
Rate of CPI Increase	2.5% pa
Expected rate of return on assets	8.60 %
Discount rate	5.28% pa

c) Demographic Assumptions

The demographic assumptions at 30 June 2011 are those that were used in the 2009 triennial actuarial valuation. The triennial review report is available from the NSW Treasury website.

Notes to and forming part of the financial statements

For the year ended 30 June 2012

Historical information

	SASS Financial Year to 30 June 2011 A\$	SANCS Financial Year to 30 June 2011 A\$	SSS Financial Year to 30 June 2011 A\$	Total A\$
Present value of defined benefit obligation	39 583 911	4 347 937	-	43 931 848
Fair value of Fund assets	(35 652 892)	(40 544 73)	-	(39 707 365)
(Surplus)/Deficit in Fund	3 931 019	293 463	-	4 224 482
Experience adjustments – Fund liabilities	1 153 799	(81 676)	-	1 072 123
Experience adjustments – Fund assets	(241 285)	(685)	-	(241 970)

	SASS Financial Year to 30 June 2010 A\$	SANCS Financial Year to 30 June 2010 A\$	SSS Financial Year to 30 June 2010 A\$	Total A\$
Present value of defined benefit obligation	37 965 760	4 131 404	-	42 097 164
Fair value of Fund assets	(33 697 257)	(3 638 632)	-	(37 335 889)
(Surplus)/Deficit in Fund	4 268 503	492 772	-	4 761 275
Experience adjustments – Fund liabilities	1 672 112	253 617	-	1 925 729
Experience adjustments – Fund assets	405 585	(15 070)	-	390 515

	SASS Financial Year to 30 June 2009 A\$	SANCS Financial Year to 30 June 2009 A\$	SSS Financial Year to 30 June 2009 A\$	Total A\$
Present value of defined benefit obligation	36 864 865	4 052 446	-	40 917 311
Fair value of Fund assets	(33 581 561)	(3 686 949)	-	(37 268 510)
(Surplus)/Deficit in Fund	3 283 304	365 497	-	3 648 801
Experience adjustments – Fund liabilities	(940 370)	215 226	-	(725 144)
Experience adjustments – Fund assets	6 907 088	749 368	-	7 656 456

	SASS Financial Year to 30 June 2008 A\$	SANCS Financial Year to 30 June 2008 A\$	SSS Financial Year to 30 June 2008 A\$	Total A\$
Present value of defined benefit obligation	37 425 521	3 812 045	-	41 237 566
Fair value of Fund assets	(39 042 574)	(4 277 975)	-	(43 320 549)
(Surplus)/Deficit in Fund	(1 617 053)	(465 930)	-	(2 082 983)
Experience adjustments – Fund liabilities	(1 629 328)	(15 493)	-	(1 644 821)
Experience adjustments – Fund assets	5 422 540	641 672	-	6 064 212

	SASS Financial Year to 30 June 2007 A\$	SANCS Financial Year to 30 June 2007 A\$	SSS Financial Year to 30 June 2007 A\$	Total A\$
Present value of defined benefit obligation	38 737 079	3 656 706	-	42 393 785
Fair value of Fund assets	(43 038 415)	(4 588 782)	-	(47 627 197)
(Surplus)/Deficit in Fund	(4 301 336)	(932 076)	-	(5 233 412)
Experience adjustments – Fund liabilities	2 422 459	12 171	-	2 434 630
Experience adjustments – Fund assets	(2 888 629)	(268 220)	-	(3 156 849)

Notes to and forming part of the financial statements

For the year ended 30 June 2012

	SASS Financial Year to 30 June 2006 A\$	SANCS Financial Year to 30 June 2006 A\$	SSS Financial Year to 30 June 2006 A\$	Total A\$
Present value of defined benefit obligation	35 192 664	3 357 132	-	38 549 796
Fair value of Fund assets	(38 132 139)	(3 923 711)	-	(42 055 850)
(Surplus)/Deficit in Fund	(2 939 475)	(566 579)	-	(3 506 054)
Experience adjustments – Fund liabilities	181 759	(55 200)	-	126 559
Experience adjustments – Fund assets	(1 072 855)	(82 045)	-	(1 154 900)

Expected contributions

Financial Year to 30 June 2011	SASS Financial Year to 30 June 2011 A\$	SANCS Financial Year to 30 June 2011 A\$	SSS Financial Year to 30 June 2011 A\$	Total A\$
Expected employer contributions to be paid in the next reporting period	870 381	195 013	-	1 065 394

Funding Arrangements for Employer Contributions

(a) Surplus/deficit

Financial Year to 30 June 2011	SASS Financial Year to 30 June 2011 A\$	SANCS Financial Year to 30 June 2011 A\$	SSS Financial Year to 30 June 2011 A\$	Total A\$
Accrued benefits	35 969 716	3 976 342	-	39 946 058
Net market value of Fund assets	(35 652 892)	(4 054 473)	-	(39 707 365)
Net (surplus)/deficit	316 824	(78 131)	-	238 693

(b) Contribution recommendations

Recommended contribution rates for the entity are:

SASS multiple of member contributions	SANCS % member salary	SSS multiple of member contributions
1.90	2.50	0.00

(c) Funding method

Contribution rates are set after discussions between the employer, STC and NSW Treasury.

(d) Economic assumptions

The economic assumptions adopted for the 2012 actuarial review of the Fund are:

Weighted-Average Assumptions	30-June-11
Expected rate of return on Fund assets backing current pension liabilities	8.3% pa
Expected rate of return on Fund assets backing other liabilities	7.3% pa
Expected salary increase rate	4.0% pa
Expected rate of CPI increase	2.5% pa

Nature of Asset/Liability

If a surplus exists in the employer's interest in the Fund, the employer may be able to take advantage of it in the form of a reduction in the required contribution rate, depending on the advice of the Fund's actuary.

Where a deficiency exists, the employer is responsible for any difference between the employer's share of Fund assets and the defined benefit obligation.

Notes to and forming part of the financial statements

For the year ended 30 June 2012

Note 18: Trade and Other Payables

	Economic Entity 2012 \$'000	Economic Entity 2011 \$'000	Statutory Corporation 2012 \$'000	Statutory Corporation 2011 \$'000
Current				
Trade Creditors	44 364	32 417	44 364	32 417
Revenue Received in Advance	18 230	27 586	18 230	27 586
Total Current	62 594	60 003	62 594	60 003
Total Trade and other payables	62 594	60 003	62 594	60 003

Details regarding credit risk, liquidity risk and market risk, including a maturity analysis of the above payables, are disclosed in Note 3 and 23.

Note 19: Borrowings

	Economic Entity 2012 \$'000	Economic Entity 2011 \$'000	Statutory Corporation 2012 \$'000	Statutory Corporation 2011 \$'000
Current				
NSW Treasury Corporation Loans	6488	17 015	6488	17 015
Non-Current				
NSW Treasury Corporation Loans	126 976	114 987	126 976	114 987
Total Borrowings	133 464	132 002	133 464	132 002

Details regarding credit risk, liquidity risk and market risk, including a maturity analysis of the above payables, are disclosed in Note 3 and 23.

Note 20: Dividends Paid/Provided For

	Economic Entity 2012 \$'000	Economic Entity 2011 \$'000	Statutory Corporation 2012 \$'000	Statutory Corporation 2011 \$'000
Provision for dividend at beginning of year	14 000	9 600	14 000	9 600
Dividend paid	(14 000)	(9 600)	(14 000)	(9 600)
Dividend provided	5254	14 000	5254	14 000
Provision for dividend at end of year	5254	14 000	5254	14 000

Notes to and forming part of the financial statements

For the year ended 30 June 2012

Note 21: Provisions

	Economic Entity 2012 \$'000	Economic Entity 2011 \$'000	Statutory Corporation 2012 \$'000	Statutory Corporation 2011 \$'000
Current				
Employee Benefits	13 310	12 133	-	-
Onerous contracts	751	1159	751	1159
Workers Compensation	770	860	770	860
Personnel Services	22 534	24 447	35 844	36 739
Total Current	37 365	38 599	37 365	38 758
Non-Current				
Employee Benefits	10 346	4 224	10 346	4 224
Personnel Services	117 931	48 720	117 931	48 561
Workers Compensation	3830	3520	3830	3520
Total Non-Current	132 107	56 464	132 107	56 305
Total Provisions	169 472	95 063	169 472	95 063

Movement in provisions (other than employee benefits)

Onerous contracts				
- Carrying amount at the beginning of the year	1159	7116	1159	7116
- additional provisions made in the year	(408)	(5957)	(408)	(5957)
- Carrying amount at the end of the year	751	1159	751	1159
Workers Compensation				
- Carrying amount at the beginning of the year	4380	4130	4380	4130
- additional provisions made in the year	220	250	220	250
- amounts used during the year				
- Carrying amount at the end of the year	4600	4380	4600	4380
Total Carrying amount of provisions	5351	5539	5351	5539

Those that are current provisions will be settled within 12 months and non-current will be 12 months and beyond. There are no settlements of warranty costs

Increase in employee benefits and personnel services provision due to higher actuarial losses incurred in 2011–2012.

Note 22: Capital and Reserves

Contributed Equity

Forests NSW has Contributed Equity which represents NSW Government's investment in Forests NSW

Asset Revaluation Reserve

The Asset Revaluation Reserve is used to record increments and decrements in the fair value of property, plant and equipment.

Capital Management Policy

Forests NSW is a for-profit entity and it operates under the guidelines and policies set up by NSW Treasury. It is management practice and policy to maintain a strong capital base to sustain future development of the business. Senior management monitors the return on capital as well as the level of debt and dividends payable to NSW Treasury.

Notes to and forming part of the financial statements

For the year ended 30 June 2012

Note 23: Financial Instruments

(i) Quantitative Disclosures

		2012	2011
(i) Unrealised Gains/(Losses) from Derivatives	\$	(44 821)	(6025)

(ii) Contractual Maturity Analysis

2012

Category		< 1 year	1 to 5 years	> 5 years	Cash Flows	Market Value
Fixed Rate Borrowings	\$	(12 861 501)	(101 188 903)	(58 435 472)	(172 485 876)	(149 251 472)

2011

Category		< 1 year	1 to 5 years	> 5 years	Cash Flows	Market Value
Fixed Rate Borrowings	\$	(24 725 415)	(63 022 650)	(87 224 304)	(174 972 369)	(138 699 333)

(iii) Sensitivity Analysis

Interest Rate Risk

		2012	2011
Approximate increase/(decrease) in fair value of financial liabilities assuming one percentage point decrease (increase) in interest rates		\$653 800/ (\$653 800)	\$580 890/ (\$580 890)

Hour-Class Investment Facilities

	Change in Unit Price	2012	2011
Hour-Glass Cash Facility	+/- 1%	\$ +/- 9,098	\$ +/- 43,816

** NB: All financial instruments are held in the Statutory Corporation, therefore, the above tables reflect the position of both the Statutory Corporation and the Economic Entity

The following sensitivity analysis is based on the interest rate risk exposures in existence at the reporting date.

At 30 June 2012, if interest rates had moved, as illustrated below, with all other variables held constant, post tax profit would have been affected as follows:

Changes in interest rates

	Post tax profit - higher/(lower)	
	2012	2011
	\$'000	\$'000
+/- 1%	+/-936	+/- 942

The movements in profit are due to higher/lower interest costs predominately from fixed rate debt and cash balances.

(iv) Net Fair Value of Financial Assets and Liabilities

(a) Off Statement of Financial position

Forests NSW have potential financial liabilities which may arise from certain contingencies disclosed in Note 28 - Contingent Liabilities. As explained in the note, the claims cannot be quantified in terms of the likely impact on the carrying value of the Forests NSW asset.

