

FORESTS NSW

ANNUAL REPORT

2007-08



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2007–08

CONTENTS

Who We Are	1
Letter to the Minister	2
Our Structure	3
Five Year Comparison	4
Highlighting our Performance	5
Overview	6
Financial Statements	9
Statutory Information	75
Index	96

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The information contained in this publication is based on knowledge and understanding at the time of writing (June 2008). However, because of advances in knowledge, users are reminded of the need to ensure that information upon which they rely is up to date and to check currency of the information with the appropriate officers of Forests NSW or the user's independent adviser.

JN 8880

This Annual Report is prepared to meet the specific statutory requirements of Forests NSW as a public trading enterprise. Narrative information about Forests NSW achievements is included in NSW Department of Primary Industries (NSW DPI) Annual Report. Forests NSW has again produced this Annual Report, the Social, Environmental and Economic (Seeing) Report and the Facts and Figures booklet as an integrated series of documents. All of these reports, including the Annual Report of the NSW Department of Primary Industries, are available in hard copy or on-line at www.dpi.nsw.gov.au/forests

WHO WE ARE

A public trading enterprise within NSW Department of Primary Industries, Forests NSW is the registered business name of the Forestry Commission of New South Wales.

Constituted in 1916 to manage the State forests of New South Wales, Forests NSW sustainably manages more than two million hectares of native and planted State forests for a wide range of economic, environmental and social values to internationally recognised standards.

NSW Department of Primary Industries vision of delivering 'profitable, adaptive and sustainable primary industries building vibrant communities' and the Government's objectives enunciated in the *NSW State Plan* provide the framework for our operations and to achieve our vision.

VISION FOR THE FUTURE

To be the best and safest commercial forest manager in Australasia.

OUR MISSION

To provide safe and cost-effective forest management services to the Government and people of NSW and independent investors while increasing the value of their investment.

MANAGEMENT OBJECTIVES

Our management objectives are to:

- sustain financial performance
- deliver ecologically sustainable management of forest resources
- provide accountability to the community, and
- support our people

As the largest manager of native and plantation forests, Forests NSW is a major force in the State's timber industry, which contributes nearly \$1 billion to the NSW economy each year. Forest management together with timber harvesting, haulage and processing provide the economic mainstay for a number of regional communities across NSW.



profitable, adaptive, sustainable.

Forests NSW supplies forest products and services to a wide range of highly valued customers located within NSW, across Australia and overseas. Forests NSW engages a committed group of contractors and consultants for the production and delivery of these products and services as well as to maintain and develop the forest estate to deliver social, economic and environmental benefits for the people of NSW.

OUR BUSINESS STRATEGY

This year, Forests NSW developed a new Corporate Business Strategy (CBS) to guide our business growth to 2011. Strategic directions identified in the CBS are:

- Focus on excellence in profitable and sustainable forest management
- Organisational efficiency through performance management and benchmarking, training and development and tools and systems that deliver results
- Revenue growth through market pricing, new businesses and product diversity and forest management services
- Cost reduction through planning and process improvement, benchmarking and adoption of best practice
- Simplification of management systems and organisational structures and functions.

Each of our strategic directions is a key result area in which we will monitor and report our performance.

LETTER TO THE MINISTER



The Hon Ian Macdonald, MLC

Minister for Primary Industries
Minister for Energy
Minister for Mineral Resources
Minister for State Development

Level 33 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 2007 to 30 June 2008.

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

Clarification of issues surrounding the methodology used to value Native Forest Timber included within Biological Assets in relation to Forests NSW audited financial statements resulted in some delays. An extension of time to 30 November 2008 was approved under section 13 of the *Annual Reports (Statutory Bodies) Act 1984*. Further issues raised in relation to a deferred tax liability matter resulted in further delays being experienced.

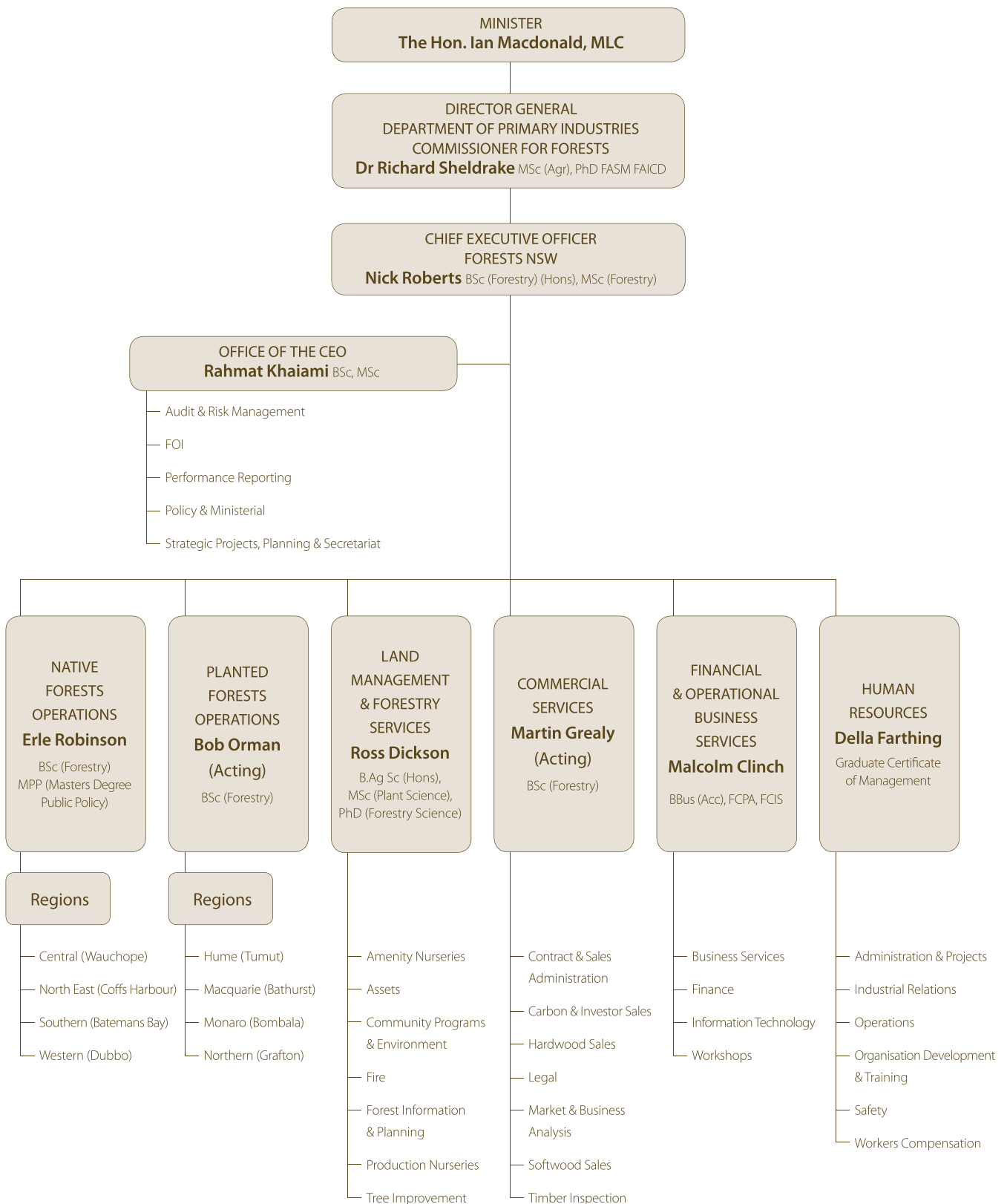
Copies have been made available for tabling in Parliament.

Yours sincerely



Nick Roberts
Chief Executive Officer
Forests NSW

ORGANISATIONAL STRUCTURE



FIVE YEAR COMPARISON AS AT 30 JUNE 2008

	2008 \$'000	2007 \$'000	2006 \$'000	2005 \$'000	2004 \$'000
Revenue*	293 795	270 550	259 747	247 546	240 634
Profit					
Trading Profit*	42 646	28 037	31 116	36 819	37 860
Significant Items and Biological Assets Rev.**	75 005	(166 357)	(19 696)	(29 163)	17 392
Profit/(Loss) from Ordinary activities (before tax)	117 651	(138 320)	11 420	7 656	55 252
Distribution to Government					
Distribution payable	1 000	16 000	26 322	32 544	13 096
Capital Expenditure	34 904	45 039	31 451	31 531	36 315
Balance Sheet					
Value of Biological Assets***	1 515 310	1 403 831	1 558 674	1 594 934	1 609 389
Total Assets	2 802 746	2 703 913	2 528 907	2 643 403	2 588 164
Borrowings	169 489	159 743	138 276	138 062	121 273
Total Equity****	1 997 641	1 921 105	1 816 670	1 842 342	2 127 270
Ratios % (excl Abnormals & MVI)					
Return on Equity*	2.13%	1.46%	1.71%	2.00%	1.78%
Return on Assets*	1.55%	1.07%	1.20%	1.41%	1.53%
Debt to Equity	8.48%	8.32%	7.61%	7.49%	5.70%
Return on Equity (including MVI)	6.14%	(7.53%)	(1.74%)	(0.17%)	2.20%
Sawlogs ('000 of cubic metres)					
Native Forest Hardwood Sawlogs	610	567	665	639	707
Plantation Hardwood Sawlogs	122	106	65	74	80
Plantation Softwood Sawlogs	2 071	1 955	1 964	1 829	1 859
Cypress Pine Sawlogs	49	58	71	94	101
Other Products	47	48	57	90	93
Total	2 899	2 734	2 822	2 726	2 840
Pulp (tonnes)					
Native Forest Hardwood	500	552	504	468	491
Plantation Hardwood Pulpwood	77	65	40	36	35
Plantation Softwood Pulpwood	1 169	1 188	983	1 042	1 045
Total	1 746	1 805	1 527	1 546	1 571

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

** Inclusive of forest revaluations, capital grants and superannuation fund interest

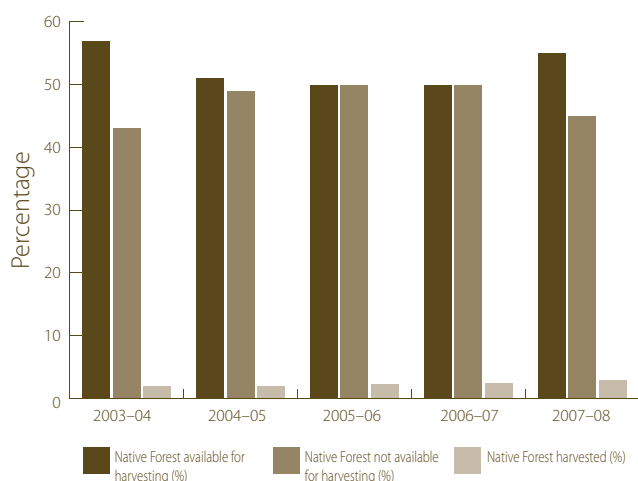
*** Biological Assets represent the commercial value of Forests NSW timber resources

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

HIGHLIGHTING OUR PERFORMANCE

- Achieved an underlying trading profit of \$42.6 M.
- Reduced expected debt levels by \$21.7 M and interest costs by \$2.9 M.
- Completed the tender process for the allocation of up to 250 000 cubic metres per annum of sawlog and up to 70 000 tonnes annually of biomass resource from Forests NSW Bombala plantations. A 20 year wood supply agreement was signed on 28 April 2008 between Forests NSW and Willmott Timbers Pty Ltd.
- Passed a WorkCover audit in Central Region. Forests NSW is one of only a few self-insurers who have passed a WorkCover audit.
- Maintained environmental performance to the ISO 14001 standard and Australian Forestry Standard AS4708.
- Published the six remaining regional Ecologically Sustainable Forest Management (ESFM) Plans completing the suite of ESFM Plans for all native and planted forests regions.