Notes to and forming part of the financial statements

For the year ended 30 June 2012

(b) On the Statement of Financial position

Economic Entity - 2012	1 Year or Less \$'000	1 to 5 Years \$'000	More than 5 Years \$'000	Non Interest Bearing \$'000	Total \$'000
Financial Assets					
Cash and cash equivalents	9408	-	-	-	9408
Trade and other receivables	-	-	-	51 599	51 599
Total Financial Assets	9408	-	-	51 599	61 007

Financial Liabilities

Interest bearing loans and borrowings	5542	76 022	50 953	-	132 517
Trade and other payables	-	-	-	62 594	62 594
Total Financial Liabilities	5542	76 022	50 953	62 594	195 111
Net Financial Assets/(Liabilities)	3866	(76 022)	(50 953)	(10 995)	(134 104)

The carrying values of financial instruments are equal to the fair value except for loans and borrowings where the fair value is \$133 459 989

Economic Entity - 2011	1 Year or Less \$'000	1 to 5 Years \$'000	More than 5 Years \$'000	Non Interest Bearing \$'000	Total \$'000
Financial Assets					
Cash and cash equivalents	8864	-	-	-	8864
Trade and other receivables	-	-	-	44 032	44 032
Total Financial Assets	8864	-	-	44 032	52 896

Financial Liabilities

Interest bearing loans and borrowings	17 015	75 594	39 393	-	132 002
Trade and other payables	-	-	-	29 534	29 534
Total Financial Liabilities	17 015	75 594	39 393	29 534	161 536
Net Financial Assets/(Liabilities)	(8151)	(75 594)	(39 393)	14 498	(108 640)

The carrying values of financial instruments are equal to the fair value except for loans and borrowings where the fair value is \$138 699 333

Statutory Corporation - 2012	1 Year or Less \$'000	1 to 5 Years \$'000	More than 5 Years \$'000	Non Interest Bearing \$'000	Total \$'000
Financial Assets					
Cash and cash equivalents	9408	-	-	-	9408
Trade and other receivables	-	-	-	51 599	51 599
Total Financial Assets	9408	-	-	51 599	61 007

Financial Liabilities

Interest bearing loans and borrowings	5542	76 022	50 953	-	132 517
Trade and other payables	-	-	-	62 594	62 594
Total Financial Liabilities	5542	76 022	50 953	62 594	195 111
Net Financial Assets/(Liabilities)	3866	(76 022)	(50 953)	(10 995)	(134 104)

The carrying values of financial instruments are equal to the fair value except for loans and borrowings where the fair value is \$133 459 989

Notes to and forming part of the financial statements

For the year ended 30 June 2012

Statutory Corporation - 2011	1 Year or Less \$'000	1 to 5 Years \$'000	More than 5 Years \$'000	Non Interest Bearing \$'000	Total \$'000
Financial Assets					
Cash and cash equivalents	8864	-	-	-	8864
Trade and other receivables	-	-	-	44 032	44 032
Total Financial Assets	8864	-	-	44 032	52 896
Financial Liabilities					
Interest bearing loans and borrowings	17 015	75 594	39 393	-	132 002
Trade and other payables	-	-	-	29 534	29 534
Total Financial Liabilities	17 015	75 594	39 393	29 534	161 536
Net Financial Assets/(Liabilities)	(8151)	(75 594)	(39 393)	14 498	(108 640)

The carrying values of financial instruments are equal to the fair value except for loans and borrowings where the fair value is \$138 699 333

(c) Other Qualitative Disclosures

Managed debt portfolios

NSW Treasury Corporation (TCorp.) manages interest rate risk exposures applicable to specific borrowings of Forests NSW in accordance with a debt portfolio mandate agreed between the two parties. TCorp. receives a fee for this service, (which may include a performance component where TCorp. is able on behalf of Forests NSW to add value by achieving a reduction in Forests NSW debt costs against an agreed benchmark). TCorp. uses derivatives, primarily interest rate futures, to establish short-term (tactical) and longer term (strategic) positions within agreed tolerance limits to manage portfolio duration and maturity profiles. At reporting date the carrying value of borrowings and derivatives (net of funds held at call) managed by TCorp. stood at \$133.2 million (2011: \$131.8 million).

Hour-Glass Investment Facilities

Forests NSW holds units in the following Hour-Glass investment facilities:-

Facility	Investment Sectors		Investment Horizon
	Cash Facility	Cash, Money market instruments	
			Up to 1.5 years

The unit price of each facility is equal to the total fair value of the net assets held by the facility divided by the total number of units on issue for that facility. Unit prices are calculated and published daily.

NSW Treasury Corporation (TCorp.) as trustee for the above facility is required to act in the best interest of the unit holders and to administer the trust in accordance with the trust deed. As trustee, TCorp. has appointed external managers to manage the performance and risks of each facility in accordance with a mandate agreed by the parties. A significant portion of the administration of the facilities is outsourced to an external custodian.

Note 24: Operating Leases

At balance date Forests NSW had operating lease/rental agreements as Lessee totalling \$10,287,106 (2011: \$10,333,850). These agreements relate to occupancy of land, offices and equipment throughout the State. Forests NSW had no other material lease and hire purchase agreements.

	Economic Entity 2012 \$'000	Economic Entity 2011 \$'000	Statutory Corporation 2012 \$'000	Statutory Corporation 2011 \$'000
Not later than one year	977	804	977	804
Later than 1 year and not later than five years	2455	2438	2455	2438
Later than 5 years	6855	7092	6855	7092
Total (including GST)	10 287	10 334	10 287	10 334

At balance date Forests NSW had operating lease/rental agreements as lessor totalling \$24 905 308 (2011: \$27 149 031). These agreements relate to occupancy of buildings and land throughout the State. Forests NSW had no other material lease and hire purchase agreements.

Notes to and forming part of the financial statements

For the year ended 30 June 2012

Operating lease rental income

	Economic Entity 2012 \$'000	Economic Entity 2011 \$'000	Statutory Corporation 2012 \$'000	Statutory Corporation 2011 \$'000
Not later than one year	1433	1507	1433	1507
Later than 1 year and not later than five years	5976	6328	5976	6328
Later than 5 years	17 497	19 314	17 497	19 314
Total (including GST)	24 906	27 149	24 906	27 149

Note 25: Commitments

At balance date Forests NSW has the following commitments not later than one year:

	Economic Entity 2012 \$'000	Economic Entity 2011 \$'000	Statutory Corporation 2012 \$'000	Statutory Corporation 2011 \$'000
Capital				
Establishment of Biological Assets	-	-	-	-
Others	11	1485	11	1485
	11	1485	11	1485
Operating	2228	3027	2228	3027
Total Commitments (a)	2239	4512	2239	4512

(a) All commitments are expected to be expended in the next financial year and include input tax credits of \$203 540 (2011: \$427 318)

**NB: All commitments are those of the Statutory Corporation, therefore, the above table reflects the position of both the Statutory Corporation and the Economic Entity.

Note 26: Related Parties

Forests NSW related parties for trading are Forestry Commission Division and the Department of Primary Industries (DPI). Timber & Carbon Plantations Pty Ltd (TCP) was a related party for the prior year and part of the current year (TCP was liquidated 07/12/2011). There was no trading activity with TCP in the current year. The supply and continued use of resources and shared services from DPI and Forestry Commission Division are based on signed Memorandums of Understanding. Related party transactions are conducted on an arm's length basis in the normal course of business and on commercial terms and conditions.

(i) Statement of Comprehensive Income

	Economic Entity 2012 \$'000	Economic Entity 2011 \$'000	Statutory Corporation 2012 \$'000	Statutory Corporation 2011 \$'000
Timber & Carbon Plantations Pty Ltd - Provision of Services - Revenue	-	-	-	(1261)
Forestry Commission Division - Supply of Personnel Services - Expense	-	-	34 219	25 023
Total	-	-	34 219	23 762

(ii) Statement of Financial Position – Current Assets

	Economic Entity 2012 \$'000	Economic Entity 2011 \$'000	Statutory Corporation 2012 \$'000	Statutory Corporation 2011 \$'000
Timber & Carbon Plantations Pty Ltd	-	-	-	-
Total	-	-	-	-

Notes to and forming part of the financial statements

For the year ended 30 June 2012

(iii) Statement of Financial Position – Current Liabilities

	Economic Entity 2012 \$'000	Economic Entity 2011 \$'000	Statutory Corporation 2012 \$'000	Statutory Corporation 2011 \$'000
Forestry Commission Division	-	-	(13 310)	(12 130)
Total	-	-	(13 310)	(12 130)

(iv) Statement of Financial Position – Non-Current Liabilities

	Economic Entity 2012 \$'000	Economic Entity 2011 \$'000	Statutory Corporation 2012 \$'000	Statutory Corporation 2011 \$'000
Forestry Commission Division	-	-	(10 526)	(4384)
Total	-	-	(10 526)	(4384)

Subsidiaries

The consolidated financial statements include the financial statements of the subsidiaries listed in the following table

Incorporation	Country of	% Equity Interest 2012	% Equity Interest 2011	Investment \$'000 2012	Investment \$'000 2011
Forestry Commission Division*	Australia	100%	100%	-	-
Timber & Carbon Plantations Pty Ltd**	Australia	-	100%	-	-
Total		-	-	-	-

*Special purpose entity consolidated under AASB interpretation 112

**Company liquidated 07/12/2011

Key Management Personnel

Dr.Richard Sheldrake	Commissioner of the Forestry Commission of NSW
Nick Roberts	Chief Executive Officer, Forests NSW
Barry Heffernan	Acting Director-Finance & Technology (09/07/2011-15/01/2012)
Anshul Chaudhary	Director - Finance & Technology, Forests NSW (Appointed 16/01/2012)
Dean Anderson	Director - Native Forests Operations Forests NSW
	Director - Timber & Carbon Plantations Pty Ltd (company liquidated 07/12/2011)
Ross Dickson	Director - Land Management & Forestry Services, Forests NSW
Ian Brown	Director - Planted Forests Operations, Forests NSW
Rahmat Khaiami	Executive Officer – Government and Community Relations, Forests NSW
Della Prowse	Director - People, Learning & Culture, Forests NSW On DTIRIS payroll from 7/1/2011, resigned 04/05/2012
Sean Hooper	Director – Financial & Operational Business Services, Forests NSW (Resigned 8/7/2011)
	Director – Timber & Carbon Plantation Pty Ltd (Resigned 8/7/2011)

	Short-Term Employee Benefits \$'000	Post Employment Benefits \$'000	Other Long Term Benefits \$'000	Termination Benefits \$'000	Share-based payment \$'000	Total \$'000
30 June 2012 Total Compensation	1423	-	-	34	-	1457
30 June 2011 Total Compensation	1698	-	-	-	-	1698

The Commissioner for Forests NSW receives remuneration for services rendered to Forests NSW of \$9966 (2011: \$9966). All transactions by Forests NSW with key management personnel are conducted on an arm's length basis in the normal course of business and on commercial terms and conditions.

There are no outstanding balances relating to any key management personnel and no guarantees provided or received as well by the key management personnel. For the year ended 30 June 2012, Forests NSW has not raised any provision for doubtful debts relating to amounts owed by key management personnel (2011 nil).

Notes to and forming part of the financial statements

For the year ended 30 June 2012

Note 27: Auditors' Remuneration

	Economic Entity 2012 \$'000	Economic Entity 2011 \$'000	Statutory Corporation 2012 \$'000	Statutory Corporation 2011 \$'000
Audit Office of NSW - Audit of financial statements	385	395	385	385

Note 28: Contingent Liabilities/Assets

During the 2011–2012 year 525 037 hectares (2010–11, 5159 hectares) of operational timber reserves were subject to claims under the *Native Title Act*. The impact of these claims cannot be quantified at this time.

As at Statement of Financial Position date, Forests NSW has potential public liability insurance claims limited to \$200 000 (2011 \$100 000), being the net excess on its current public insurance liability policy at the date of the relevant claims.

There are several contractual disputes open at year end. Legal fees to settle these claims should they proceed are estimated at \$35 000. The quantum of each claim is in dispute and the outcome cannot be measured reliably. Some inflow of economic benefits may result from these claims. However, at this stage, the inflow is not considered probable.

Forest NSW may need to rehabilitate derelict mines which lie on its land. The amount of this contingent liability cannot be measured reliably at this time.

Forests NSW may have onerous contracts in relation to wood supply agreements for native forest timber. The quantum of this amount is not able to be determined as the wood supply agreements allow for movements in price and volume.

As at Statement of Financial Position date, Forests NSW has no contingent assets.

Note 29: Consultants

Forests NSW engaged consultants to undertake activities, which require specialist or independent skills. In 2012 the total cost for consultants was \$455 560 (2011: \$305 142).

Note 30: After Balance Date Events

On 9 May 2012, the Minister for Primary Industries released a media statement confirming the intention of the NSW Government to corporatise the Forestry Commission of NSW. At the time of approving and signing these financial statements, the NSW Parliament had not passed enabling legislation in respect of the corporatisation of the Forestry Commission of NSW.

Forests NSW made announcements to close its coastal workshops and retail nurseries in the 2012–13 financial year. Restructure provisions in relation to these closures have been made in the financial statements. The coastal workshops and retail nurseries do not have a material effect on the financial statements.

End of the Audited Financial Statements

Statement by Commissioner

(as Corporation Sole Under Section 7(1) of the Forestry Act 1916)

Pursuant to the *Public Finance and Audit Act, 1983*, the statements are signed and attested in the following terms:

In my opinion, the accompanying financial statements present a true and fair view of the financial position of the economic entity and statutory corporation of the Forestry Commission of New South Wales (trading as Forests NSW) as at 30 June 2012 and the results of their operations and transactions for the year then ended.

The financial statements have been prepared in accordance with the Australian Accounting Standards (which include Australian Accounting Interpretations), the provisions of the *Public Finance and Audit Act, 1983*, and accompanying regulations, and the Treasurer's Directions.

I am not aware of any circumstances which would render any particulars included in the financial statements to be misleading or inaccurate.



Ms. Renata Brooks
Acting Commissioner for the Forestry Commission of New South Wales
Dated this 20/09/2012



INDEPENDENT AUDITOR'S REPORT

Forestry Commission of New South Wales (Trading as Forests NSW) and Controlled Entity

To Members of the New South Wales Parliament

I have audited the accompanying financial statements of the Forestry Commission of New South Wales (the Commission) and Controlled Entity, which comprise the statements of financial position as at 30 June 2012, the statements of comprehensive income, the statements of changes in equity and the statements of cash flows, for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information of the Commission and the consolidated entity. The consolidated entity comprises the Commission and the entities it controlled at the year's end or from time to time during the financial year.

Opinion

In my opinion, the financial statements:

- give a true and fair view of the financial position of the Commission and the consolidated entity as at 30 June 2012, and of their financial performance and cash flows for the year then ended in accordance with Australian Accounting Standards
- are in accordance with section 41B of *Public Finance and Audit Act 1983* (the PF&A Act) and the Public Finance and Audit Regulation 2010.

My opinion should be read in conjunction with the rest of this report.

The Commissioner's Responsibility for the Financial Statements

The Commissioner is responsible for the preparation of the financial statements that give a true and fair view in accordance with Australian Accounting Standards and the PF&A Act, and for such internal control as the Commissioner determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with Australian Auditing Standards. Those standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Commissioner, as well as evaluating the overall presentation of the financial statements.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

My opinion does *not* provide assurance:

- about the future viability of the Commission or consolidated entity
- that they have carried out their activities effectively, efficiently and economically
- about the effectiveness of internal control
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information, that may have been hyperlinked to or from the financial statements.

Independence

In conducting my audit, I have complied with the independence requirements of the Australian Auditing Standards and other relevant ethical pronouncements. The PF&A Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of public sector agencies but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their role by the possibility of losing clients or income.

Peter Barnes

Director, Financial Audit Services

21 September 2012

SYDNEY

Statement of Comprehensive Income

For the year ended 30 June 2012

	Notes	2012 \$ '000	2011 \$ '000
Revenue			
Personnel Services	5	34 219	25 023
Total Revenue		34 219	25 023
Expenses			
Wages		18 631	18 322
Superannuation		584	724
Annual and long service leave		4 744	3 314
Payroll tax		1 217	1 239
Workers compensation		359	579
Severence Payments		1 453	-
Fringe Benefits Tax		26	15
Total expenses		27 014	24 193
Surplus for the year		7205	830
Other Comprehensive Income			
Defined benefit plan actuarial gains/(losses)		(7205)	(830)
Total Other Comprehensive Income		(7205)	(830)
Total comprehensive income for the year		-	-

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Statement of Financial Position

As at 30 June 2012

	Notes	2012 \$ '000	2011 \$ '000
ASSETS			
Current Assets			
Receivables	5	13 310	12 130
Total Current Assets		13 310	12 130
Non-Current Assets			
Receivables	5	10 526	4 384
TOTAL ASSETS		23 836	16 514
LIABILITIES			
Current Liabilities			
Provisions	4	13 310	12 130
Total Current Liabilities		13 310	12 130
Non-Current Liabilities			
Provisions	4	180	160
Superannuation Liability	3,4	10 346	4 224
Total Non-Current Liabilities		10 526	4 384
TOTAL LIABILITIES		23 836	16 514
NET ASSETS		-	-
EQUITY			
Retained surplus		-	-
TOTAL EQUITY		-	-

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Statement of Cash Flows

For the year ended 30 June 2012

	Notes	2012 \$ '000	2011 \$ '000
Cash flows from operating activities			
Receipts			
Cash receipts from customers		-	-
Interest received		-	-
Payments			
Cash paid to suppliers and employees		-	-
Interest paid		-	-
Income taxes paid		-	-
Net Cash flows from/(used in) operating activities		-	-
Cash flows from investing activities			
Acquisition of property, plant and equipment		-	-
Plantations and acquisitions of non-current biological assets		-	-
Proceeds from sale of property, plant & equipment		-	-
Net cash flows from/(used in) investing activities		-	-
Cash flows from financing activities			
Proceeds from borrowings		-	-
Repayment of borrowings		-	-
Dividends paid		-	-
Payment of finance lease liabilities		-	-
Net cash flows from/(used in) financing activities		-	-
Net increase (decrease) in cash and cash equivalents		-	-
Cash and cash equivalents at 1 July		-	-
Closing cash and cash equivalents at 30 June		-	-

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

For the year ended 30 June 2012

	Notes	Retained Surplus \$ '000	Total Equity \$ '000
Balance as at 1 July 2010		-	-
Total comprehensive income for the year			
Surplus/(deficit)		830	830
<i>Other comprehensive income</i>			
Defined benefit plan actuarial gains/ (losses)	3	(830)	(830)
Total Other comprehensive income		(830)	(830)
Total comprehensive income for the year		-	-
<i>Transactions with owners, recorded directly in equity</i>			
Transactions with owners in their capacity as owners		-	-
Total transactions with owners		-	-
Balance as at 30 June 2011		-	-
Balance as at 1 July 2011		-	-
Total comprehensive income for the year			
Surplus/(deficit)		7205	7205
<i>Other comprehensive income</i>			
Defined benefit plan actuarial gains/ (losses)	3	(7205)	(7205)
Total Other comprehensive income		(7205)	(7205)
Total comprehensive income for the year		-	-
Transactions with owners, recorded directly in equity			
Transactions with owners in their capacity as owners		-	-
Total transactions with owners		-	-
Balance as at 30 June 2012		-	-

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Notes to the financial statements

For the year ended 30 June 2012

1. Corporate Information

Forestry Commission Division is a Division of the Government Service established pursuant to Part 3 of the Schedule 1 to the *Public Sector Employment and Management Act 2002* (PSEMA). It is a not for profit entity as profit is not its principal objective. It is consolidated as part of the Forestry Commission of New South Wales (trading as Forests NSW) and the NSW Total Sector Accounts. It is domiciled in Australia and its principal office is located 121-131 Oratava Avenue, West Pennant Hills, NSW, 2125.

Forestry Commission Division's objective is to provide personnel services to Forests NSW.

Personnel Service provided to Forests NSW is based on a signed Memorandum of Understanding established on 17 March 2006.

Forestry Commission Division commenced operation on 17 March 2006 and assumed the responsibility for the employees and employee-related liabilities of the section 10 of the *Forestry Act 1916* of Forests NSW.

Forestry Commission Division is a special purpose service entity pursuant to Part 3 of Schedule 1 of PSEMA and Forests NSW administers and has dominant control of its day to day operation.

2. Summary of Significant Accounting Policies

(a) Statement of Compliance

This general purpose financial report complies with Australian Accounting Standards, which include Accounting Interpretations.

The financial statements for the year ended 30 June 2012 has been authorised for issue by the Director-General of the Department of Trade & Investment, Regional Infrastructure & Services, Mr. Mark Paterson AO, on 20 September, 2012.

(b) Basis of Preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations, the *Public Finance and Audit Act 1983*, and the Public Finance and Audit (General) Regulation 2010 and specific directions issued by the Treasurer.

Generally, the historical cost basis of accounting has been adopted and the financial statements do not take into account changing money values or current valuations. However, certain provisions are measured at fair value.

The accrual basis of accounting has been adopted in the preparation of the financial statements.

The financial statement is presented in Australian dollars and all values are rounded to the nearest thousand dollars unless otherwise stated.

(c) Significant accounting judgements, estimates and assumptions

In the application of accounting standards, management is required to make judgements, estimates and assumptions about the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various factors that are believed to be reasonable under the circumstance, the results of which form the basis to make the judgements.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of revision and future years if the revision affects both.

Information about assumptions and estimation uncertainties are included in the following notes:

- Note 2 (g) Employee Benefits
- Note 3 Employee Defined Benefits

(d) Revenue recognition

Revenue is recognised at the fair value of the consideration received or receivable. Revenue from the rendering of personnel services is recognised when the service is provided and only to the extent that the associated recoverable expenses are recognised.

(e) Trade and Other Receivables

A receivable is recognised when it is probable that the future cash inflows associated with it will be realised and it has a value that can be measured reliably. It is derecognised when the contractual or other rights to future cash flows from it expire or are transferred.

A receivable is measured initially at fair value and subsequently at amortised cost using the effective interest rate method, less any allowance for doubtful debts. A short-term receivable with no stated interest rate is

measured at the original invoice amount where the effect of discounting is immaterial. An invoiced receivable is due for settlement within thirty days of invoicing.

If there is objective evidence at year end that a receivable may not be collectable, its carrying amount is reduced by means of an allowance for doubtful debts and the resulting loss is recognised in the Statement of Comprehensive Income. Receivables are monitored during the year and bad debts are written off against the allowance when they are determined to be irrecoverable. Any other loss or gain arising when a receivable is derecognised is also recognised in the Statement of Comprehensive Income.