PERCENTAGE OF NATIVE FOREST HARVESTED



Percentage of Native Forest Harvested

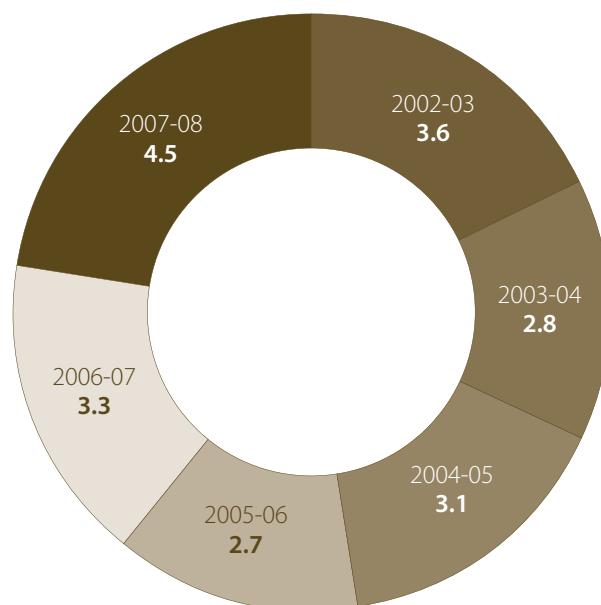
	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
Native Forest available for harvesting (%)	72%	71%	72%	66%	57%	51%	50%	50%	55%
Native Forest not available for harvesting (%)	28%	29%	28%	34%	43%	49%	50%	50%	45%
Native Forest harvested (%)	2.1%	2.6%	2.1%	2.1%	1.97%	1.88%	2.27%	2.35%	2.89%

TIMBER TO INDUSTRY

Volumes (m ³) and Value (\$) per Employee	
Timber sales by volume	4 797 875
Employee Numbers (30 June)	943
Timber sales per employee (m ³)	5 088
Timber Sales (\$'000)	138 829
Timber Sales / Employee (\$'000)	147

SAFETY FREQUENCY RATE

(Number of Lost Time Incidents per 200 000 hours worked)



OVERVIEW

In 2007-08 Forests NSW achieved a very strong financial result delivering a trading profit of \$42.6 M. This result reflected the positive impacts of business improvement strategies and continued focus and control on operating and capital expenditure as well as higher demand, particularly for softwoods.

These positive factors were partially offset by some other influences including the fall in revenue from NSW Greenhouse Abatement Certificates (NGACs) due to a decision not to sell at low prices in an uncertain market.

The strong emphasis on improving Forests NSW health and safety systems was rewarded when it became one of only a few self-insurers who have successfully passed the relevant WorkCover audit. Overall safety performance, however, was below target and therefore unsatisfactory. This was partly due to better reporting of incidents and partly because major efforts to increase staff awareness and enhance safety management processes often take time to flow through. Improved results are expected in future years.

Last year destructive fires had a significant impact on our operations in Hume and Macquarie Regions. This year, by contrast, it was wet weather that severely impacted harvesting and haulage operations on the north coast, particularly in late 2007. Despite continuing inclement weather in early 2008, a concentrated effort in both Central and North East Regions resulted in timber supply commitments being met for the 2007-08 year.

Forests NSW commissioned an independent review of native forest valuation procedures undertaken by international forestry consulting firm Poyry Forest Industry following an audit qualification in 2007. A number of process and system changes were recommended and implemented to increase the confidence around the forest valuation. Despite this significant amount of work on the valuation process, the inherent difficulty of achieving statistical accuracy in the valuation of large and variable native forest estate resulted in the Audit Office being unable to confirm the valuation of native forest estate. This led to Forests NSW Financial Accounts receiving a qualification in 2007-08. Further work will be carried out in association with the Audit Office in 2008-09 in an endeavour to resolve the issues relating to native forest valuation.



Richard Sheldrake
Commissioner for Forests



Nick Roberts
Chief Executive Officer, Forests NSW

There were senior management changes at both the Department of Primary Industries (DPI) and Forests NSW including the transfer of Mr Barry Buffier to the position of Director General of the Department of State and Regional Development. During his tenure as the Director General of DPI since its inception in 2004, Mr Buffier made an enormous contribution to the creation of a single cohesive department from four separate agencies. We would like to acknowledge Mr Buffier for that contribution and for his role as Commissioner for Forests.

Permanent appointments were made to the positions of Director Native Forests Operations (Mr Erle Robinson) and Director Land Management and Forestry Services (Dr Ross Dickson), and the position of Director Human Resources was created and filled (Ms Della Farthing) to reflect the strong focus on safety and staff development.

In other developments, Mr Michael Bullen vacated the position of Director Commercial Services to take up the position of Chief Executive of Sydney Catchment Authority. Late in the year, we received notice of Mr Malcolm Clinch's intention to leave his role as Director Financial and Operational Business Services to pursue new challenges in the private sector. Both had made very significant contributions to Forests NSW over many years and we regret no longer having the benefit of their skills and insights. We wish them well for the future.

A brief outline of performance in 2007-08 is provided below and the specific statutory reporting requirements of Forests NSW as a public trading enterprise are covered in the following pages. More information about the activities and achievements of Forests NSW can be found in the companion Social, Environmental and Economic (Seeing) Report, which is the sustainability report of Forests NSW, and the Annual Report of NSW DPI.

COMMERCIAL PERFORMANCE

Forests NSW achieved all targeted trading and capital commitments during the year. The underlying trading result of \$42.6 M was above target. The result, particularly in the context of mixed housing and construction market conditions, reflects concentrated and responsive management actions to maximise revenues, and achieve improvements in operating expenditure.

Combined with lower capital expenditure and productivity improvements, the stronger trading result allowed Forests NSW to reduce forecast debt levels by \$21.7 M, which reduced interest costs by \$2.9 M also contributing to the improved trading position.

Timber revenues were underpinned by strength in markets for plantation softwood and forest management services. Impacting on revenue was the difficulty in accessing material in native forests, particularly due to the unfavourable weather conditions together with lower than forecast NGAC sales due to market uncertainty and a conservative sales strategy.

Apart from creating challenges for supply, the wet weather had an upside, not only in relieving drought conditions across much of the forest estate, but also resulting in a quiet fire season with significant savings in associated expenditure. This was a very welcome situation given the disastrous fire season experienced in the year before.

MAJOR ACHIEVEMENTS

Forests NSW achieved successes and implemented important initiatives in all areas of operations. These results and achievements show how Forests NSW is contributing directly to priorities P6, E4 and E8 of the State Plan.

Major outcomes and achievements for 2007-08 include:

- Completed Stage One of a new containerised seedling facility at the Blowering Nursery near Tumut. The project has increased capacity at the nursery by 1.4 million containerised seedlings, in addition to traditional bare root crop. The benefits of moving to containerised seedling production at all nursery sites include the ability to 'hold over' stock until the optimum time to plant, potential for multiple planting opportunities and greater planting success. Containerised stock also uses on average 90 percent less water than seedlings grown bare rooted in the ground.
- Completed the tender process for the allocation of up to 250,000 cubic metres per annum of sawlog and up to 70,000 tonnes annually of biomass resource from Forests NSW Bombala plantations. A 20 year wood supply agreement was signed on 28 April 2008 between Forests NSW and Willmott Timbers Pty Ltd. An integral part of this agreement is the construction of a \$60M sawmill to be built by Willmotts at Bombala which is a positive result for development in the region.
- Conducted an Expression of Interest (EOI) process for investment in re-establishing plantations on Forests NSW land. This will help with the annual re-establishment program and replacing plantations lost to fire to meet future demand for timber. A number of short listed companies are currently undertaking their due diligence, and implementation of any proposal is subject to final Cabinet approval.
- Achieved 20 percent savings in second rotation plantation establishment costs in Macquarie Region by revising site preparation systems. This allowed for the expansion of 2008 winter plantings within existing budgeted funds. Following the success of this trial, the revised site preparation system will be used in other planted forest regions.
- Passed a WorkCover audit in Central Region.
- Enhanced the effectiveness of Forests NSW Safety Management System by developing a detailed improvement plan which is currently being implemented. Although safety results were disappointing, a range of initiatives have been established to target improved performance. This includes extensive training in safety leadership, and working with our contractors to develop policies for the safe loading, unloading and driving of log trucks.
- Developed stand alone business unit structures for nurseries and workshop services to drive measures to increase business opportunities in regional NSW and improve financial returns and safety performance in these units.
- Maintained environmental performance to the ISO 14001 standard and Australian Forestry Standard AS4708.
- Published the six remaining regional Ecologically Sustainable Forest Management (ESFM) Plans completing the suite of ESFM Plans for all native and planted forests regions.

OVERVIEW CONT.

- Commenced an environment impact statement for native Red Gum and Cypress forests in south western NSW following an agreement reached with the National Parks Association in the Land and Environment Court. The EIS is scheduled for completion and public display at the beginning of June 2009.
- Commenced a review of the Forest Agreements and Integrated Forestry Operations Approvals (IFOA) for coastal native forests and progressed the development of licence conditions under the IFOA for native forest operations in Western Region. The IFOA will regulate these operations for the next 20 years. This is another outcome of the Brigalow Belt South – Nandewar Regional Assessment.
- Discovered a rare plant, *Euphrasia arguta* a member of the foxglove family Scrophulariaceae, believed to be extinct for more than 100 years. The plant was found in Nundle State Forest during a pre-harvest survey in an area that was affected by fire control activities in 2006. Forests NSW is developing a conservation management plan for this rare plant species.
- Contributed to the development of forestry emissions trading policy through the Garnaut Review and the Commonwealth Government's emission trading consultation process. Forests NSW preference is to see inclusion and recognition of reforestation activities from the commencement of the scheme and recognition for carbon stored in harvested wood products. Forests NSW is also seeking smooth and equitable transition arrangements for abatement certificate providers operating under the NSW Greenhouse Gas Abatement Scheme which is due to be replaced by the national scheme in 2010.
- Upgrade of GIS systems to provide a more efficient spatial mapping system capable of supporting key business applications.
- An Expression of Interest process for the purchase and processing of up to 150 000 tonnes per annum of softwood plantation residue from harvesting operations in Macquarie Region.
- Development of comprehensive plans for staff training and development and succession planning.
- Strategic review of hardwood plantations to identify opportunities for rationalisation of the estate and improved financial results.
- Development of a sales and marketing strategy for each major supply region.
- Pursuit of Forest Management opportunities.
- Review of procurement processes.

As the Commissioner for Forests and the Chief Executive of Forests NSW, we would like to recognise the commitment and support of our staff during the last year. Their knowledge and expertise are demonstrated by the achievements recorded this year and has placed Forests NSW in a good position to further capitalise on these results in 2008-09.

With a number of significant projects already commenced to improve both forest operations and business support services, we look forward to working with staff in the year ahead in pursuit of excellence in sustainable forest management and increasing profitability for the people of NSW.

FUTURE DIRECTIONS

After a thorough review of the Corporate Business Strategy (CBS) and a benchmarking study, the CBS has been revised and five strategic directions have been identified to guide our business growth to the year 2011 (see page 2).

A number of priority projects for each of the five strategies have been identified to ensure delivery of goals and targets for each financial year covered by the CBS.

Key projects identified for 2008-09 include:

- Review of roading across the forest estate to identify possible efficiencies and ensure roads are constructed and maintained to a standard appropriate for forestry purposes.