(f) Trade and Other Payables

Payables include accrued wages, salaries, and related on costs (such as payroll tax, fringe benefits tax and workers' compensation insurance) where there is certainty as to the amount and timing of settlement.

A payable is recognised when a present obligation arises under a contract or otherwise. It is derecognised when the obligation expires or is discharged, cancelled or substituted. A short-term payable with no stated interest rate is measured at historical cost if the effect of discounting is immaterial.

(g) Employee Benefits provisions and expenses

Provisions are made for liabilities of uncertain amount or uncertain timing of settlement. Employee benefit provisions represent expected amounts payable in the future in respect of unused entitlements accumulated as at the reporting date. Liabilities associated with, but that are not, employee benefits (such as payroll tax) are recognised separately. Superannuation and leave liabilities are recognised as expenses and provisions when the obligations arise, which is usually through the rendering of service by employees.

Long-term annual leave (i.e. that is not expected to be taken within twelve months) is measured at present value using a discount rate equal to the market yield on government bonds in accordance with AASB 119 Employee Benefits.

Long Service leave liability was actuarially assessed as at 30 June 2012. Superannuation liability for defined benefit funds for NSW state employees are actuarially assessed by Pillar Administration prior to each reporting date and are measured at the present value of the estimated future payments.

Notes to the financial statements

For the year ended 30 June 2012

All other employee benefit liabilities (i.e. for benefits falling due wholly within twelve months after reporting date) are assessed by management and are measured at the undiscounted amount of the estimated future payments.

The amount recognised for superannuation and long service leave provisions is the net total of the present value of the defined benefit obligation at the reporting date, minus the fair value at that date of any plan assets out of which the obligations are to be settled directly.

The amount recognised in the Statement of Comprehensive Income for superannuation and long service leave is the net total of current service cost, interest cost, the expected return on any plan assets, and actuarial gains and losses. Actuarial gains or losses are recognised as income or expense in the year they occur.

The actuarial assessment of superannuation and long service leave provisions uses the Projected Unit Credit Method and reflects estimated future salary increases and the benefits set out in the terms of the plan. The liabilities are discounted using the market yield rate on government bonds of similar maturity to those obligations. Actuarial assumptions are unbiased and mutually compatible and financial assumptions are based on market expectations for the period over which the obligations are to be settled.

Defined Contribution Plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

Defined Benefit Plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. In NSW defined benefit schemes (which are called the Pooled Fund Schemes) include the:

- State Authorities Superannuation Scheme
- State Superannuation Scheme
- State Authorities Non-Contributory Superannuation Scheme (Basic Benefit)

The Forestry Commission's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the

amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognised past service costs and the fair value of any plan assets are deducted. Expected future payments are discounted using market yields at reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

The calculation is performed annually by Pillar Administration, who is the appointed trustee of the defined benefit plans for NSW public service. When the calculation results in a benefit to the Forestry Commission, the recognised asset is limited to the total of any unrecognised past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Forestry Commission. An economic benefit is available to the Forestry Commission if it is realisable during the life of the plan, or on settlement of the plan liabilities. When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in comprehensive income.

The Forestry Commission recognises all actuarial gains and losses arising from defined benefit plans in other comprehensive income and all expenses related to defined benefit plans in personnel expenses in comprehensive income.

The Forestry Commission recognises gains and losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment comprises any resulting change in the fair value of plan assets, change in the present value of defined benefit obligation and any related actuarial gains and losses and past service cost that had not previously been recognised.

(h) Adoption of new and revised Accounting Standards.

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2012, and have not been applied in preparing these

financial statements. None of these is expected to have a significant effect on the financial statements of Forestry Commission Division.

Notes to the financial statements

For the year ended 30 June 2012

3. Employee Defined Benefits

Fund information

The Pooled Fund holds in trust the investments of the closed NSW public sector superannuation schemes:

- State Authorities Superannuation Scheme (SASS)
- State Superannuation Scheme (SSS)
- Police Superannuation Scheme (PSS)
- State Authorities Non-contributory Superannuation Scheme (SANCS).

These schemes are all defined benefit schemes – at least a component of the final benefit is derived from a multiple of member salary and years of membership.

All the Schemes are closed to new members

Reconciliation of the present value of the defined benefit obligation

Financial Year to 30 June 2012	SASS Financial Year to 30 June 2012 A\$	SANCS Financial Year to 30 June 2012 A\$	SSS Financial Year to 30 June 2012 A\$	Total A\$
Present value of partly funded defined benefit obligation at beginning of the year	39 583 911	4 347 937	-	43 931 847
Current service cost	596 850	186 084	-	782 934
Interest cost	1 981 188	215 620	-	2 196 808
Contributions by Fund participants	471 908	-	-	471 908
Actuarial (gains)/losses	2 868 365	351 954	-	3 220 320
Benefits paid	(4 912 407)	(852 227)	-	(5 764 634)
Past service cost	-	-	-	-
Curtailments	-	-	-	-
Settlements	-	-	-	-
Business Combinations	-	-	-	-
Exchange rate changes	-	-	-	-
Present value of partly funded defined benefit obligation at end of the year	40 589 815	4 249 368	-	44 839 183

Reconciliation of the fair value of Fund assets

Financial Year to 30 June 2012	SASS Financial Year to 30 June 2012 A\$	SANCS Financial Year to 30 June 2012 A\$	SSS Financial Year to 30 June 2012 A\$	Total A\$
Fair value of Fund assets at beginning of the year	35 652 892	4 054 473	-	39 707 365
Expected return on Fund assets	2 917 416	332 389	-	3 249 805
Actuarial gains/(losses)	(3 651 281)	(333 482)	-	(3 984 763)
Employer contributions	663 925	149 478	-	813 404
Contributions by Fund participants	471 908	-	-	471 908
Benefits paid	(4 912 407)	(852 227)	-	(5 764 634)
Settlements	-	-	-	-
Business combinations	-	-	-	-
Exchange rate changes	-	-	-	-
Fair value of Fund assets at end of the year	31 142 453	3 350 631	-	34 493 085

Notes to the financial statements

For the year ended 30 June 2012

Reconciliation of the assets and liabilities recognised in statement of financial position

Financial Year to 30 June 2012	SASS Financial Year to 30 June 2012 A\$	SANCS Financial Year to 30 June 2012 A\$	SSS Financial Year to 30 June 2012 A\$	Total A\$
Present value of partly funded defined benefit obligation at end of year	40 589 815	4 249 368	-	44 839 183
Fair value of Fund assets at end of year	(31 142 453)	(3 350 631)	-	(34 493 085)
Subtotal	9 447 362	898 737	-	10 346 098
Unrecognised past service cost	-	-	-	-
Unrecognised gain/(loss)	-	-	-	-
Adjustment for limitation on net asset	-	-	-	-
Net Liability/(Asset) recognised in statement of financial position at end of year	9 447 362	898 737	-	10 346 098

Expense recognised in income statement

Financial Year to 30 June 2012	SASS Financial Year to 30 June 2012 A\$	SANCS Financial Year to 30 June 2012 A\$	SSS Financial Year to 30 June 2012 A\$	Total A\$
Components Recognised in Income Statement				-
Current service cost	596 850	186 084	-	782 934
Interest cost	1 981 188	215 620	-	2 196 808
Expected return on Fund assets (net of expenses)	(2 917 416)	(332 389)	-	(3 249 805)
Actuarial losses/(gains) recognised in year	-	-	-	-
Past service cost	-	-	-	-
Movement in adjustment for limitation on net asset	-	-	-	-
Curtailment or settlement (gain)/loss	-	-	-	-
Expense/(income) recognised	(339 378)	69 315	-	(270 063)

Amounts recognised in other comprehensive income

Financial Year to 30 June 2012	SASS Financial Year to 30 June 2012 A\$	SANCS Financial Year to 30 June 2012 A\$	SSS Financial Year to 30 June 2012 A\$	Total A\$
Actuarial (gains)/losses	6 519 646	685 437	-	7 205 083
Adjustment for limit on net asset	-	-	-	-

Cumulative amount recognised in other comprehensive income

Note: This information will need to be manually calculated by agencies by adding the actuarial gains and losses and adjustment for limit on net assets (if any) above, to previous amounts advised.

Notes to the financial statements

For the year ended 30 June 2012

Fund assets

The percentage invested in each asset class at the balance sheet date:

	30-June-12
Australian equities	28.0%
Overseas equities	23.7%
Australian fixed interest securities	4.9%
Overseas fixed interest securities	2.4%
Property	8.6%
Cash	19.5%
Other	12.9%

Fair value of Fund assets

All Fund assets are invested by STC at arm's length through independent fund managers.

Expected rate of return on assets

The expected return on assets assumption is determined by weighting the expected long-term return for each asset class by the target allocation of assets to each class. The returns used for each class are net of investment tax and investment fees.

Actual Return on Fund Assets

	SASS Financial Year to 30 June 2012 A\$	SANCS Financial Year to 30 June 2012 A\$	SSS Financial Year to 30 June 2012 A\$
Actual return on Fund assets	(10474)	(1093)	-

Valuation method and principal actuarial assumptions at the balance sheet date

a) Valuation Method

The Projected Unit Credit (PUC) valuation method was used to determine the present value of the defined benefit obligations and the related current service costs. This method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

b) Economic Assumptions

	30-June-12
Salary increase rate (excluding promotional increases)	2.5% pa
Rate of CPI Increase	2.5% pa
Expected rate of return on assets	8.6%
Discount rate	3.06% pa

c) Demographic Assumptions

The demographic assumptions at 30 June 2012 are those that were used in the 2009 triennial actuarial valuation. The triennial review report is available from the NSW Treasury website.

Notes to the financial statements

For the year ended 30 June 2012

Historical information

	SASS Financial Year to 30 June 2012 A\$	SANCS Financial Year to 30 June 2012 A\$	SSS Financial Year to 30 June 2012 A\$	Total A\$
Present value of defined benefit obligation	40 589 815	4 249 368	-	44 839 183
Fair value of Fund assets	(31 142 453)	(3 350 631)	-	(34 493 085)
(Surplus)/Deficit in Fund	9 447 362	898 737	-	10 346 098
Experience adjustments – Fund liabilities	2 868 365	351 954	-	3 220 320
Experience adjustments – Fund assets	3 651 281	333 482	-	3 984 763
	SASS Financial Year to 30 June 2011 A\$	SANCS Financial Year to 30 June 2011 A\$	SSS Financial Year to 30 June 2011 A\$	Total A\$
Present value of defined benefit obligation	39 583 911	4 347 937	-	43 931 848
Fair value of Fund assets	(35 652 892)	(4 054 473)	-	(39 707 365)
(Surplus)/Deficit in Fund	3 931 019	293 463	-	4 224 482
Experience adjustments – Fund liabilities	1 153 799	(81 676)	-	1 072 123
Experience adjustments – Fund assets	(241 285)	(685)	-	(241 970)
	SASS Financial Year to 30 June 2010 A\$	SANCS Financial Year to 30 June 2010 A\$	SSS Financial Year to 30 June 2010 A\$	Total A\$
Present value of defined benefit obligation	37 965 760	4 131 404	-	42 097 164
Fair value of Fund assets	(33 697 257)	(3 638 632)	-	(37 335 889)
(Surplus)/Deficit in Fund	4 268 503	492 772	-	4 761 275
Experience adjustments – Fund liabilities	1 672 112	253 617	-	1 925 729
Experience adjustments – Fund assets	405 585	(15 070)	-	390 515
	SASS Financial Year to 30 June 2009 A\$	SANCS Financial Year to 30 June 2009 A\$	SSS Financial Year to 30 June 2009 A\$	Total A\$
Present value of defined benefit obligation	36 864 865	4 052 446	-	40 917 311
Fair value of Fund assets	(33 581 561)	(3 686 949)	-	(37 268 510)
(Surplus)/Deficit in Fund	3 283 304	365 497	-	3 648 801
Experience adjustments – Fund liabilities	(940 370)	215 226	-	(725 144)
Experience adjustments – Fund assets	6 907 088	749 368	-	7 656 456
	SASS Financial Year to 30 June 2008 A\$	SANCS Financial Year to 30 June 2008 A\$	SSS Financial Year to 30 June 2008 A\$	Total A\$
Present value of defined benefit obligation	37 425 521	3 812 045	-	41 237 566
Fair value of Fund assets	(39 042 574)	(4 277 975)	-	(43 320 549)
(Surplus)/Deficit in Fund	(1 617 053)	(465 930)	-	(2 082 983)
Experience adjustments – Fund liabilities	(1 629 328)	(15 493)	-	(1 644 821)
Experience adjustments – Fund assets	5 422 540	641 672	-	6 064 212

Notes to the financial statements

For the year ended 30 June 2012

	SASS Financial Year to 30 June 2007 A\$	SANCS Financial Year to 30 June 2007 A\$	SSS Financial Year to 30 June 2007 A\$	Total A\$
Present value of defined benefit obligation	38 737 079	3 656 706	-	42 393 785
Fair value of Fund assets	(43 038 415)	(4 588 782)	-	(47 627 197)
(Surplus)/Deficit in Fund	(4 301 336)	(932 076)	-	(5 233 412)
Experience adjustments – Fund liabilities	2 422 459	12 171	-	2 434 630
Experience adjustments – Fund assets	(2 888 629)	(268 220)	-	(3 156 849)

Expected contributions

Financial Year to 30 June 2012	SASS Financial Year to 30 June 2012 A\$	SANCS Financial Year to 30 June 2012 A\$	SSS Financial Year to 30 June 2012 A\$	Total A\$
Expected employer contributions to be paid in the next reporting period	896 625	194 400	-	1 091 025

Funding Arrangements for Employer Contributions

(a) Surplus/deficit

The following is a summary of the 30 June 2012 financial position of the Fund calculated in accordance with AAS25 "Financial Reporting by Superannuation Plans";

Financial Year to 30 June 2012	SASS Financial Year to 30 June 2012 A\$	SANCS Financial Year to 30 June 2012 A\$	SSS Financial Year to 30 June 2012 A\$	Total A\$
Accrued benefits	32 835 437	3 621 735	-	36 457 172
Net market value of Fund assets	(31 142 453)	(3 350 631)	-	(34 493 085)
Net (surplus)/deficit	1 692 984	271 103	-	1 964 087

(b) Contribution recommendations

Recommended contribution rates for the entity are

SASS multiple of member contributions	SANCS % member salary	SSS multiple of member contributions
1.90	2.50	0.00

(c) Funding method

Contribution rates are set after discussions between the employer, STC and NSW Treasury.

(d) Economic assumptions

The economic assumptions adopted for the 2012 actuarial review of the Fund are:

Weighted-Average Assumptions	30-June-12
Expected rate of return on Fund assets backing current pension liabilities	8.3% pa
Expected rate of return on Fund assets backing other liabilities	7.3% pa
Expected salary increase rate	4.0% pa
Expected rate of CPI increase	2.5% pa

Nature of Asset/Liability

If a surplus exists in the employer's interest in the Fund, the employer may be able to take advantage of it in the form of a reduction in the required contribution rate, depending on the advice of the Fund's actuary.

Where a deficiency exists, the employer is responsible for any difference between the employer's share of Fund assets and the defined benefit obligation.

Notes to the financial statements

For the year ended 30 June 2012

Fund information

The Pooled Fund holds in trust the investments of the closed NSW public sector superannuation schemes:

- State Authorities Superannuation Scheme (SASS)
- State Superannuation Scheme (SSS)
- Police Superannuation Scheme (PSS)
- State Authorities Non-contributory Superannuation Scheme (SANCS).

These schemes are all defined benefit schemes – at least a component of the final benefit is derived from a multiple of member salary and years of membership.

All the Schemes are closed to new members.

Reconciliation of the present value of the defined benefit obligation

Financial Year to 30 June 2011	SASS Financial Year to 30 June 2011 A\$	SANCS Financial Year to 30 June 2011 A\$	SSS Financial Year to 30 June 2011 A\$	Total A\$
Present value of partly funded defined benefit obligation at beginning of the year	37 965 760	4 131 404	-	42 097 164
Current service cost	613 724	182 313	-	796 037
Interest cost	1 880 374	202 259	-	2 082 633
Contributions by Fund participants	458 095	-	-	458 095
Actuarial (gains)/losses	1 153 799	(81 676)	-	1 072 123
Benefits paid	(2 487 841)	(86 363)	-	(2 574 204)
Past service cost	-	-	-	-
Curtailments	-	-	-	-
Settlements	-	-	-	-
Business Combinations	-	-	-	-
Exchange rate changes	-	-	-	-
Present value of partly funded defined benefit obligation at end of the year	39 583 911	4 347 937	-	43 931 848

Reconciliation of the fair value of Fund assets

Financial Year to 30 June 2011	SASS Financial Year to 30 June 2011 A\$	SANCS Financial Year to 30 June 2011 A\$	SSS Financial Year to 30 June 2011 A\$	Total A\$
Fair value of Fund assets at beginning of the year	33 697 257	3 638 632	-	37 335 889
Expected return on Fund assets	2 798 230	302 454	-	3 100 684
Actuarial gains/(losses)	241 285	685	-	241 970
Employer contributions	945 867	199 066	-	1 144 933
Contributions by Fund participants	458 095	-	-	458 095
Benefits paid	(2 487 841)	(86 363)	-	(2 574 204)
Settlements	-	-	-	-
Business combinations	-	-	-	-
Exchange rate changes	-	-	-	-
Fair value of Fund assets at end of the year	35 652 893	4 054 474	-	39 707 367

Notes to the financial statements

For the year ended 30 June 2012

Reconciliation of the assets and liabilities recognised in statement of financial position

Financial Year to 30 June 2011	SASS Financial Year to 30 June 2011 A\$	SANCS Financial Year to 30 June 2011 A\$	SSS Financial Year to 30 June 2011 A\$	Total A\$
Present value of partly funded defined benefit obligation at end of year	39 583 911	4 347 937	-	43 931 848
Fair value of Fund assets at end of year	(35 652 892)	(4 054 473)	-	(39 707 365)
Subtotal	3 931 019	293 464	-	4 224 483
Unrecognised past service cost	-	-	-	-
Unrecognised gain/(loss)	-	-	-	-
Adjustment for limitation on net asset	-	-	-	-
Net Liability/(Asset) recognised in statement of financial position at end of year	3 931 019	293 464	-	4 224 483

Expense recognised in income statement

Financial Year to 30 June 2011	SASS Financial Year to 30 June 2011 A\$	SANCS Financial Year to 30 June 2011 A\$	SSS Financial Year to 30 June 2011 A\$	Total A\$
Components Recognised in Income Statement				
Current service cost	613 724	182 313	-	796 037
Interest cost	1 880 374	202 259	-	2 082 633
Expected return on Fund assets (net of expenses)	(2 798 230)	(302 454)	-	(3 100 684)
Actuarial losses/(gains) recognised in year	-	-	-	-
Past service cost	-	-	-	-
Movement in adjustment for limitation on net asset	-	-	-	-
Curtailment or settlement (gain)/loss	-	-	-	-
Expense/(income) recognised	(304 132)	82 118	-	(222 014)

Amounts recognised in other comprehensive income

Financial Year to 30 June 2011	SASS Financial Year to 30 June 2011 A\$	SANCS Financial Year to 30 June 2011 A\$	SSS Financial Year to 30 June 2011 A\$	Total A\$
Actuarial (gains)/losses	912 514	(82 361)	-	830 153
Adjustment for limit on net asset	-	-	-	-

Cumulative amount recognised in other comprehensive income

Financial Year to 30 June 2011	SASS Financial Year to 30 June 2011 A\$	SANCS Financial Year to 30 June 2011 A\$	SSS Financial Year to 30 June 2011 A\$	Total A\$
Actuarial (gains)/losses	12 833 848	1 757 145	6 398 313	20 989 306
Adjustment for limit on net asset	-	-	-	-

Notes to the financial statements

For the year ended 30 June 2012

Fund assets

The percentage invested in each asset class at the balance sheet date:

	30-June-11
Australian equities	33.4%
Overseas equities	29.5%
Australian fixed interest securities	5.7%
Overseas fixed interest securities	3.1%
Property	9.9%
Cash	5.1%
Other	13.3%

Fair value of Fund assets

All Fund assets are invested by STC at arm's length through independent fund managers.

Expected rate of return on assets

The expected return on assets assumption is determined by weighting the expected long-term return for each asset class by the target allocation of assets to each class. The returns used for each class are net of investment tax and investment fees.

Actual Return on Fund Assets

Financial Year to 30 June 2011	SASS	SANCS	SSS
	Financial Year to 30 June 2011 A\$	Financial Year to 30 June 2011 A\$	Financial Year to 30 June 2011 A\$
Actual return on Fund assets	2812131	303139	-

a) Valuation Method

The Projected Unit Credit (PUC) valuation method was used to determine the present value of the defined benefit obligations and the related current service costs. This method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

b) Economic Assumptions

	30-June-11
Salary increase rate (excluding promotional increases)	3.5% pa
Rate of CPI Increase	2.5% pa
Expected rate of return on assets	8.60 %
Discount rate	5.28% pa

c) Demographic Assumptions

The demographic assumptions at 30 June 2011 are those that were used in the 2009 triennial actuarial valuation. The triennial review report is available from the NSW Treasury website.

Historical information

	SASS	SANCS	SSS	Total A\$
	Financial Year to 30 June 2011 A\$	Financial Year to 30 June 2011 A\$	Financial Year to 30 June 2011 A\$	
Present value of defined benefit obligation	39 583 911	4 347 937	-	43 931 848
Fair value of Fund assets	(35 652 892)	(4 054 473)	-	(39 707 365)
(Surplus)/Deficit in Fund	3 931 019	293 463	-	4 224 482
Experience adjustments – Fund liabilities	1 153 799	(81 676)	-	1 072 123
Experience adjustments – Fund assets	(241 285)	(685)	-	(241 970)