Nick Roberts
Chief Executive Officer, Forests NSW



Richard Shel Drake
Commissioner for Forests

FORESTS NSW

CONSOLIDATED ANNUAL FINANCIAL REPORTS

YEAR ENDED 30 JUNE 2008

ABN 43 141 857 613

Income Statement	10
Balance Sheet	11
Cash Flow Statement	12
Statement of Changes in Equity	13
Notes to the Financial Statements	14
Statement by Commissioner	54
Auditor General's Opinion	55

INCOME STATEMENT

For the year ended 30 June, 2008

	Notes	Economic Entity 2008 \$'000	Statutory Corporation 2008 \$'000	Economic Entity 2007 \$'000	Statutory Corporation 2007 \$'000
Continuing Operations					
Revenue from ordinary activities					
From sales of timber and related activities	3a	252 848	252 848	223 621	223 621
Income from investment properties	3b	88	88	108	108
From other operating activities	3b	40 859	40 859	46 821	46 821
Total Revenue		293 795	293 795	270 550	270 550
Less Expenses from Continuing Operations					
Contract harvest & haulage		113 038	113 038	94 306	94 306
Contractors		15 357	15 357	12 588	12 588
Depreciation	4a	10 477	10 477	10 254	10 254
Employee & related		29 389	-	27 844	-
Personnel services	23(i),(iii)	54 136	83 525	46 019	73 863
Materials		19 281	19 281	28 612	28 612
Fees		10 308	10 308	9 085	9 085
Other		4 117	4 117	7 521	7 521
Changes in Fair Value/(Increment) Decrement Biological Assets	11(a), (c)	(79 959)	(79 959)	172 641	172 641
		176 144	176 144	408 870	408 870
Profit / (Loss) from continuing operations before income tax		117 651	117 651	(138 320)	(138 320)
(Income tax expense)/Loss	5	(37 279)	(37 279)	39 965	39 965
Profit/(Loss) after tax from continuing operations		80 372	80 372	(98 355)	(98 355)
Net Profit/(Loss) for the period		80 372	80 372	(98 355)	(98 355)

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

BALANCE SHEET

As at 30 June, 2008

	Notes	Economic Entity 2008 \$'000	Statutory Corporation 2008 \$'000	Economic Entity 2007 \$'000	Statutory Corporation 2007 \$'000
Current assets					
Cash and cash equivalents	6	11 640	11 640	5 615	5 615
Trade and other receivables	8	40 542	40 542	42 299	42 299
Inventories	7	8 389	8 389	7 943	7 943
Prepayment		1 896	1 896	2 951	2 951
Other assets	16,23(ii),(iv)	11 295	11 295	16 249	16 249
Current tax assets		1 491	1 491		
Total Current Assets		75 253	75 253	75 057	75 057
Non-current assets					
Property, plant and equipment	9	1 196 810	1 196 810	1 205 372	1 205 372
Biological assets	11	1 515 310	1 515 310	1 403 831	1 403 831
Investment properties	10	7 916	7 916	9 039	9 039
Deferred income tax asset	5b(ii)	7 457	7 457	10 614	10 614
Total Non-Current assets		2 727 493	2 727 493	2 628 856	2 628 856
TOTAL ASSETS		2 802 746	2 802 746	2 703 913	2 703 913
Current liabilities					
Trade and other payables	12	49 631	49 631	52 752	52 752
Interest-bearing loans and borrowings	13	10 562	10 562	31 211	31 211
Dividend provided	14	1 000	1 000	16 000	16 000
Provisions	15	12 467	770	11 823	820
Current tax liability	5			1 615	1 615
Total Current Liabilities		73 660	61 963	113 401	102 398
Non-current liabilities					
Interest-bearing loans and borrowings	13	158 927	158 927	128 532	128 532
Provisions	15	3 580	3 460	3 550	3 320
Deferred income tax liability	5	543 989	543 989	512 911	512 911
Amount due to related entities	23(ii),(iv)	24 949	36 766	24 414	35 647
Total Non-Current Liabilities		731 445	743 142	669 407	680 410
TOTAL LIABILITIES		805 105	805 105	782 808	782 808
NET ASSETS		1 997 641	1 997 641	1 921 105	1 921 105
Equity					
Capital		421 706	421 706	421 706	421 706
Asset revaluation reserve		701 252	701 252	704 872	704 872
Retained profits		874 683	874 683	794 527	794 527
TOTAL EQUITY		1 997 641	1 997 641	1 921 105	1 921 105

The above Balance Sheet should be read in conjunction with the accompanying notes.

CASH FLOW STATEMENT

For the year ended 30 June, 2008

	Notes	Economic Entity 2008 \$'000	Statutory Corporation 2008 \$'000	Economic Entity 2007 \$'000	Statutory Corporation 2007 \$'000
Cash flows from operating activities					
Receipts from customers		289 262	289 262	267 100	267 100
Payment to suppliers and employees		(232 223)	(232 223)	(213 975)	(213 975)
Interest received		1 165	1 165	619	619
Income taxes paid		(4 599)	(4 599)	(2 961)	(2 961)
Net Cash Flow from operating Activities		53 605	53 605	50 783	50 783
Cash flows from investing activities					
Payments for property, plant and equipment		(12 638)	(12 638)	(23 007)	(23 007)
Payments for plantation establishment		(22 266)	(22 266)	(22 032)	(22 032)
Capitalised interest on Borrowings		(10 019)	(10 019)	(8 721)	(8 721)
Proceeds from sale of property, plant & equipment		3 596	3 596	6 470	6 470
Net cash (outflow) from investing activities		(41 327)	(41 327)	(47 290)	(47 290)
Cash flows from financing activities					
Proceeds from borrowings		38 467	38 467	38 000	38 000
Repayment of borrowings		(28 720)	(28 720)	(16 533)	(16 533)
Dividends paid	14	(16 000)	(16 000)	(26 332)	(26 332)
Net cash inflow (outflow) from financing activities		(6 253)	(6 253)	(4 865)	(4 865)
Net increase (decrease) in cash held					
Cash at the beginning of the financial year		5 615	5 615	6 987	6 987
Cash and cash equivalents at the end of the Period	6	11 640	11 640	5 615	5 615

The above cash flow statement should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June, 2007

	Economic Entity Capital \$'000	Statutory Corporation Capital \$'000	Economic Entity Accumulated Funds \$'000	Statutory Corporation Accumulated Funds \$'000	Economic Entity Asset Revaluation Reserve \$'000	Statutory Corporation Asset Revaluation Reserve \$'000	Economic Entity Total Equity \$'000	Statutory Corporation Total Equity \$'000
At July 2006	421 706	421 706	907 405	907 405	487 559	487 559	1 816 670	1 816 670
Changes in equity-transaction with owners as owners(b)			(1 293)	(1 293)			(1 293)	(1 293)
Realised Gain on disposal of other fixed assets			2 770	2 770	(2 770)	(2 770)	-	-
Fair Value Revaluation of fixed Assets					315 135	315 135	315 135	315 135
Loss on Decrement of Fixed Asset Valuation					(1 276)	(1 276)	(1 276)	(1 276)
Deferred Tax					(92 630)	(92 630)	(92 630)	(92 630)
Equity Dividend			(16 000)	(16 000)			(16 000)	(16 000)
Fair Value Adjustment on prior year acquisitions					(1 146)	(1 146)	(1 146)	(1 146)
Profit/Loss for the Year			(98 355)	(98 355)			(98 355)	(98 355)
At 30 June 2007	421 706	421 706	794 527	794 527	704 872	704 872	1 921 105	1 921 105

(b) In 2006/2007, 5797.79 hectares were transferred revoked and transfer to NPWS and other NSW related government entities

For the year ended 30 June, 2008

	Economic Entity Capital \$'000	Statutory Corporation Capital \$'000	Economic Entity Accumulated Funds \$'000	Statutory Corporation Accumulated Funds \$'000	Economic Entity Asset Revaluation Reserve \$'000	Statutory Corporation Asset Revaluation Reserve \$'000	Economic Entity Total Equity \$'000	Statutory Corporation Total Equity \$'000
At July 2007	421 706	421 706	794 527	794 527	704 872	704 872	1 921 105	1 921 105
Changes in equity-transaction with owners as owners(b)			(6 331)	(6 331)			(6 331)	(6 331)
Realised Gain on disposal of other fixed assets			5 564	5 564	(3 620)	(3 620)	1 944	1 944
Deferred Tax			1 551	1 551			1 551	1 551
Equity Dividend			(1 000)	(1 000)			(1 000)	(1 000)
Profit/Loss for the Year			80 372	80 372			80 372	80 372
At 30 June 2008	421 706	421 706	874 683	874 683	701 252	701 252	1 997 641	1 997 641

(b) In 2007/2008, 12,364.13 hectares were transferred revoked and transfer to NPWS and other NSW related government entities

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June, 2008

1. Corporate Information

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

In June 2004, Forests NSW was aligned with the Department of Primary Industries (DPI) but continues to operate as a self funded Public Trading Enterprise (PTE).

On 17th March, 2006 the Government proclaimed the Public Sector Employment Legislation Amendment Act 2006. This Act made fundamental changes to the employment arrangements of many statutory corporations through amendments to the Public Sector Employment and Management Act 2002 (PSEMA) and other Acts. In particular, the status of employees of many statutory corporations has been changed. They are now employees of the Government of New South Wales in the service of the Crown. Employees of the Government were assigned to Divisions of the Government Service. Departments are now also known as Divisions of the Government Service, per Schedule 1 of the PSEMA.

From 17th March, 2006 Forests NSW employees became the employees of either DPI or the new entity, Forestry Commission Division. As a PTE, Forests NSW continues to be responsible for making use of the employees and resources of both DPI and Forestry Commission Division at its own cost, and must meet all expenses, taxes, duties and Government dividends from revenues earned from the commercial business activities it undertakes.

This supply and continued use of resources and shared services from DPI and Forestry Commission Division is based on a signed Memorandum of Understanding.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards and Interpretations, the Public Finance and Audit Act 1983, the Public Finance and Audit (General) Regulation 2005.

Forest NSW is a for profit entity and its accounts are consolidated as part of the NSW Total State Sector Accounts.

The accounts 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 report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated.

(b) Statement of Compliance

The consolidated and parent entity financial report has been prepared & complies with the accounting and disclosure requirements specified by all Australian Accounting Standards and Interpretations.

(c) Basis of Consolidation

This financial report has been consolidated in accordance with Australian Accounting Standard AASB 127 Consolidated and Separate Financial Statements

The consolidated statements comprise the financial statements of Forests NSW (parent entity) and Forestry Commission Division as at 30 June 2008.

The financial statements of Forestry Commission Division are prepared, using the same consistent accounting policies with Forests NSW.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions are eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

The consolidated financial report for the year ended 30 June 2008 has been authorised for use by Richard Sheldrake, Commissioner of the Forestry Commission of New South Wales, on 17th December, 2008.

(d) Income Tax (Tax equivalents regime) (refer Note 5)

As of 1 July 2001, Forests NSW was subject to the National Tax Equivalents Regime (NTER) which requires Government Trading Enterprises 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 were 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 period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Tax for the current period/prior period is recognised as a liability (or asset) to the extent that 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 balance sheet. 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.

Included in the deferred tax liability is an amount which represents future deductibility of biological assets amounting to \$796 693 000. (Tax effect @30% is \$239 007 900).

The above amount was ascertained during the transitional period when Forests NSW moved from a NSW State Government Agency to a TER (Tax Equivalent Regime) entity.

Forests NSW has never claimed a tax deduction for this establishment plantation cost against derived post TER and NTER (National Tax Equivalent Regime) assessable income.

The deductibility of this amount is uncertain and is subject to Forests NSW obtaining a private binding ruling with the Australian Taxation office during 2009.

The correctness of the deferred tax liability recognised for the biological assets is therefore subject to:

- i. confirmation that these deductions are available
- ii. accuracy of the future deductible amount of \$796 963 000

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June, 2008

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 period (s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have 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 company 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 period 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 periods.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates 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 of 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.

(e) Trade and Other Receivables (refer Note 8)

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 impairment provided when the debt is deemed uncollectible. Bad debts are written off as incurred.

Credit sales are generally 7, 14 or 30 days settlement.

(f) Inventories and Work in Progress (refer Note 7)

Inventories and Work in Progress (WIP) are stated at the lower of cost or 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.

(g) Non-Current Asset Valuations

Fixed Assets are reviewed and assessed periodically at each reporting cycle to assess fair value and impairment.

(i) Impairment of other tangible and intangible assets.

At each reporting date, Forests NSW reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. 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.

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.

(ii) Property, Plant & Equipment (refer Note 9)

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 were revalued by Valuation Services which is a business unit of Department of Lands on 30 June 2007. 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 would be replaced if Forests NSW was deprived of them.