Notes to the financial statements

For the year ended 30 June 2012

	SASS Financial Year to 30 June 2010 A\$	SANCS Financial Year to 30 June 2010 A\$	SSS Financial Year to 30 June 2010 A\$	Total A\$
Present value of defined benefit obligation	37 965 760	4 131 404	-	42 097 164
Fair value of Fund assets	(33 697 257)	(3 638 632)	-	(37 335 889)
(Surplus)/Deficit in Fund	4 268 503	492 772	-	4 761 275
Experience adjustments – Fund liabilities	1 672 112	253 617	-	1 925 729
Experience adjustments – Fund assets	405 585	(15 070)	-	390 515
	SASS Financial Year to 30 June 2009 A\$	SANCS Financial Year to 30 June 2009 A\$	SSS Financial Year to 30 June 2009 A\$	Total A\$
Present value of defined benefit obligation	36 864 865	4 052 446	-	40 917 311
Fair value of Fund assets	(33 581 561)	(3 686 949)	-	(37 268 510)
(Surplus)/Deficit in Fund	3 283 304	365 497	-	3 648 801
Experience adjustments – Fund liabilities	(940 370)	215 226	-	(725 144)
Experience adjustments – Fund assets	6 907 088	749 368	-	7 656 456
	SASS Financial Year to 30 June 2008 A\$	SANCS Financial Year to 30 June 2008 A\$	SSS Financial Year to 30 June 2008 A\$	Total A\$
Present value of defined benefit obligation	37 425 521	3 812 045	-	41 237 566
Fair value of Fund assets	(39 042 574)	(4 277 975)	-	(43 320 549)
(Surplus)/Deficit in Fund	(1 617 053)	(465 930)	-	(2 082 983)
Experience adjustments – Fund liabilities	(1 629 328)	(15 493)	-	(1 644 821)
Experience adjustments – Fund assets	5 422 540	641 672	-	6 064 212
	SASS Financial Year to 30 June 2007 A\$	SANCS Financial Year to 30 June 2007 A\$	SSS Financial Year to 30 June 2007 A\$	Total A\$
Present value of defined benefit obligation	38 737 079	3 656 706	-	42 393 785
Fair value of Fund assets	(43 038 415)	(4 588 782)	-	(47 627 197)
(Surplus)/Deficit in Fund	(4 301 336)	(932 076)	-	(5 233 412)
Experience adjustments – Fund liabilities	2 422 459	12 171	-	2 434 630
Experience adjustments – Fund assets	(2 888 629)	(268 220)	-	(3 156 849)
	SASS Financial Year to 30 June 2006 A\$	SANCS Financial Year to 30 June 2006 A\$	SSS Financial Year to 30 June 2006 A\$	Total A\$
Present value of defined benefit obligation	35 192 664	3 357 132	-	38 549 796
Fair value of Fund assets	(38 132 139)	(3 923 711)	-	(42 055 850)
(Surplus)/Deficit in Fund	(2 939 475)	(566 579)	-	(3 506 054)
Experience adjustments – Fund liabilities	181 759	(55 200)	-	126 559
Experience adjustments – Fund assets	(1 072 855)	(82 045)	-	(1 154 900)

Notes to the financial statements

For the year ended 30 June 2012

Expected contributions

Financial Year to 30 June 2011	SASS Financial Year to 30 June 2011 A\$	SANCS Financial Year to 30 June 2011 A\$	SSS Financial Year to 30 June 2011 A\$	Total A\$
Expected employer contributions to be paid in the next reporting period	870 381	195 013	-	1 065 393

Funding Arrangements for Employer Contributions

(a) Surplus/deficit

The following is a summary of the 30 June 2011 financial position of the Fund calculated in accordance with AAS25 "Financial Reporting by Superannuation Plans";

Financial Year to 30 June 2011	SASS Financial Year to 30 June 2011 A\$	SANCS Financial Year to 30 June 2011 A\$	SSS Financial Year to 30 June 2011 A\$	Total A\$
Accrued benefits	35 969 716	3 976 342	-	39 946 058
Net market value of Fund assets	(35 652 892)	(4 054 473)	-	(39 707 365)
Net (surplus)/deficit	316 824	(78 131)	-	238 693

(b) Contribution recommendations

Recommended contribution rates for the entity are:

SASS multiple of member contributions	SANCS % member salary	SSS multiple of member contributions
1.90	2.50	0.00

(c) Funding method

Contribution rates are set after discussions between the employer, STC and NSW Treasury.

(d) Economic assumptions

The economic assumptions adopted for the 2011 actuarial review of the Fund are:

Weighted-Average Assumptions	30-June-11
Expected rate of return on Fund assets backing current pension liabilities	8.3% pa
Expected rate of return on Fund assets backing other liabilities	7.3% pa
Expected salary increase rate	4.0% pa
Expected rate of CPI increase	2.5% pa

Nature of Asset/Liability

If a surplus exists in the employer's interest in the Fund, the employer may be able to take advantage of it in the form of a reduction in the required contribution rate, depending on the advice of the Fund's actuary.

Where a deficiency exists, the employer is responsible for any difference between the employer's share of Fund assets and the defined benefit obligation.

Notes to the financial statements

For the year ended 30 June 2012

4. Provisions

	2012 \$ '000	2011 \$ '000
Current Liabilities		
Payroll Tax	224	200
Leave Entitlements	11 495	11 716
Fringe Benefits Tax	9	5
Redundancy	1 333	-
Superannuation	249	209
Total Current Liabilities	13 310	12 130
Non-Current Liabilities		
Leave Entitlements	180	160
Superannuation	10 346	4 224
Total Non-Current Liabilities	10 526	4 384
Total Provisions	23 836	16 514

All personnel administration costs and related audit fees are met by the parent entity, Forests NSW.

5. Related Party Transactions

(i) Statement of Comprehensive Income - Supply of Personnel Services

	2012 \$ '000	2011 \$ '000
Supply of Personnel Services to Forests NSW - Revenue	34 219	25 023
Total	34 219	25 023

(ii) Statement of Financial Position - Current assets

	2012 \$ '000	2011 \$ '000
Forests NSW for employee entitlements	13 310	12 130
Total	13 310	12 130

(iii) Statement of Financial Position - Non-Current liabilities

	2012 \$ '000	2011 \$ '000
Forests NSW for employee entitlements	180	160
Forests NSW for defined benefits superannuation	10 346	4 224
Total	10 526	4 384

Notes to the financial statements

For the year ended 30 June 2012

6. After Balance Date Events

On 9 May 2012, the Minister for Primary Industries released a media statement confirming the intention of the NSW Government to corporatise the Forestry Commission of NSW.

At the time of approving and signing these financial statements, the NSW Parliament had not passed enabling legislation in respect of the corporatisation of the Forestry Commission of NSW.

7. Auditor's Remuneration

The auditor's remuneration for the audit of the financial statements of Forestry Commission Division is charged as part of the overall audit fee paid by Forests NSW.

8. Commitments

There are no known commitments (2011: None)

9. Contingent Assets/liabilities

There are no known contingent assets or liabilities (2011: None)

End of Audited Financial Statements

Statement by Director General

(as Division Head under Public Sector Employment and Management Act 2002 No 43)

Pursuant to the *Public Finance and Audit Act 1983*, the statements are signed and attested in the following terms:

In my opinion, the accompanying financial statements present a true and fair view of the financial position of the Forestry Commission Division as at 30 June 2012.

The financial statements have been prepared in accordance with the Australian Accounting Standards (which include Australian Accounting Interpretations) the provisions of the *Public Finance and Audit Act 1983*, and accompanying regulations, and the Treasurer's Directions.

I am not aware of any circumstances which would render any particulars included in the financial statements to be misleading or inaccurate.



Mr. Mark Paterson AO

Director General of the Department of Trade & Investment, Regional Infrastructure & Services.

Dated this 20th day of September, 2012



INDEPENDENT AUDITOR'S REPORT

Forestry Commission Division

To Members of the New South Wales Parliament

I have audited the accompanying financial statements of the Forestry Commission Division (the Division), which comprise the statement of financial position as at 30 June 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows, for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information.

Opinion

In my opinion, the financial statements:

- give a true and fair view of the financial position of the Division as at 30 June 2012, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (the PF&A Act) and the Public Finance and Audit Regulation 2010

My opinion should be read in conjunction with the rest of this report.

The Director-General's Responsibility for the Financial Statements

The Director General is responsible for the preparation of the financial statements that give a true and fair view in accordance with Australian Accounting Standards and the PF&A Act, and for such internal control as the Director-General determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with Australian Auditing Standards. Those Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Division's preparation of the financial statements that give a true and fair view in order to design audit procedures appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Division's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Director-General, as well as evaluating the overall presentation of the financial statements.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

My opinion does *not* provide assurance:

- about the future viability of the Division
- that it has carried out its activities effectively, efficiently and economically
- about the effectiveness of its internal control
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about other information which may have been hyperlinked to/from the financial statements

Independence

In conducting my audit, I have complied with the independence requirements of the Australian Auditing Standards and other relevant ethical pronouncements. The PF&A Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of public sector agencies, but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by the possibility of losing clients or income.

Peter Barnes
Director, Financial Audit Services
21 September 2012 SYDNEY

Statutory information 2011–12

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Statutory appendices

Charter

Forests NSW is the registered business name of the Forestry Commission of New South Wales. The Forestry Commission is constituted under the *Forestry Act 1916*, and is subject to the direction of the responsible Minister. We administer the *Timber Marketing Act 1977*, which provides for control of the sale and use of certain timbers in NSW.

The principal objectives of the Forestry Commission as set out in the *Forestry Act 1916* are to:

- conserve and utilise timber under its management to the best advantage of the State;
- provide adequate supplies of timber for building, commercial, industrial, agricultural, mining and domestic purposes;
- preserve and improve, in accordance with good forestry practice, the soil resources and water catchment capabilities of lands under its management;
- encourage the use of timber derived from trees grown in the State;
- preserve the native flora, promote and encourage the use of State forests for recreation, and conserve birds and animals, consistent with the use of State forests for the purposes of forestry and of flora reserves;
- provide natural resource environmental services (whether within or outside of NSW); and
- take all practical steps to ensure the preservation and enhancement of the quality of the environment.

Chief Executive's performance

Name: Nick Roberts BSc (Forestry) (Hons), MSc (Forestry)

Position and Level: Chief Executive
Forests NSW
SES Level 6

Remuneration: \$347 650

Period in Position: 1 July 2011 to 30 June 2012

Mr Roberts is accountable to me for performing all the functions of the Chief Executive Officer under the *Forestry Act 1916* and for implementing government policy.

I am satisfied that Mr Roberts has met the performance criteria established for the position. Key tasks have been undertaken to achieve operational requirements and leadership has been provided to deliver outcomes consistent with government policy.

Chief Executive Officer, Forests NSW,
Mr Roberts was responsible for:

- improving safety performance in all key indicators: the recordable incident rate dropped from 5.6 to 3.1 (exceeding our target of 3.6), the lost time injury frequency rate reduced from 2.9 to 0.5, the number of lost time injuries dropped from 21 to 4, the days lost due to workplace injuries dropped from 233 down to 16 and workers compensation claims also reduced from 50 to 32;
- maintaining Forests NSW self insurer's licence following a successful surveillance audit by WorkCover in Hume Region;
- issuing a New Safety Strategy – 'First Priority 2011–14' that was personally sent to all staff and publishing a new Health & Safety Policy to ensure compliance with the new *Work Health and Safety Act 2011*;
- recording a strong financial performance:
 - ◆ an operating profit of \$14M
 - ◆ dividend payment to NSW Treasury of \$5M;
- demonstrating Forests NSW sustainable forest management through continuing certification to the Australian Forestry Standard AS 4708:2007 and ISO 14001:2004 (Environmental Management System);
- maintaining continuity of log supplies following ongoing wet weather in a number of regional areas;
- awarding \$75 million of new harvest and haulage contracts for plantation grown softwood log products in the Monaro Region over a six-year period;
- continuing to implement the recommendations from the 2011 fire management review, including release of a revised Fire Management Policy, development of a range of fire specific standard operating procedures and guidelines for use by all Forests NSW firefighters and a continuing focus on fire training;
- completion of the expressions of interest process to establish commercial recreation businesses on State forests in Sydney and Coffs Harbour with preferred proponents selected;
- official opening of the Forest Sky Pier at Coffs Harbour's Sealy Lookout, by the NSW Premier the Hon Barry O'Farrell, MP – a major new tourism attraction on the NSW north coast funded by Forests NSW;
- undertaking a tender process for an extractive resources project in Monaro Region;
- undertaking a public tender process to lease Forests NSW retail nursery businesses;
- negotiating new funding arrangements for research by the Forest Science Centre of DPI; and
- continuing the development of the skills and abilities of Forests NSW staff: seven managers participated in the leadership program, eight supervisors participated in the supervisor development program and 30 staff participated in community engagement training.