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.

Independent valuations will be performed at least triennially for land, or earlier if significant market movements are detected, with purchases in the intervening periods taken to account at cost.

Roads & Bridges

Major Roads and Bridges have been independently revalued by Valuation Services (formerly State Valuation Office) at 30 June 2006 on the basis of written down replacement cost, which approximates fair value.

Independent valuations will be performed at least triennially or earlier if significant market movements are detected, with purchases in the intervening periods taken to account at cost.

Costs of building or significantly upgrading 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 have been independently revalued by Slattery Auctions at 30 June 2006 on the basis of market realisable estimate which approximates fair value.

Independent valuations will be performed at least triennially or earlier if significant market movements are detected, with purchases in the

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June, 2008

intervening periods taken to account at cost.

Motor vehicles and Mobile Plant were revalued at 30 June 2006 by management. The carrying value as at 30 June 2006 approximates to the fair value. Revaluations will be performed at least triennially for motor vehicles, or earlier if significant market movements are detected, with purchases in the intervening periods taken to account at cost.

Other Assets

Radio Equipment was revalued at 30 June 2006 by management. The carrying value as at 30 June 2006 approximates to the fair value. Aircraft was revalued by Slattery Auctions at 30 June 2006. Other assets are stated at written down value as at 30 June 2006, which approximates fair value.

(iii) Biological Assets (refer Note 11)

Softwood Plantation Timber

The fair value of the Softwood Pine Plantation Growing Stock has been assessed utilising a Net Market Value model, which is based upon standing volumes and current prices less the direct costs of disposing of the timber.

The present valuation model differentiates between the following components of the plantation: Non commercial plantations are defined as those plantations which are less than 15 years of age and which have not yet undergone a commercial operation. As market prices cannot be readily determined for these plantations, they are valued on the basis of historical costs incurred in their establishment.

Commercial plantations are defined as those plantations between 12 and 15 years of age which have experienced a commercial operation, and all plantations 15 years of age or greater. A commercial operation is defined as a thinning or clear felling which produces marketable quantities of forest products for sale.

Volume increments are determined both by periodic remeasurement of samples of plantations and by modelling growth from the date of most recent measurement to the valuation date. The modelled growth estimates are generally checked to physical data at five yearly intervals. The market valuation is prepared by qualified foresters, employed by Forests NSW using techniques/methods published in scientific journals and accepted by the forestry industry.

The current product proportion models, used to determine the component product volumes on which the valuations are based, were first implemented in 2002. To better reflect the effects of recent growth conditions and the usage of more genetically advanced seedling stock in more recent years, Forests NSW has recently commenced processes to test and validate the modelling projections to recent actual harvested volumes of various timber products.

Until these validation processes are completed, there may be some variation between reported modelled volumes and actual standing volumes. Recalibration of the inventory models will then be made to ensure models closely align to current actual harvest records. Should any amendment to the valuation become necessary as a result of this testing, any resulting financial effects will be incorporated into future valuations. Costs capitalised in relation to plantations comprise the direct costs of establishment and development attributable to a new plantation of specific age class and species, and indirect costs attributable to the growing stock establishment activity. These indirect costs include fire prevention

and suppression, road maintenance, forest management and planning, research, and administration and management.

Other ongoing maintenance and management costs in relation to commercial pine plantations are expensed as incurred, with the exception of major post thinning fertilising and pruning programs. Where these programs are designed specifically to improve stand quality, the costs are capitalised. The net change in fair value (resulting from price and volume movements) from the beginning, to the end of the year is recognised as revenue or an expense in the Income Statement.

Additional data from harvest reconciliations confined a value adjustment to Macquarie Region. This resulted in a value decrement adjustment of \$51 504 547 (\$105 593 586 in 2006-2007).

Hardwood Plantation Timber

These plantations are generally less than 15 years of age and have yet to undergo a commercial operation. As market prices cannot be readily determined for these plantations and as the quality of inventory and growth data has not developed to a suitable standard to support a detailed growth model for these plantations at this time, this resource is valued on the basis of historical costs incurred in their establishment, being the best indication of fair value of the standing timber.

As Hardwood plantations undergo a commercial operation or reach age 15, Forests NSW intends to move to market value for this resource. Land under these plantations and integral infrastructures have been independently valued and disclosed separately in these accounts.

Native Forest Timber

The fair value of the Native Forest timber resource, currently available for harvesting, has been assessed utilising an updated Net Present Value for the F08 financial year. This approach has been recommended, in the short term, by an independent review of Forests NSW's native forest valuation methodology by Pöyry Forest Industry Limited (Pöyry). The approach is based upon standing volumes and current prices less direct costs of disposing of the timber.

Standing volume information is derived from the most recently available resource inventory data. The inventory base is updated 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. Only the standing volume of timber that is available in a single harvest cycle is valued. Standing volume information has been grown forward from inventory date to 30 June 2008 and reduced by the volume of products sold since the inventory date.

The Western River Redgum forests and Southern Cypress forests were previously not covered by the standard inventory plot base and previous valuations have relied upon older sources of data for the derivation of values. These areas are now covered by the standard inventory plot base with the Western River Red Gum plot set being current as of the 1/1/2008 and the Southern Cypress plot set being current as of the 1/1/2007.

In determining the standing volume, the gross area of native forests is reduced by the extent where logging is excluded in certain areas. On the north and south coast a net harvest area modifier is then applied

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June, 2008

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 net harvest area for unmapped flora and fauna exclusions.

After adjusting the gross standing volume for the above exclusions, reconciliation factors are applied to the standing volume of products within each valuation area. These reconciliation factors reflect restrictions on the intensity of harvesting in native forests and the influence of current markets on FNSW's ability to sell certain product types. The reconciliation factors were derived independently by Pöyry and represent a write down factor of the estimated total standing merchantable volume, derived from plot data, with the actual harvested yields from the same areas. A summary of the reconciliation factors used are shown in the table below:

Valuation Area	Reconciliation Factor (%)		
	High quality	Low quality	Pulp
Western cypress non-RA	34	N/A	N/A
Western cypress RA	34	N/A	N/A
Western River Red Gum	31	48	1
South Coast Tumbarumba	25	21	63
South Coast Batemans Bay	25	21	63
South Coast Eden	30	30	56
Central Region	43	29	16
North East Region	35	27	2
North Coast pre-94 hardwood plantations	30	30	30

The market value for products by species that is applied to yield estimates was sourced from current years actual price data adjusted for marketing and selling costs.

Forests NSW older hardwood plantation resource (pre 1994) has presently been valued as native forest until the plantations are accredited.

Forests NSW manages available native 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 native forest areas. As a result, all costs incurred in managing, maintaining and developing the Native Forests timber resources are expensed as incurred on the basis that all relevant costs are incurred in maintaining a constant forest resource.

(h) Carbon Credits

Forests NSW participated in an inaugural sale of New South Wales Greenhouse Abatement Credits in 2004/2005. For financial year ending 30 June, 2008, unsold carbon credit certificates are accounted for as inventory at lower of cost or net realisable value.

(i) Depreciation of Property, Plant & Equipment

Depreciation is charged on Property (other than land), and Plant & Equipment at rates which provide for the original cost or valuation to be written down over the expected useful life of the asset. Depreciation commences when the asset is brought into commercial operation.

Type of Asset	Depreciation Method	Useful Life
Property (other than Land)	Straight Line	10 to 50 Years
Aircraft	Straight Line	10 years
Other Plant and Equipment	Straight Line	3 to 50 Years
Roads and Bridges		
• earthworks	Straight Line	100 Years
• paving (gravel)	Straight Line	30 Years
• paving (bitumen)	Straight Line	50 Years

(j) 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 cases the costs are capitalised and depreciated. Other routine operating maintenance, repair and minor renewal costs are also expensed as incurred.

(k) Derecognition of Assets

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

Any gain or loss from derecognition of assets upon disposal is included in the income statement in the year the item is derecognised.

(l) Other Financial Assets (refer Note 6)

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

Forests NSW subsequently measures investments classified as "held for trading" or designated "at fair value through profit or loss" at fair value. Financial assets are classified as "held for trading" if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading. Gains or losses on these assets are recognised in the income statement.

(m) Interest-bearing Loans and Borrowings (refer Note 13)

Interest-bearing loans and borrowings are carried at current capital value, which represent the present value of future cash flows associated with servicing the debt. Interest is accrued over the period it becomes due and is recorded as part of other creditors.

(n) Guarantee Fee

Forests NSW is required to pay an annual Government Guarantee Fee to the 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 the NSW Treasury each year. Forests NSW has been assigned a private stand alone qualified rating indication of 'BBB-' (BBB minus) by Fitch ratings. This is not necessarily the unqualified corporate credit rating that would otherwise apply to Forests NSW.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June, 2008

(o) Financial Instruments (refer Note 17)

Recognised Financial Instruments	Accounting Policies	Terms and Conditions
i) Financial Assets		
Cash	Short-term deposits are stated at net realisable value. Interest is recognised in the income statement when earned	Cash is deposited at call
Receivables	Trade receivables are carried at nominal amounts due less any provision for doubtful debts. A provision is recognised when the collection of the amount is no longer probable.	Credit sales are 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 income statement when earned	All Investments during the year were at call
ii) 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

(p) Cash and Cash Equivalents

For purposes of the cash flow statement, cash includes 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.

(q) Finance Costs

Finance costs are recognised as expenses in the period 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

Capitalisation of Borrowing Costs:

Borrowing costs are capitalised as these funds have been utilised for the acquisition of land and for the establishment and development of new plantations which by their nature take a substantial period of time to become commercially productive.

(r) Rounding of Amounts

The amounts in the Financial Statements have been rounded off to the nearest thousand dollars unless specifically stated to be otherwise.

(s) Provisions

Provisions are recognised when past events will 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 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.

(t) Lease Assets

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

Financial leases are capitalised at the inception of the lease based on the fair value of the leased assets or the lower of, 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 income statement on a straight-line basis over the lease term

(u) Dividend (refer Note 14)

The amount of Dividend payable to the NSW Treasury is \$1 000 000 (2006/2007 \$16 000 000).

(v) Revenue Recognition

Revenues are recognised at 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 control transfers to the buyer the significant risks and rewards of ownership.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June, 2008

(w) 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.

(x) Employee Benefits

Workers Compensation Insurance

Forests NSW is a licensed self insurer under the provisions of the Workers Compensation Act 1987. 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 30th June 2008. In addition separate insurance cover is held with private insurance companies for excess total incident and total claims costs.

From 17th, 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's statutory accounts to New South Wales Department of Primary Industries (DPI) and Forestry Commission Division in accordance with the established memorandum of understanding. In the Forests NSW's (Statutory Balance Sheet), they are disclosed as amounts due to related entities.

Upon consolidation of the year end financial statements, employee related liabilities from the Forestry Commission Division are shown as current and non current provisions.

Annual leave

Liability for Annual Leave 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.

Long Service Leave

A liability for Long Service Leave is recognised in Forestry Commission Division and is measured 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 expect 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.

Long Service Leave liability was assessed by actuaries at 30th June, 2008.

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.

Superannuation

Calculation of the total liability for superannuation is based on actuarial advice provided by Pillar Administration.

The superannuation liability is recognised in Forestry Commission Division. It is the difference between the gross liabilities and the stake in the funds at reporting date in respect of Forestry Commission Division employees (*refer Note 16*).

(y) Investment Property

The Economic Entity 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 profit or loss in which they arise.

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

(z) Adoption of new and revised Accounting Standards.

In the current year, Economic entity has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (The AASB) that are relevant to its operations and effective for the current annual reporting period. The following standards listed below only impacted on the Economic Entity financial statements with respect to disclosure.

- AASB 7 'Financial instruments: Disclosures'
- AASB 101 Presentation of financial statements (revised October 2006)

At the date of authorisation of the financial report, the following Standards and Interpretations were on issue but not yet effective:

- | | |
|---|--|
| • AASB 8 'Operating Segments and consequential amendments to other accounting standards resulting from its issue. | • Effective for annual reporting periods beginning on or after 1 January 2009. |
|---|--|

Early adoption of new or revised Accounting Standards/Interpretation.

The following Australian Accounting Standards/Interpretations have been mandated by NSW Treasury not to adopt early in this financial report:

- AASB 3 (March 2008), AASB 127 and AASB 2008-3 regarding business combinations;
- AASB 8 and AASB 2007-3 regarding operating segments;
- AASB 101 (Sept 2007) and AASB 2007-8 regarding presentation of financial statements;
- AASB 123 (June 2007) and AASB 2007-6 regarding borrowing costs;
- AASB 1004 (Dec 2007) regarding contributions;
- AASB 1049 (Oct 2007) regarding the whole of government and general government sector financial reporting;
- AASB 1050 (Dec 2007) regarding administered items;
- AASB 1051 (Dec 2007) regarding land under roads;
- AASB 1052 (Dec 2007) regarding disaggregated disclosures;
- AASB 2007-9 regarding amendments arising from the review of AASs 27, 29 and 31;
- AASB 2008-1 regarding share based payments;
- AASB 2008-2 regarding puttable financial instruments;
- Interpretation 4 (Feb 2007) regarding determining whether an arrangement contains a lease;
- Interpretation 12 and AASB 2007-2 regarding service concession arrangements;
- Interpretation 13 on customer loyalty programmes;
- Interpretation 14 regarding the limit on a defined benefit asset;
- Interpretation 129 (Feb 2007) regarding service concession disclosures;
- Interpretation 1038 (Dec 2007) regarding contributions by owners.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June, 2008

3. REVENUE

	Economic Entity 2008 \$ 000	Statutory Corporation 2008 \$ 000	Economic Entity 2007 \$ 000	Statutory Corporation 2007 \$ 000
Revenue				
a) From timber and related operating activities				
Royalties from sale of timber and related products	138 837	138 837	128 421	128 421
Contract Harvest and Haulage	114 011	114 011	95 200	95 200
	252 848	252 848	223 621	223 621
b) From other operating activities				
Community Service Obligations	9 557	9 557	9 557	9 557
Other Services Rendered	24 024	24 024	23 669	23 669
Interest received	1 165	1 165	619	619
Gain on revaluation of investment properties	-	-	4 261	4 261
Rental Income from Investment Properties	88	88	108	108
Other rental	2 857	2 857	2 681	2 681
Gain/(Loss) on Sale of Non Current Assets	(3 635)	(3 635)	(578)	(578)
Decrement on revaluation of fixed assets	-	-	(166)	(166)
Other State Government Grants	6 891	6 891	6 778	6 778
Superannuation Gain	-	-	-	-
	40 947	40 947	46 929	46 929
Total Revenue	293 795	293 795	270 550	270 550

Community Services and Government Grants

Forests NSW Community Service and Government Grants totalled \$16 448 000 (2007: \$16 335 000). Grants included capital and revenue components, which are detailed in the following notes:

(i) Community Service Obligations

The State Government contributed \$9 557 000 (2007: \$9 557 000) towards the cost of providing Community Services. This contribution was included in the accounts as revenue. In 2007/08, 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 \$9 849 000 (2007: \$11 136 000). These costs are included in operating expenditure.

(ii) Other Government Grants

The State Government also paid Forests NSW \$6 891 000 (2007: \$6 778 000) for the performance of specific services including tasks associated with the Interim Assessment Process and related Comprehensive Resource Assessments.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June, 2008

4. EXPENSES

a) Expenses

	Notes	Economic Entity 2008 \$'000	Statutory Corporation 2008 \$'000	Economic Entity 2007 \$'000	Statutory Corporation 2007 \$'000
Finance costs					
Interest and finance charges		10 019	10 019	8 721	8 721
Less: Amount capitalised		(10 019)	(10 019)	(8 721)	(8 721)
Finance costs expensed		-	-	-	-
Written down value of property, plant and equipment disposed		7 231	7 231	7 215	7 215
Depreciation					
Buildings		1 203	1 203	992	992
Roads & bridges		4 172	4 172	4 045	4 045
Plant and equipment		5 102	5 102	5 217	5 217
Total depreciation		10 477	10 477	10 254	10 254
Other charges against assets					
Bad debts written off - trade debtors		2 287	2 287	49	49
Provisions /Expense					
Doubtful debts	8	(2 404)	(2 404)	2 398	2 398
Personnel Services/Employee entitlements		15 116	15 116	13 106	13 106
Workers compensation	15	90	90	770	770
Dividend	14	(1 000)	(1 000)	16 000	16 000
Total other provisions		11 802	11 802	32 274	32 274

(b) Individually Significant Items

Operating profit after income tax includes the following individually significant items:	Notes	Economic Entity 2008 \$'000	Statutory Corporation 2008 \$'000	Economic Entity 2007 \$'000	Statutory Corporation 2007 \$'000
Expenses					
Net gain/(loss) from staff superannuation fund		(3 150)	-	1 621	-
		(3 150)	-	1 621	-
Net Movement in Staff Superannuation Fund					
Changes in Fair Value /(decrement) in Biological assets	11	79 959	79 959	(172 641)	(172 641)
Write off of failed hardwood/softwood plantation	11	(764)	(764)	(12 945)	(12 945)
Total of significant items		79 195	79 195	(185 586)	(185 586)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June, 2008

5. INCOME TAXES

A) Income Tax recognised in Profit and Loss

<i>Notes</i>	Economic Entity 2008 \$'000	Statutory Corporation 2008 \$'000	Economic Entity 2007 \$'000	Statutory Corporation 2007 \$'000
Tax expense/(income) comprises :				
Current tax expense/(income)	1 492	1 492	5 190	5 190
Deferred income tax				
Relating to origination and reversal of timing differences that are part of :				
Deferred tax liability	32 630	32 630	(42 886)	(42 886)
Deferred tax asset	3 157	3 157	(2 269)	(2 269)
Total expense /(income)	37 279	37 279	(39 965)	(39 965)
Attributable to :				
Continuing operations	37 279	37 279	(39 965)	(39 965)
Discontinued operations				
	37 279	37 279	(39 965)	(39 965)
The prima facie income tax expense on pre-tax accounting profit from				
Operation reconciles to the income tax expense in the financial statements as follows:				
Accounting Profit/(Loss) from continuing operations	117 651	117 651	(138 320)	(138 320)
Accounting Profit/(Loss) from discontinued operations			-	-
At the statutory income tax rate of 30%	35 295	35 295	(41 496)	(41 496)
Excess/(Deficit) of accounting depreciation over tax	204	204	208	208
Non revenue expenditures	1 519	1 519	52	52
Loss on discontinued assets	1 411	1 411	72	72
Provisions and accruals expenses	-576	-576	1 338	1 338
Unearned revenue	(2 688)	(2 688)	(311)	(311)
(Increment)/ Decrement in net market value of biological assets	(23 987)	(23 987)	51 792	51 792
Non Assessable Income	-	-	(1 885)	(1 885)
Capitalised Finance Costs	(3 006)	(3 006)	(2 616)	(2 616)
Sundry Items	-	-	760	760
Capital Expenditures on Plantation Establishment	(6 680)	(6 680)	(2 723)	(2 723)
Deferred Income Tax				
Relating to origination and reversal of timing differences	35 787	35 787	(45 156)	(45 156)
Income tax expense reported in income statement	37 279	37 279	(39 965)	(39 965)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June, 2008

5. INCOME TAXES (continued)

B) (i) Income Tax Equivalents (2006-2007)

	Balance Sheet 2007		Balance Sheet 2006		Income Statement 2007		Income Statement 2006	
	Economic Entity \$'000	Statutory Corporation \$'000	Economic Entity \$'000	Statutory Corporation \$'000	Economic Entity \$'000	Statutory Corporation \$'000	Economic Entity \$'000	Statutory Corporation \$'000
Deferred Income tax equivalent at 30 June relates to the following: Deferred income tax equivalent liabilities								
Property, Plant & Equipment	(330 770)	(330 770)	(234 047)	(234 047)	96 723	96 723	1 160	1 160
Biological Assets	(182 141)	(182 141)	(228 594)	(228 594)	(46 453)	(46 453)	(10 878)	(10 878)
Superannuation	-	-	-	-	-	-	(47 485)	(47 485)
Gross Deferred income tax equivalent liabilities	(512 911)	(512 911)	(462 641)	(462 641)	-	-	-	-
Deferred income tax equivalent assets								
Superannuation	-	-	-	-	-	-	57 446	57 446
Provision of expenses	1 948	1 948	650	650	1 298	1 298	8 522	8 522
Revenue in Advance	8 666	8 666	7 695	7 695	971	971	(3 946)	(3 946)
Gross Deferred income tax equivalent assets	10 614	10 614	8 345	8 345	-	-	-	-
Deferred income tax equivalent charge					52 539	52 539	4 819	4 819

B) (ii) Income Tax Equivalents (2007-2008)

	Balance Sheet 2008		Balance Sheet 2007		Income Statement 2008		Income Statement 2007	
	Economic Entity \$'000	Statutory Corporation \$'000	Economic Entity \$'000	Statutory Corporation \$'000	Economic Entity \$'000	Statutory Corporation \$'000	Economic Entity \$'000	Statutory Corporation \$'000
Deferred Income tax equivalent at 30 June relates to the following: Deferred income tax equivalent liabilities								
Property, Plant & Equipment	(328 404)	(328 404)	(330 770)	(330 770)	2 366	2 366	96 723	96 723
Biological Assets	(215 585)	(215 585)	(182 141)	(182 141)	(33 444)	(33 444)	(46 453)	(46 453)
Gross Deferred income tax equivalent liabilities	(543 989)	(543 989)	(512 911)	(512 911)	-	-	-	-
Deferred income tax equivalent assets								
Provision of expenses	1 451	1 451	1 948	1 948	(497)	(497)	1 298	1 298
Revenue in Advance	6 006	6 006	8 666	8 666	(2 660)	(2 660)	971	971
Gross Deferred income tax equivalent assets	7 457	7 457	10 614	10 614	-	-	-	-
Deferred income tax equivalent charge					(34 235)	(34 235)	52 539	52 539

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June, 2008

6. CASH AND CASH EQUIVALENTS

Notes	Economic Entity 2008 \$'000	Statutory Corporation 2008 \$'000	Economic Entity 2007 \$'000	Statutory Corporation 2007 \$'000
Cash at bank	10 418	10 418	3 056	3 056
Cash on hand	46	46	59	59
NSW Treasury Corporation Hour Glass Cash Facility	43	43	2 066	2 066
Other Financial Assets	1 133	1 133	434	434
Balances as per cash flow statement	11 640	11 640	5 615	5 615

Investments at call

The NSW Treasury Corporation Hour glass cash facility have been subject to floating interest rates between 6.87% and 7.83%(2007: 5.83% and 6.87%).

7. INVENTORIES

The basis for valuation of Inventories is set out in Note 2(f).

Notes	Economic Entity 2008 \$'000	Statutory Corporation 2008 \$'000	Economic Entity 2007 \$'000	Statutory Corporation 2007 \$'000
Materials and parts – at cost	4 867	4 867	5 059	5 059
Work in progress and finished goods – at cost and net realisable value	3 522	3 522	2 884	2 884
	8 389	8 389	7 943	7 943
Provision for stock losses	-	-	-	-
Total Inventories at lower of cost and net realisable value	8 389	8 389	7 943	7 943

8. TRADE AND OTHER RECEIVABLES

Notes	Economic Entity 2008 \$'000	Statutory Corporation 2008 \$'000	Economic Entity 2007 \$'000	Statutory Corporation 2007 \$'000
Receivables	40 128	40 128	44 554	44 554
Allowance for impairment Loss	(22)	(22)	(2 427)	(2 427)
	40 106	40 106	42 127	42 127
Other debtors*	436	436	172	172
Total	40 542	40 542	42 299	42 299

During the year bad debts amounting to \$2 287 000 (2007: \$49 000) were written off.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June, 2008

8. TRADE AND OTHER RECEIVABLES (continued)

(i) Allowance for impairment loss

Trade receivables are non interest bearing and are generally on 30-60 day terms . A provision for impairment loss is recognised when there is evidence of debt being impaired. An impairment loss of \$ 0(2007: \$2 427 000)has been recognised in the current year .