Dr Richard Sheldrake
Director General
Department of Primary Industries
Commissioner for Forests

Statutory appendices

Consultants

\$50 000 or more		
Popty Management Consultants	Management Services	56 400
Robert McCormack	Management Services – Forest Optimisation Project	76 125
\$132 525		
\$50 000 or less		
During the year there were 18 consultancies of less than \$50 000		
Engineering		39 253.92
Architect/Surveyor		17 431.30
Environmental		9 377.28
Marketing		104 509.09
Management Services		142 091.07
Human Resources/Safety		10 372.65
\$323 035.31		
Total		\$455 560.31

Credit card certification

Corporate credit card use is monitored on a monthly basis. Only eligible staff are issued with corporate credit cards to facilitate travel, accommodation and limited purchases. The Chief Executive Officer or relevant senior manager approves all expenses associated with card use.

Credit card use has been in accordance with the Premier's Memoranda and Treasurer's Directions.

Equal employment opportunity

Forests NSW continues to build on its strong equal employment opportunity (EEO) culture through its Code of Conduct and a revised induction program implemented during the year. Included in this program is a 'Working for Forests NSW' information guide which details our commitment to all key elements of EEO principles and the professional standards expected of all employees.

Trends in the representation of EEO groups

EEO Group	Benchmark/Target	2010	2011	2012
Women	50%	17.4%	17.6%	17.7%
Aboriginal People and Torres Strait Islanders	2.6%	8.2%	9.3%	7.9%
People whose first language spoken as a child was not English	19.0%	2.7%	1.7%	9.0%
People with a disability	N/A	15.3%	15.5%	14.0%
People with a disability requiring work-related adjustment	1.5%	3.1%	0.4%	14.0%

Trends in the distribution of EEO groups

EEO Group	Benchmark/Target	2010	2011	2012
Women	100	111	105	105
Aboriginal People and Torres Strait Islanders	100	71	73	74
People whose first language spoken as a child was not English	100	124	N/A	118
People with a disability	100	78	80	79
People with a disability requiring work-related adjustment	100	86	N/A	79

Note 1: A Distribution Index of 100 indicates that the centre of the distribution of the EEO group across salary levels is equivalent to that of other staff. Values less than 100 mean that the EEO group tends to be more concentrated at lower salary levels than is the case for other staff. The more pronounced this tendency is, the lower the index will be. In some cases the index may be more than 100, indicating that the EEO group is less concentrated at lower salary levels.

Note 2: The Distribution Index is not calculated where EEO group or non-EEO group numbers are less than 20.

Women's Employment Strategy

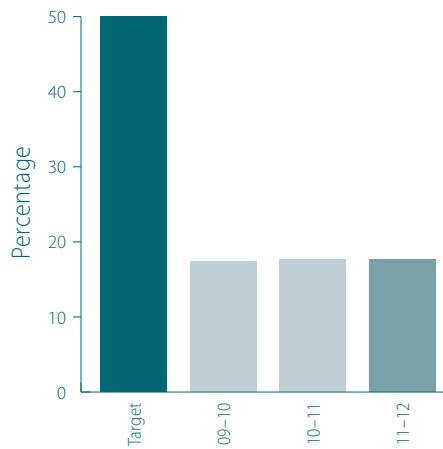
As part of the commitment to the NSW DPI's Women's Employment Strategy 2009–12 and to Forests NSW Women's Employment Action Plan, the program to increase the skills and potential of women continued during 2011–12 with three women participating in the Supervisor Development Program, three women participating in the Introduction to Management Program and three women participating in Community Engagement Training.

Aboriginal Employment Strategy

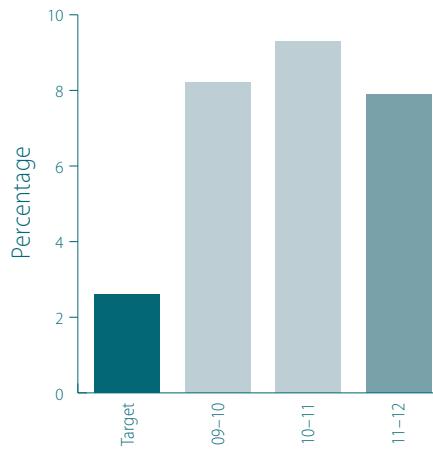
In 2011–12, the Forests NSW Aboriginal Employment Strategy has seen great results. The trainee in North East Region has successfully completed a TAFE Certificate III in Forest Growing and Management. In addition, the trainee was successful in gaining a 12-month temporary appointment as an Assistant SFO for North East Region. As a result of their hard work the trainee was also awarded the North Coast Aboriginal and Torres Strait Islander Trainee of the Year Award. The Indigenous Trainee program is continuing into 2012–13 with the Aboriginal Employment Strategy and Forests NSW working together to engage two trainees in Southern Region to complete the TAFE Certificate III Forest Growing and Management.

Statutory appendices

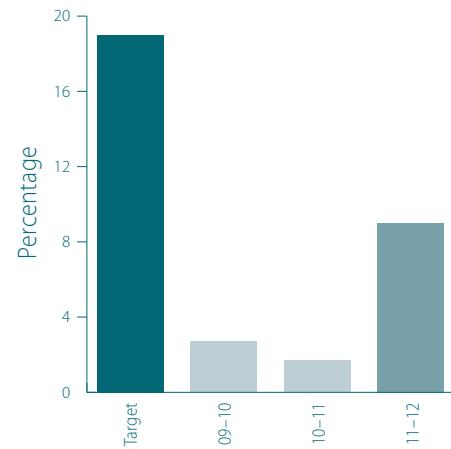
Trends in EEO group – women



Trends in EEO group – Aboriginal People and Torres Strait Islanders



Trends in EEO group – people whose first language spoken as a child was not English



Numbers and levels of SES staff 2012 as at 30/6/12

SES level	2	3	4	5	6	7	8	Total
Total		2	2		1			5

Numbers and levels of SES staff 2011 as at 30/6/11

SES level	2	3	4	5	6	7	8	Total
Total			4		1			5

Numbers and levels of female SES staff 2012 as at 30/6/12

SES level	2	3	4	5	6	7	8	Total
Total								0

Finance information

Investment management performance

At 30 June 2012, Forests NSW financial investments were \$0.91 million (2010–11 \$4.1 million). The investment portfolio's performance is benchmarked against the NSW Treasury Corporation's hourglass cash facility, consistent with NSW Treasury guidelines and to maximise investment returns while maintaining appropriate risk controls.

Interest amount of \$172 627 (2010–11 \$807 624) at yearly rate of 4.89 per cent (2010–11 5.37 per cent) was received from Treasury Corporation on amounts lodged on their 24-hour call facility.

Subsidiary companies

In 2010–11 Forests NSW had dominant control over one wholly-owned subsidiary, Timber and Carbon Plantations Pty Ltd. This company was liquidated on 7 December 2011. Under Part 3 of Schedule 1 of the *Public Sector Employment & Management Act 2002*, Forests NSW administers and has dominant control of the Forestry Commission Division.

Grants to non-government community organisations

Forests NSW did not make any grants to non-government community organisations during 2011–12.

Payment of accounts

The schedules below show aged analysis of accounts payable and payment performance for each quarter of 2011–12.

Forests NSW has in place financial procedures which ensure that accounts are paid within the statutory requirements.

No interest has been paid under Section 15 of the Public Finance and Audit Regulation 2005.

Debt management

At 30 June 2012, Forests NSW total borrowings were \$133 million. The debt portfolio was sourced almost entirely through NSW Treasury Corporation and is actively managed to limit the cost of funds.

Statutory appendices

Debt portfolio performance

	Forests NSW	Benchmark
Market valuation 30 June 2012*	\$149 million	N/A
Generalised cost of funds	5.98%	5.98%

* Market value of debt represents the value if all debt had to be retired and differs from the capital value, which is the value in the financial statements.

At 30 June 2012, 96% of total debt was fixed-rate debt and 4% was charged interest at the floating rate.

Aged analysis

Quarter	Current (within due date)	Less than 30 days overdue	Between 30 and 60 days overdue	Between 60 and 90 days overdue	More than 90 days overdue
All Suppliers					
September	52 584 682	8 674 286	559 123	184 652	125 083
December	31 806 888	7 742 184	318 811	137 104	83 227
March	28 382 716	4 660 281	749 869	68 085	210 299
June	34 344 059	4 249 127	603 007	247 762	193 627
Small Business Suppliers					
September	448 071	667 480	114 224	30 676	49 209
December	260 860	605 043	26 217	37 587	3945
March	1 189 203	250 034	32 800	25 100	11 332
June	2 022 280	601 756	124 602	15 734	15 240

Accounts paid on time

Quarter	Target %	Actual %	Actual \$	Total amount paid \$
All Suppliers				
September	90	93.53	61 258 968	62 127 826
December	90	94.72	39 549 072	40 088 214
March	90	90.65	33 042 997	34 071 251
June	90	97.37	38 593 186	39 637 583
Small Business Suppliers				
September	90	90.53	1 115 551	1 309 660
December	90	95.23	865 903	933 651
March	90	90.61	1 439 236	1 508 468

Government Information (Public Access) Act 2009

Applications under the Government Information (Public Access) Act 2009 for Forests NSW are managed centrally within the Department cluster and included in the consolidated GIPA information published in the NSW T&I Annual Report.

Human resources

As at 30 June 2012, Forests NSW employed a total of 733 employees. This figure comprised public servant employees involved in management, administration and technical roles, and Forestry Commission

Division employees primarily engaged in timber marking, mechanical trades, road construction and maintenance, tree planting and pruning, nursery work, forest conservation and fire protection.

Structural adjustment

Forests NSW has continued to review its workforce and internal organisational structures. There were three significant reviews encompassing the tendering of retail

nurseries, the closure of coastal workshops and the finalisation of the Fieldworker structure in Western Region. These reviews were undertaken to implement recommendations from benchmarking reviews and re-engineer business processes and changes to the area of forest estate managed in Western Region.

Salary and wage movement

In line with the NSW Public Sector Wages Policy 2011, Forests NSW public servants and

Employee numbers – five-year trend

Year Ended 30 June	Total
2008	943
2009	888
2010	839
2011	803
2012	733

Statutory appendices

Forestry Commission Division employees were all awarded a 2.5 per cent pay increase (to wages and wage related allowances) payable on the first pay period on or after 1 July 2012.

Training and organisational development

The year 2011–12 was another significant investment in corporate and operational training being delivered to staff across the organisation.

Corporate programs have included the Leadership Program, Introduction to Management Program, Community Engagement Training and Supervisor Development Program with 47 staff attending these programs.

Forests NSW has continued to demonstrate industry best practice by focusing on regular upskilling and reassessment of core technical skills against units of national competence. Workers using technical equipment are refreshed in their skills every three years. To further support this, a 'Core Competency Project' was started in 2011–12. The project will see core competencies of all positions in the Forests NSW structure identified and held against positions in the human resource information system, allowing managers and supervisors to run a gap analysis to determine training needs for their staff.

Internal audit and risk management

Forests NSW complies with NSW T&I comprehensive policies and guidelines on internal audit and risk management.

The Enterprise Risk Management Framework within which Forests NSW operates complies with NSW Treasury Policy TPP 09-5 and NSW Treasury Circular TC09-08 and Australian/New Zealand Standard Risk Management – principles and guidelines (AS/NZS 4360: 2004 *Risk Management*).