All trade debtors are recognised as amounts receivable at balance date. Collectibility of trade debtors is reviewed on an ongoing basis. Procedures as established in the Treasurer's Directions are followed to recover outstanding amounts, including letters of demand. Debts which are known to be uncollectible are written off. An allowance for impairment is raised when there is objective evidence that the entity will not be able to collect all amounts due.

This evidence includes past experience, and current and expected changes in economic conditions and debtor credit ratings. No interest is earned on trade debtors.

The Department is not materially exposed to concentrations of credit risk to a single trade debtor or group of debtors.

Movement of the impairment loss were as follows :

Notes	Economic Entity 2008 \$'000	Statutory Corporation 2008 \$'000	Economic Entity 2007 \$'000	Statutory Corporation 2007 \$'000
At 1st July	2 426	2 426	29	29
Charge for the year	-	-	2 405	2 405
Amount written off	(2 404)	(2 404)	(8)	(8)
Total	22	22	2 426	2 426

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

Notes	Economic Entity 2008 \$'000	Statutory Corporation 2008 \$'000	Economic Entity 2007 \$'000	Statutory Corporation 2007 \$'000
Total				
0-30 Days*	27 548	27 548	24 388	24 388
31-60 Days	11 728	11 728	13 767	13 767
61-90 Days (Past due but not impaired)	1 215	1 215	444	444
61-90 Days(Considered impaired)	-	-	-	-
>90 Days(Past due but not impaired)	51	51	1 290	67
>90 Days (Considered impaired)	-	-	2 410	2 410

* Other debtor balances do not contain impaired assets and are not past due. These debts balances will be received when due

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June, 2008

9. NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

Statutory Corporation

	Note	Crown Land \$'000	Freehold Land \$'000	Buildings \$'000	Roads & Bridges \$'000	All Plant & Equipment \$'000	PPE WIP \$'000	Total \$'000
At July 2007								
At Fair Value		1 027 747	1 946	27 280	112 901	36 352	8 181	1 214 407
Accumulated depreciation and impairment					(4 045)	(4 990)	-	(9 035)
Net Carrying Amount		1 027 747	1 946	27 280	108 856	31 362	8 181	1 205 372
At 30 June 2008								
At Fair Value		1 022 466	1 946	28 565	117 914	34 914	8 204	1 214 009
Accumulated depreciation and impairment				(1 353)	(8 216)	(7 630)		(17 199)
Net Carrying Amount		1 022 466	1 946	27 212	109 698	27 284	8 204	1 196 810

Reconciliation

A reconciliation of the carrying amount of each class of property, plant and equipment at the beginning and end of the current reporting period is set out below.

	Note	Crown Land \$'000	Freehold Land \$'000	Buildings \$'000	Roads & Bridges \$'000	All Plant & Equipment \$'000	PPE WIP \$'000	Total \$'000
Year ended 30 June 2007								
Net carrying amount at start of year		715 833	3 413	22 504	109 115	32 260	5 017	888 142
Additions (transferred to Fixed Assets)		4 962		1 935	3 786	9 160	3 164	23 007
Asset Dedications								
Disposals		(424)	(2 000)	(747)		(3 878)		(7 049)
Asset Revocation		(2 631)						(2 631)
Depreciation/amort'n expense*	4(a)			(1 188)	(4 045)	(5 305)		(10 538)
Revaluation Increments (Decrements)		310 007	533	4 776		(875)		314 441
Net carrying amount at end of year		1 027 747	1 946	27 280	108 856	31 362	8 181	1 205 372

*Note: Depreciation expense differs from Income Statement by \$284 000 (2006 \$276 000). This amount represents depreciation held in inventories work in progress as a cost of production of nursery seedlings

Independent valuation:

(a) Land values assessed by Valuation Services as at 30/06/07. In 2006/2007 5,797.79 hectares (2005/2006, 359 000 hectares revoked, 2 731 were dedicated) were revoked and transferred to NPWS and other NSW related government agencies.

(b) Building values assessed by Valuation Services as at 30/06/07

(c) Roads and bridges revalue by Valuation Services (Formerly SVO) as at 30/06/06.

(d) Motor Vehicles and Heavy Plant assessed by management valuation at 30/06/06.

(e) Heavy Plant Valuation by Slattery auction as at 30/06/2006

(f) Other plant and equipment assessed by management valuation as at 30/06/06.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June, 2008

9. NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT (continued)

	Note	Crown Land \$'000	Freehold Land \$'000	Buildings \$'000	Roads & Bridges \$'000	All Plant & Equipment \$'000	PPE WIP \$'000	Total \$'000
Year ended 30 June 2008								
Net carrying amount at start of year		1 027 747	1 946	27 280	108 856	31 362	8 181	1 205 372
Additions							12 986	12 986
Transfers from WIPS				1 285	5 014	6 316	(12 615)	0
Asset Dedications		203						203
Disposals		(894)				(5 215)	(348)	(6 457)
Asset Revocation		(4 590)						(4 590)
Depreciation/amort'n expense*	4(a)			(1 353)	(4 172)	(5 179)		(10 704)
Revaluation Increments (Decrements)								
Net carrying amount at end of year		1 022 466	1 946	27 212	109 698	27 284	8 204	1 196 810

*Note: Depreciation expense differs from Income Statement by \$227 000 (2007 \$284 000). This amount represents depreciation held in inventories work in progress as a cost of production of nursery seedlings

Independent valuation:

(a) Land values assessed by Valuation Services as at 30/06/07. In 2007/2008 12 364.13 hectares (2006/2007, 5 797.79 hectares revoked,) were revoked and transferred to NPWS and other NSW related government agencies.

(b) Building values assessed by Valuation Services as at 30/06/07

(c) Roads and bridges revalue by Valuation Services (Formerly SVO) as at 30/06/06.

(d) Motor Vehicles and Heavy Plant assessed by management valuation at 30/06/06.

(e) Heavy Plant Valuation by Slattery auction as at 30/06/2006

(f) Other plant and equipment assessed by management valuation as at 30/06/06.

(g) Update factors were obtained from Valuation Services as at 30/06/2008 and were not material enough to warrant adjustment to fair market value of assets.

Reconciliation

A reconciliation of the carrying amount of each class of property, plant and equipment at the beginning and end of the current reporting period is set out below.

Economic Entity

	Note	Crown Land \$'000	Freehold Land \$'000	Buildings \$'000	Roads & Bridges \$'000	All Plant & Equipment \$'000	PPE WIP \$'000	Total \$'000
At 1 July 2007								
At Fair Value		1 027 747	1 946	27 280	112 901	36 352	8 181	1 214 407
Accumulated depreciation and impairment					(4 045)	(4 990)	-	(9 035)
Net Carrying Amount		1 027 747	1 946	27 280	108 856	31 362	8 181	1 205 372
At 30 June 2008								
At Fair Value		1 022 466	1 946	28 565	117 914	34 914	8 204	1 214 009
Accumulated depreciation and impairment				(1 353)	(8 216)	(7 630)		(17 199)
Net Carrying Amount		1 022 466	1 946	27 212	109 698	27 284	8 204	1 196 810

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June, 2008

9. NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT (continued)

Reconciliation

A reconciliation of the carrying amount of each class of property, plant and equipment at the beginning and end of the current reporting period is set out below.

	Note	Crown Land \$'000	Freehold Land \$'000	Buildings \$'000	Roads & Bridges \$'000	All Plant & Equipment \$'000	PPE WIP \$'000	Total \$'000
Year ended 30 June 2007								
Net carrying amount at start of year		715 833	3 413	22 504	109 115	32 260	5 017	888 142
Additions(transferred to Fixed Assets)		4 962		1 935	3 786	9 160	3 164	23 007
Asset Dedications								
Disposals		(424)	(2 000)	(747)		(3 878)		(7 049)
Asset Revocation		(2 631)						(2 631)
Depreciation/amort'n expense*	4(a)			(1 188)	(4 045)	(5 305)		(10 538)
Revaluation Increments (Decrements)		310 007	533	4 776		(875)		314 441
Net carrying amount at end of year		1 027 747	1 946	27 280	108 856	31 632	8 181	1 205 372

*Note: Depreciation expense differs from Income Statement by \$284 000 (2006 \$276 000). This amount represents depreciation held in inventories work in progress as a cost of production of nursery seedlings

Independent valuation:

- (a) Land values assessed by Valuation Services as at 30/06/07. In 2006/2007 5 797.79 hectares(2005/2006, 359 000 hectares revoked, 2 731 were dedicated) were revoked and transferred to NPWS and other NSW related government agencies.
 (b) Building values assessed by Valuation Services as at 30/06/07
 (c) Roads and bridges revalue by Valuation Services (Formerly SVO) as at 30/06/06.
 (d) Motor Vehicles and Heavy Plant assessed by management valuation at 30/06/06.
 (e) Heavy Plant Valuation by Slattery auction as at 30/06/2006
 (f) Other plant and equipment assessed by management valuation as at 30/06/06.

	Note	Crown Land \$'000	Freehold Land \$'000	Buildings \$'000	Roads & Bridges \$'000	All Plant & Equipment \$'000	PPE WIP \$'000	Total \$'000
Year ended 30 June 2008								
Net carrying amount at start of year		1 027 747	1 946	27 280	108 856	31 362	8 181	1 205 372
Additions							12 986	12 986
Transfer from WIPS				1 285	5 014	6 316	(12 615)	0
Asset Dedications		203						203
Disposals		(894)				(5 215)	(348)	(6 457)
Asset Revocation		(4 590)						(4 590)
Depreciation/amort'n expense*	4(a)			(1 353)	(4 172)	(5 179)		(10 704)
Revaluation Increments (Decrements)								
Net carrying amount at end of year		1 022 466	1 946	27 212	109 698	27 284	8 204	1 196 810

*Note: Depreciation expense differs from Income Statement by \$227 000 (2007 \$284 000). This amount represents depreciation held in inventories work in progress as a cost of production of nursery seedlings

Independent valuation:

- (a) Land values assessed by Valuation Services as at 30/06/07. In 2007/2008 12 364.13 hectares (2006/2007, 5 797.79 hectares revoked,) were revoked and transferred to NPWS and other NSW related government agencies.
 (b) Building values assessed by Valuation Services as at 30/06/07
 (c) Roads and bridges revalue by Valuation Services (Formerly SVO) as at 30/06/06.
 (d) Motor Vehicles and Heavy Plant assessed by management valuation at 30/06/06.
 (e) Heavy Plant Valuation by Slattery auction as at 30/06/2006
 (f) Other plant and equipment assessed by management valuation as at 30/06/06.
 (g) Update factors were obtained from Valuation Services as at 30/06/2008 and were not material enough to warrant adjustment to fair market value of assets.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June, 2008

10. INVESTMENT ASSETS

	Notes	Economic Entity \$'000 2008	Statutory Corporation \$'000 2008	Economic Entity \$'000 2007	Statutory Corporation \$'000 2007
Investment assets at beginning of reporting period-at fair value		9 039	9 039	4 778	4 778
Additions/Disposals during the year		(1 123)	(1 123)	-	-
Net gain/losses arising from fair value adjustments		-	-	4 261	4 261
Investment assets at end of reporting period-at fair value (a)		7 916	7 916	9 039	9 039

(a) At Valuation 2007: Land \$2 984 000, Buildings \$6 055 000 by Valuation Services

11. BIOLOGICAL ASSETS

Summary of Biological assets

	Notes	Economic Entity \$'000 2008	Statutory Corporation \$'000 2008	Economic Entity \$'000 2006	Statutory Corporation \$'000 2006
Softwood Plantation Timber Net Market Value at reporting date	11 a(i)	1 114 564	1 114 564	986 465	986 465
Hardwood Plantation Timber carrying amount as at reporting date	11b(i)	67 526	67 526	63 885	63 885
Native Forest Timber Net Market Value at reporting date	11 c(i)	333 220	333 220	353 481	353 481
		1 515 310	1 515 310	1 403 831	1 403 831

(a) Softwood Plantation Timber

i) Valuation

	Notes	Economic Entity \$'000 2008	Statutory Corporation \$'000 2008	Economic Entity \$'000 2007	Statutory Corporation \$'000 2007
Net market value of timber at beginning of reporting period		986 465	986 465	1 110 668	1 110 668
Capital expenditure - plantation establishment & development		18 625	18 625	19 735	19 735
Capitalisation of borrowing costs		10 019	10 019	8 721	8 721
Write-off of growing stock &/or establishment costs		(764)	(764)	(12 884)	(12 884)
Carrying amount as at the reporting date (prior to adjusting for changes in net market value)		1 014 345	1 014 345	1 126 240	1 126 240
Net market value at reporting date		1 114 564	1 114 564	986 465	986 465
Changes in fair Value/Net increment/(decrement) in the net market value of timber		100 219	100 219	(139 775)	(139 775)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June, 2008

11. BIOLOGICAL ASSETS (continued)

ii) Plantation area by species and age class

<i>Notes</i>	Economic Entity 2008 Hectares	Statutory Corporation 2008 Hectares	Economic Entity 2007 Hectares	Statutory Corporation 2007 Hectares
<i>Pinus radiata</i>				
0 –14 years	61 383	61 383	60 502	60 502
15-30 years	90 046	90 046	94 916	94 916
31 years and over	29 537	29 537	29 434	29 434
Total	180 966	180 966	184 852	184 852
Southern Pine				
0 –14 years	3 715	3 715	3 689	3 689
15-30 years	4 293	4 293	4 136	4 136
31 years and over	716	716	1 021	1 021
Total	8 724	8 724	8 846	8 846
Other major species				
0 –14 years	117	117	76	76
15-30 years	136	136	185	185
31 years and over	2 768	2 768	2 862	2 862
Total	3 021	3 021	3 123	3 123
Total Area of Softwood Plantation	192 711	192 711	196 821	196 821

iii) Softwood Plantation - standing volumes by major species

<i>Species</i>	Economic Entity 2008	Statutory Corporation 2008	Economic Entity 2007	Statutory Corporation 2007
<i>Pinus radiata</i>	37 609 477	37 609 477	36 444 234	36 444 234
Southern Pine	882 556	882 556	786 431	786 431
Other Major	539 364	539 364	505 044	505 044
Other Species	235 019	235 019	234 861	234 861

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June, 2008

11. BIOLOGICAL ASSETS (continued)

(b) Hardwood Plantation Timber

i) Valuation

Notes	Economic Entity \$ '000 2008	Statutory Corporation \$ '000 2008	Economic Entity \$ '000 2007	Statutory Corporation \$ '000 2007
Carrying amount of timber at beginning of reporting period – at fair value	63 885	63 885	61 659	61 659
Capital expenditure - plantation establishment & development	3 641	3 641	2 297	2 297
Sale of Plantations	-	-	(10)	(10)
Write off of failed plantations	-	-	(61)	(61)
Carrying amount as at the reporting date – at fair value (Note 2(g)(iii))	67 526	67 526	63 885	63 885

ii) Plantation area by species (all less than 15 years old)

Notes	Economic Entity 2008 Hectares	Statutory Corporation 2008 Hectares	Economic Entity 2007 Hectares	Statutory Corporation 2007 Hectares
<i>Eucalyptus dunnii</i>	8 765	8 765	8 353	8 353
<i>Corymbia maculata</i>	4 517	4 517	4 309	4 309
<i>Eucalyptus pilularis</i>	4 889	4 889	4 789	4 789
Other Hardwood Plantation Species	9 182	9 182	9 364	9 364
Total Area of Hardwood Plantation	27 353	27 353	26 815	26 815

(c) Native Forest Timber

i) Valuation

Notes	Economic Entity 2008 \$'000	Statutory Corporation 2008 \$'000	Economic Entity 2007 \$'000	Statutory Corporation 2007 \$'000
Net market value of timber at beginning of reporting period	353 481	353 481	386 347	386 347
Net market value at reporting date	333 220	333 220	353 481	353 481
Net increment in the net market value of timber	(20 261)	(20 261)	(32 866)	(32 866)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June, 2008

11. BIOLOGICAL ASSETS (continued)

ii) Species Mix of Native Forest areas

Notes	Economic Entity 2008 Hectares*	Statutory Corporation 2008 Hectares*	Economic Entity 2007 Hectares*	Statutory Corporation 2007 Hectares*
Productive forest areas:				
Alpine Ash	16 851	16 851	16 836	16 836
Blackbutt	95 813	95 813	96 160	96 160
Blue Gum	90 893	90 893	92 994	92 994
Messmate	175 755	175 755	175 653	175 653
Mixed Coastal Eucalypt	163 778	163 778	164 327	164 327
Other Inland Eucalypt types	145 553	145 553	108 633	108 633
Rainforest	10 527	10 527	5 915	5 915
River Red Gum	93 559	93 559	87 365	87 365
Snow Gum	19 583	19 583	19 591	19 591
Spotted Gum	147 696	147 696	146 985	146 985
Stringybark	147 876	147 876	158 360	158 360
Un-classified	239 736	239 736	228 431	228 431
White Cypress Pine	148 840	148 840	148 721	148 721
Total	1 496 460	1 496 460	1 449 971	1 449 971
Total non productive forest areas	525 111	525 111	547 405	547 405
Total Area of Native Forest	2 021 571	2 021 571	1 997 376	1 997 376

* Native Forests are not homogenous by species. A total hectare by species is a proportional measure rather than representing discreet forests by species type.

12. TRADE AND OTHER PAYABLES

Notes	Economic Entity 2008 \$'000	Statutory Corporation 2008 \$'000	Economic Entity 2007 \$'000	Statutory Corporation 2007 \$'000
Current				
Trade	29 616	29 616	23 864	23 864
Receipts in Advance	20 015	20 015	28 888	28 888
Total	49 631	49 631	52 752	52 752

13. INTEREST-BEARING LOANS AND BORROWINGS

i) Forests NSW Interest-Bearing Loans and Borrowings are recognised at Current Capital value and are made up of:

Notes	Economic Entity 2008 \$'000	Statutory Corporation 2008 \$'000	Economic Entity 2007 \$'000	Statutory Corporation 2007 \$'000
NSW Treasury Corporation Loans	169 490	169 490	159 743	159 743

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June, 2008

13. INTEREST-BEARING LOANS AND BORROWINGS (continued)

i) Repayment details of these loans shown on the Balance Sheet are as follows:

Notes	Economic Entity 2008 \$'000	Statutory Corporation 2008 \$'000	Economic Entity 2007 \$'000	Statutory Corporation 2007 \$'000
Not later than 1 year (Current)	10 562	10 562	31 211	31 211
	10 562	10 562	31 211	31 211
Later than 1 year but not later than 5 years (Non Current)	77 335	77 335	69 603	69 603
Later than 5 years (Non Current)	81 592	81 592	58 929	58 929
	158 927	158 927	128 532	128 532
Total borrowings	169 489	169 489	159 743	159 743

NSW Treasury Corporation outstanding loan interest rates ranged between 5.5% and 7.0% (2007: 5.5% and 8%)

14. DIVIDENDS PAID/ PROPOSED

Notes	Economic Entity 2008 \$'000	Statutory Corporation 2008 \$'000	Economic Entity 2007 \$'000	Statutory Corporation 2007 \$'000
Provision for dividend at beginning of year	(16 000)	(16 000)	(26 332)	(26 332)
Dividend paid	16 000	16 000	26 332	26 332
Dividend provided	(1 000)	(1 000)	(16 000)	(16 000)
Provision for dividend at end of the year	(1 000)	(1 000)	(16 000)	(16 000)

15. PROVISIONS

Notes	Economic Entity 2008 \$'000	Statutory Corporation 2008 \$'000	Economic Entity 2007 \$'000	Statutory Corporation 2007 \$'000
Current Liabilities				
Employee Benefits	11 697	-	11 003	-
Workers Compensation	770	770	820	820
Other				
Total Current Provisions*	12 467	770	11 823	820
Non Current Liabilities				
Employee Benefits	120	-	230	-
Workers Compensation	3 460	3 460	3 320	3 320
Total Non current provisions*	3 580	3 460	3 550	3 320
Total Provisions	16 047	4 230	15 373	4 140

The effect of the change in the discount rate applied 2008-6.5%, 17 000, 2007 -6.0% (2007 \$17 000)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June, 2008

16. OTHER ASSETS

Accounting policy {AASB 119 – paragraph 120A (a)}

Actuarial gains and losses are recognised immediately in profit and loss in the year in which they occur.

Fund information {AASB 119 – paragraph 120A (b)}

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 {AASB 119 – paragraph 120A(c)}

	SASS	SANCS	SSS	TOTAL
	Financial Year to 30 June 2007 \$	Financial Year to 30 June 2007 \$	Financial Year to 30 June 2007 \$	Financial Year to 30 June 2007 \$
Present value of partly funded defined benefit obligations at beginning of the year	35 192 664	3 357 132	0	38 549 796
Current service cost	883 317	194 235	0	1 077 552
Interest cost	2 023 320	189 954	0	2 213 274
Contributions by fund participants	547 885	0	0	547 885
Actuarial (gains)/losses	2 422 459	12 171	0	2 434 630
Benefits paid	(2 322 567)	(96 786)	0	(2 419 353)
Past service cost	0	0	0	0
Curtailments	0	0	0	0
Settlements	0	0	0	0
Business Combinations	0	0	0	0
Exchange rate changes	0	0	0	0
Present value of partly funded defined benefit obligations at end of the year	38 747 078	3 656 706	0	42 403 784

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June, 2008

16. OTHER ASSETS (continued)

Reconciliation of the fair value of fund assets {AASB 119 – paragraph 120A (e)}

	SASS	SANCS	SSS	TOTAL
	Financial Year to 30 June 2007 \$	Financial Year to 30 June 2007 \$	Financial Year to 30 June 2007 \$	Financial Year to 30 June 2007 \$
Fair value of Fund assets at beginning of the year	38 132 139	3 923 711	0	42 055 850
Expected return on fund assets	2 866 394	295 630	0	3 162 024
Actuarial gains/(losses)	2 888 629	268 220	0	3 156 849
Employer contributions	935 935	198 006	0	1 133 941
Contributions by Fund participants	547 885	0	0	547 885
Benefits paid	(2 332 567)	(96 786)	0	(2 429 353)
Settlements	0	0	0	0
Business combinations	0	0	0	0
Exchange rate changes	0	0	0	0
Fair value of Fund assets at end of the year	43 038 415	4 588 781	0	47 627 196

Reconciliation of the assets and liabilities recognised in the balance sheet {AASB 119 – paragraphs 120A (d) and (f)}

	SASS	SANCS	SSS	TOTAL
	Financial Year to 30 June 2007 \$	Financial Year to 30 June 2007 \$	Financial Year to 30 June 2007 \$	Financial Year to 30 June 2007 \$
Present value of partly funded defined benefit obligations at end of year	38 737 079	3 656 706	0	42 393 785
Fair value of fund assets at end of year	(43 038 415)	(4 588 782)	0	(47 627 197)
Subtotal	(4 301 336)	(932 076)	0	(5 233 412)
Unrecognised past service cost	0	0	0	0
Unrecognised gain/(loss)	0	0	0	0
Adjustment for limitation on net asset	0	0	0	0
Net Liability/(Asset) recognised in balance sheet at end of year	(4 301 336)	(932 076)	0	(5 233 412)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June, 2008