Internal Audit functions are undertaken for Forests NSW by RSM Bird Cameron, the internal auditors appointed for NSW T&I. To ensure independence of the audit process, RSM Bird Cameron reports to the NSW T&I Audit and

Risk Committee and has access to the Chief Executive Officer as required.

Internal audits conducted during the year covered fleet and fuel management review and timber sales contracts. Protected disclosure functions are also managed by NSW T&I.

Forests NSW has a risk matrix in place which is incorporated into NSW T&I corporate risk management framework. More information on Forests NSW management of risks can be found in the Risk Management and Insurance section of this report.

Internal audit and risk management attestation for the 2011–12 financial year for the Forestry Commission of New South Wales, trading as Forests NSW

I, Nick Roberts am of the opinion that the Forestry Commission of New South Wales, trading as Forests NSW has internal audit and risk management processes in place that are, in all material respects, compliant with the core requirements set out in Treasury Circular TC 09/08 Internal Audit and Risk Management Policy. These processes provide a level of assurance that enables the senior management of Forests NSW to understand, manage and satisfactorily control risk exposures.

I, Nick Roberts am of the opinion that the Audit and Risk Committee for the NSW Department of Trade and Investment, Regional Infrastructure and Services (NSW T&I), of which Forests NSW is a partner agency, is constituted and operates in accordance with the independence and governance requirements of Treasury Circular NSW TC 09/08. The Chair and members of the Audit and Risk Committee are:

- Independent Chair Dr Elizabeth Coombs (appointed for four years);
- Independent Member Mr Ian Neale (appointed for six years);
- Independent Member Mr Ken Barker (appointed for three years);
- Non-independent Member Mr Nick Roberts, (appointed for four years); and

- Non-independent Member Mr Mark Duffy (appointed for three years).

During 2011–12, NSW T&I internal audit services were provided by two external contractors and departmental staff. This model was chosen after a review of the internal audit function which included consultation with stakeholders, management and the Committee.

I, Nick Roberts declare that this Internal Audit and Risk Management Attestation is made on behalf of the controlled entity the Forestry Commission Division.



Nick Roberts
Chief Executive Officer
Forests NSW

Land disposal

No properties were disposed of during the year.

Documents relating to property disposals completed by Forests NSW are available for access under the *Government Information (Public Access) Act 2009*.

Legislation and legal issues

There were no changes to legislation under which Forests NSW operates during 2011–12.

Multicultural Policies and Services Program

Forests NSW is committed to the Principles of Multiculturalism. Forests NSW initiatives under this Program are incorporated into NSW T&I Multicultural Policies and Services Plan and reported on in the NSW T&I Annual Report.

Forests NSW provides free access to all State forests. Access to State forests is only restricted for harvesting operations, extreme weather conditions or special events.

Statutory appendices

Overseas visits

Name/Position	City/Country/ Date	Purpose
Dr Ross Dickson Director Land Management & Forestry Services	New Zealand 21–24/8/2011	Attend Radiata Pine Breeding Company Board and Committee meetings
Mr Vic Jurskis Silviculturist Native Forest Operations	New Zealand 6–7/2/2012	Attend Radiata Pine Breeding Company Board and Committee meetings
Mr Cameron Wade Fire Training Coordinator	Mexico 21–28/8/2011	Attend and present a paper at the World Conference of the Society for Ecological Restoration
	California USA 23–29/3/2012	Study tour of training methodology, recruitment practices and equipment used by firefighting organisations.

Privacy management

Forests NSW respects the privacy of our employees and members of the public who use our services and complies with the requirements of the *Privacy and Personal Information Protection Act 1998* (PPIPA) and the *Health Records and Information Privacy Act 2002*.

Complaints under Part 5 of PPIPA are received and managed centrally by NSW T&I in coordination with Forests NSW. No complaints were received for Forests NSW in 2011–12.

Requests for access to personal information held by NSW T&I may be made to the Privacy Management Officer, PO Box K220 Haymarket NSW 1240 or email Privacy@industry.nsw.gov.au.

Research and development

The Forest Science Centre, NSW DPI provides research and development services to Forests NSW under an MOU. There are four main programs: Forest Biosecurity and Resource Assessment; Forest Ecology; New Forests; and Biometric Services.

Research activities include:

- forest health surveillance for possible outbreaks of pests and diseases;
- operational adoption of high spatial resolution remote sensing technologies for forest planning, resource assessment, yield modelling and forest health;
- scientifically based monitoring of biodiversity in native and plantation forests to support operational planning, impact assessment, the development

of amelioration strategies, reporting obligations, auditing and compliance requirements;

- quantifying the carbon sequestered in forests and forest products in NSW;
- biomass assessment for bioenergy and biochar production, the potential of biochar and recycled organics to increase production, and forest management to increase soil carbon. Application of Life Cycle Assessment ensures new initiatives are based on sustainability principles; and
- biometrical support to ensure statistically robust research and monitoring programs covered by the MOU.

Research is also performed by Forests NSW own Land Management & Forestry Services branch and Forests NSW is a partner of the Bushfire CRC and supporting partner of the CRC for Forestry.

Responding to community concerns

Forests NSW has received representations from the community surrounding neighbour, environmental and customer issues and concerns. Further details can be found in the Supplementary Sustainability Indicator Data 2011–12 available online at www.forests.nsw.gov.au

A Good Neighbour Policy is available from our website which outlines Forests NSW commitment to developing and maintaining strong relations with our neighbours.

Where representations on issues cannot be resolved with frontline staff, complaint handling procedures are available on NSW DPI website.

Risk management and insurance

Risk management

Risks identified and management strategies put in place by Forests NSW include:

Bush fire

Forests NSW has been implementing recommendations from an external review of major fire management completed in 2011. The focus has been on training to ensure staff competencies are maintained. Forests NSW, assisted by the RFS completed a series of workshops for senior managers on incident management skills in major fires.

Fire management capabilities, planning, procedures and policies have all been reviewed and updated taking into account recommendations from the fire review and findings of the Victorian Bushfire Commission of Inquiry.

As part of normal fire management practices, Forests NSW maintains high levels of fire planning, preparedness and suppression capacity. Risk mitigation strategies include early detection through a network of fire towers, patrols on high fire danger days, integrated communications, technical applications such as Lighting Strike Detection System and use of satellite infrared imagery. This is supported by well trained staff (including casual labour) available for immediate deployment utilising a heavy and light tanker fleet, supported by a fleet of earth moving heavy machinery and contract aircraft. Outside of the fire season, fuel loads in the forests are maintained through prescribed burning or grazing and an extensive network of roads and fire trails is maintained.

Pests and diseases

Forests NSW undertakes systematic health surveys of the planted forest estate to assess forest health and to detect exotic incursions and possible outbreaks of pests and diseases of forests and timber. Reports on health surveys detail the location, extent and severity of detected damaging pests, diseases, weeds and climatic factors with recommended corrective actions.

Statutory appendices

Storm damage

Severe storms can damage trees, particularly young plantations. Thinning programs are designed to reduce susceptibility to wind-throw damage. Forests NSW has the capacity to quickly salvage wind and storm damaged plantations, followed by establishment of new forest.

Flood damage

Extreme storm conditions with resulting flooding cause damage to roads and limit productive harvesting capacity. Robust planning controls and strategies allow for flexibility in operations.

Meeting supply commitments

Effective strategic and tactical operational planning is undertaken to meet commitments in Wood Supply Agreements. Appropriate science and technological tools and skill sets are employed in developing harvesting plans.

Significant downturn in timber demand

Forests NSW has no ability to control market demand, and limited ability to reduce operating costs if volumes fall. To limit financial impacts, Forests NSW is diversifying product mix, identifying alternative sources of funding for plantation establishment and participating in industry-wide campaigns to promote the use of wood.

Loss of information

Certification is maintained for disaster recovery of key systems and information security is addressed through a Steering Group reporting to the Senior Management Team.

Workers compensation

Workers compensation	2011–12 TMF	2011–12 Self Insured	2010–11 TMF	2010–11 Self Insured	2009–10 TMF	2009–10 Self Insured	2008–09	2007–08
Number of claims lodged	6	26	9	41	8	68	73	111
\$ spent on claims (inc settlements)	\$14 686	\$925 482	\$15 767	\$758 369	\$21 420	\$1 181 370	\$2 053 976	\$988 004
Number of permanent impairment claims lodged	0	5	0	5	0	15	17	5
\$ spent on permanent impairment claims	\$0	\$39 125	0	\$114 186	0	\$112 225	\$201 575	\$84 700
\$ spent on work injury damages settlements	\$0	\$0	\$0	\$0	\$0	\$165 000	\$495 000	\$0
Number of claims declined	1	3	0	3	1	2	10	3

Note: Forests NSW commenced insuring the public sector workforce with the Treasury Managed Fund as of 1 December 2009. Forests NSW continues to be self insured for the fieldworker workforce and all public servant claims lodged prior to 1 December 2009.

Business failure of a major customer

The internationalisation of ownership in the NSW softwood industry has seemingly guaranteed that collapse of one of the major processors is unlikely. The global owners of these facilities have strong financial resources.

In the hardwood sector, the bulk of Forests NSW trade is with one major customer. This customer is a large national building products company with its hardwood timber production dominated by high value adding activity.

Forests NSW, through its credit policy and financial management, maintains adequate levels of security (from partially secured, to fully secured, to pay in advance and utilising Bank Guarantees, etc.), monitors customers' accounts and checks financial health and creditworthiness of customers.

Strategies are in place for other risks identified in Forests NSW Risk Register. These risks are:

- inadequate planning and planning controls;
- inadequate health and safety;
- lack of harvest and haulage contractors;
- environmental sustainability;
- loss of commercial viability;
- failure to meet social responsibilities;
- poor management and access to information; and
- inadequate or inappropriate workforce management.

Insurance

Forests NSW maintains extensive insurance coverage. Policies in place for the year were for Combined General Liability, Excess Liability,

Motor Vehicle, Industrial Special Risks, Group Personal Accident (Volunteers), Corporate Travel, Marine Cargo and Professional Indemnity. These were sourced from both local and global insurance markets at competitive rates.

Forests NSW continues to be licensed by WorkCover to be self-insured for fieldworkers compensation, in addition Forests NSW also holds a Workers' Compensation Excess Policy providing cover for abnormal Workers Compensation claims from their fieldworker employees.

Public servant employees of Forests NSW are insured for Workers' Compensation under a separate cover through an external underwriter.

During the year, Forests NSW settled on two Industrial Special Risks claims on two separate cottage fires.

Waste management

Forests NSW manages waste, recycling and procurement in line with the NSW Government Waste Reduction and Purchasing Policy (WRAPP) commitment to the NSW Government Sustainability Policy, which sets targets for resource use, disposal and procurement across energy, water, fleet and waste.

Forests NSW has invested heavily in moving to containerised seedling production at its production nursery at Tumut. This has provided greater efficiency in water usage.

Investment has also been committed in a heavy and light fleet replacement program over the past three years. This has resulted in reduced fuel usage and GHG emissions.

More information on waste management is contained in the supplementary sustainability information available on Forests NSW website.

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Acknowledgements

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PDF format copies of this and previous Forests NSW Reports are available from the Forests NSW website: www.forests.nsw.gov.au

For hard copies of this report, contact Forests NSW at:
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In the interest of protecting and preserving our environment, Forests NSW has used Precision Offset paper which is an Australian made paper that uses fibrous raw materials from a number of sources, including plantation eucalypt forests, plantation acacia and mixed regrowth pulp that is Elemental Chlorine Free (ECF). The manufacturing process of this paper operate under ISO 14001 environmental systems and practices and is PEFC certified.

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