16. OTHER ASSETS (continued)

Expense recognised in income statement {AASB 119 – paragraph 46 & 120A (g)}

	SASS	SANCS	SSS	TOTAL
	Financial Year to 30 June 2007 \$	Financial Year to 30 June 2007 \$	Financial Year to 30 June 2007 \$	Financial Year to 30 June 2007 \$
Components Recognised in Income Statement				
Current service cost	883 317	194 235	0	1 077 552
Interest cost	2 023 320	189 954	0	2 213 274
Expected return on Fund assets (net of expenses)	(2 866 394)	(295 630)	0	(3 162 024)
Actuarial losses/(gains) recognised in year	(466 169)	(256 049)	0	(722 218)
Past service cost	0	0	0	0
Movement in adjustment for limitation on net asset	0	0	0	0
Curtailment or settlement (gain)/loss	0	0	0	0
Expense/(income) recognised	(425 926)	(167 490)	0	(593 416)

Amounts recognised in the statement of recognised income and expense {AASB 119 – paragraph 120A (h)}

	SASS	SANCS	SSS	TOTAL
	Financial Year to 30 June 2007 \$	Financial Year to 30 June 2007 \$	Financial Year to 30 June 2007 \$	Financial Year to 30 June 2007 \$
Actuarial (gains)/losses	0	0	0	0
Adjustment for limit on net asset	0	0	0	0

Cumulative amount recognised in the statement of recognised income and expense {AASB 119 – paragraph 120A (i)}

	SASS	SANCS	SSS	TOTAL
	Financial Year to 30 June 2007 \$	Financial Year to 30 June 2007 \$	Financial Year to 30 June 2007 \$	Financial Year to 30 June 2007 \$
Cumulative amount of actuarial (gains)/losses	0	0	0	0
Cumulative adjustment for limitation on net asset	0	0	0	0

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June, 2008

16. OTHER ASSETS (continued)

Fund assets {AASB 119 – paragraph 120A (j)}

The percentage invested in each asset class at the balance sheet date:	
	30-Jun-07
Australian equities	33.6%
Overseas equities	26.5%
Australian fixed interest securities	6.8%
Overseas fixed interest securities	6.4%
Property	10.1%
Cash	9.8%
Other	6.8%

Fair value of Fund assets {AASB 119 – paragraph 120A (k)}

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

Expected rate of return on assets {AASB119 – paragraph 120A (l)}

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 {AASB 119 – paragraph 120A (m)}

	SASS	SANCS	SSS	TOTAL
	Financial Year to 30 June 2007 \$	Financial Year to 30 June 2007 \$	Financial Year to 30 June 2007 \$	Financial Year to 30 June 2007 \$
Actual return on Fund assets	5 469 035	563 850	0	6 032 885

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June, 2008

16. OTHER ASSETS (continued)

Valuation method and principal actuarial assumptions at the balance sheet date {AASB 119 – paragraph 120A (n)}

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 entity

b) Economic Assumptions

	30-Jun-07
Salary increase rate (excluding promotional increases)	4.0% pa to June 2008; 3.5% pa thereafter
Rate of CPI Increase	2.5% pa
Expected rate of return on assets backing current pension liabilities	7.6%
Expected rate of return on assets backing other liabilities	7.6%
Discount rate	6.4% pa

Historical information {AASB119 – paragraph 120A (p)}

	SASS	SANCS	SSS	TOTAL
	Financial Year to 30 June 2007 \$	Financial Year to 30 June 2007 \$	Financial Year to 30 June 2007 \$	Financial Year to 30 June 2007 \$
Present value of defined benefit obligation	38 737 079	3 656 706	0	42 393 785
Fair value of Fund assets	(43 038 415)	(4 588 782)	0	(47 627 197)
(Surplus)/Deficit in Fund	(4 301 336)	(932 076)	0	(5 233 412)
Experience adjustments – Fund liabilities	2 422 459	12 171	0	2 434 630
Experience adjustments – Fund assets	(2 888 629)	(268 220)	0	(3 156 849)

Expected contributions {AASB119 – paragraph 120A (q)}

	SASS	SANCS	SSS	TOTAL
	A\$	A\$	A\$	A\$
Expected employer contributions	991 414	212 770	0	1 204 184

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June, 2008

16. OTHER ASSETS (continued)

Accounting policy {AASB 119 – paragraph 120A (a)}

Actuarial gains and losses are recognised immediately in profit and loss in the year in which they occur.

Fund information {AASB 119 – paragraph 120A (b)}

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 {AASB 119 – paragraph 120A(c)}

	SASS	SANCS	SSS	TOTAL
	Financial Year to 30 June 2008 \$	Financial Year to 30 June 2008 \$	Financial Year to 30 June 2008 \$	Financial Year to 30 June 2008 \$
Present value of partly funded defined benefit obligations at beginning of the year	38 737 079	3 656 706	0	42 393 785
Current service cost	802 455	196 420	0	998 875
Interest cost	2 375 548	221 682	0	2 597 230
Contributions by fund participants	525 035	0	0	525 035
Actuarial (gains)/losses	(1 629 328)	(15 493)	0	(1 644 821)
Benefits paid	(3 385 269)	(247 270)	0	(3 632 539)
Past service cost	0	0	0	0
Curtailments	0	0	0	0
Settlements	0	0	0	0
Business Combinations	0	0	0	0
Exchange rate changes	0	0	0	0
Present value of partly funded defined benefit obligations at end of the year	37 425 520	3 812 045	0	41 237 565

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June, 2008

16. OTHER ASSETS (continued)

Reconciliation of the fair value of fund assets {AASB 119 – paragraph 120A (e)}

	SASS	SANCS	SSS	TOTAL
	Financial Year to 30 June 2008 \$	Financial Year to 30 June 2008 \$	Financial Year to 30 June 2008 \$	Financial Year to 30 June 2008 \$
Fair value of Fund assets at beginning of the year	43 038 415	4 588 781	0	47 627 196
Expected return on fund assets	3 185 176	349 247	0	3 534 423
Actuarial gains/(losses)	(5 422 540)	(641 672)	0	(6 064 212)
Employer contributions	1 101 756	228 888	0	1 330 644
Contributions by Fund participants	525 035	0	0	525 035
Benefits paid	(3 385 269)	(247 270)	0	(3 632 539)
Settlements	0	0	0	0
Business combinations	0	0	0	0
Exchange rate changes	0	0	0	0
Fair value of Fund assets at end of the year	39 042 573	4 277 974	0	43 320 547

Reconciliation of the assets and liabilities recognised in the balance sheet {AASB 119 – paragraphs 120A (d) and (f)}

	SASS	SANCS	SSS	TOTAL
	Financial Year to 30 June 2008 \$	Financial Year to 30 June 2008 \$	Financial Year to 30 June 2008 \$	Financial Year to 30 June 2008 \$
Present value of partly funded defined benefit obligations at end of year	37 425 521	3 812 045	0	41 237 566
Fair value of fund assets at end of year	(39 042 574)	(4 277 975)	0	(43 320 549)
Subtotal	(1 617 053)	(465 930)	0	(2 082 983)
Unrecognised past service cost	0	0	0	0
Unrecognised gain/(loss)	0	0	0	0
Adjustment for limitation on net asset	0	0	0	0
Net Liability/(Asset) recognised in balance sheet at end of year	(1 617 053)	(465 930)	0	(2 082 983)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June, 2008

16. OTHER ASSETS (continued)

Expense recognised in income statement {AASB 119 – paragraph 46 & 120A (g)}

	SASS	SANCS	SSS	TOTAL
	Financial Year to 30 June 2008 \$	Financial Year to 30 June 2008 \$	Financial Year to 30 June 2008 \$	Financial Year to 30 June 2008 \$
Components Recognised in Income Statement				
Current Service Cost	802 455	196 420	0	998 875
Interest cost	2 375 548	221 682	0	2 597 230
Expected return on Fund assets (net of expenses)	(3 185 176)	(349 247)	0	(3 534 423)
Actuarial losses/(gains) recognised in year	3 793 213	626 179	0	4 419 392
Past service cost	0	0	0	0
Movement in adjustment for limitation on net asset	0	0	0	0
Curtailment or settlement (gain)/loss	0	0	0	0
Expense/(income) recognised	3 786 040	695 034	0	4 481 074

Amounts recognised in the statement of recognised income and expense {AASB 119 – paragraph 120A (h)}

	SASS	SANCS	SSS	TOTAL
	Financial Year to 30 June 2008 \$	Financial Year to 30 June 2008 \$	Financial Year to 30 June 2008 \$	Financial Year to 30 June 2008 \$
Actuarial (gains)/losses	0	0	0	0
Adjustment for limit on net asset	0	0	0	0

Cumulative amount recognised in the statement of recognised income and expense {AASB 119 – paragraph 120A (i)}

	SASS	SANCS	SSS	TOTAL
	Financial Year to 30 June 2008 \$	Financial Year to 30 June 2008 \$	Financial Year to 30 June 2008 \$	Financial Year to 30 June 2008 \$
Cumulative amount of actuarial (gains)/losses	0	0	0	0
Cumulative adjustment for limitation on net asset	0	0	0	0

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June, 2008

16. OTHER ASSETS (continued)

Fund assets {AASB 119 – paragraph 120A (j)}

The percentage invested in each asset class at the balance sheet date:	
	30-Jun-08
Australian equities	31.6%
Overseas equities	25.4%
Australian fixed interest securities	7.4%
Overseas fixed interest securities	7.5%
Property	11.0%
Cash	6.1%
Other	11.0%

Fair value of Fund assets {AASB 119 – paragraph 120A (k)}

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

Expected rate of return on assets {AASB119 – paragraph 120A (l)}

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 {AASB 119 – paragraph 120A (m)}

	SASS	SANCS	SSS	TOTAL
	Financial Year to 30 June 2008	Financial Year to 30 June 2008	Financial Year to 30 June 2008	Financial Year to 30 June 2008
	\$	\$	\$	\$
Actual return on Fund assets	(2 680 098)	(292 425)	0	(2 972 523)

Valuation method and principal actuarial assumptions at the balance sheet date {AASB 119 – paragraph 120A (n)}

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-Jun-08
Salary increase rate (excluding promotional increases)	3.5% pa
Rate of CPI Increase	2.5% pa
Expected rate of return on assets backing current pension liabilities	8.3%
Expected rate of return on assets backing other liabilities	7.3%
Discount rate	6.55% pa

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June, 2008

16. OTHER ASSETS (continued)

c) Demographic Assumptions

The demographic assumptions at 30 June 2008 are those used in the 2006 triennial actuarial valuation. A selection

Of the most significant assumptions is shown below:

(i) SASS Contributors – the number of SASS contributors expected in any one year (out of 10 000 members) at the ages shown, to leave the fund as a result of death, resignation, retirement and redundancy. Promotional salary increase rates are also shown

Age /Nearest/ Birthday	Number of members expected in any one year, out of 10 000 members at the age shown to leave the fund as a result of :					Additional promotional salary Increase rate %
	Death	Total & Permanent Disability	Retirement	Resignation	Redundancy	
Males						
30	4	8	-	280	150	2.90
40	6	10	-	150	150	1.80
50	11	30	-	112	150	0.00
60	30	-	1400	-	150	0.00
Females						
30	2	2	-	372	150	2.90
40	3	6	-	175	150	1.80
50	7	28	-	144	150	0.00
60	18	-	1500	-	150	0.00

(ii) SSS Contributors – the number of SASS contributors expected in any one year (out of 10,000 members) at the ages shown, to leave the fund as a result of death, resignation, retirement and redundancy. Promotional salary increase rates are also shown

Age /Nearest/ Birthday	Number of members expected in any one year, out of 10 000 members at the age shown to leave the fund as a result of :					Additional promotional salary Increase rate %
	Death	Ill-health retirement	Retirement (R60 for females)	Resignation (R60 for females)	Redundancy (R60 for females)	
Males						
30	4	42	-	178	95	2.90
40	6	54	-	80	140	1.80
50	11	144	-	20	50	0.00
60	30	-	6 500	-	-	0.00
Females						
30	2	6	-	204	124	2.90
40	3	21	-	72	105	1.80
50	7	103	-	30	90	0.00
60	18	-	6 300	-	-	0.00

Note: Different assumptions apply to females who have elected to retire at age 55(R55 members)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June, 2008

16. OTHER ASSETS (continued)

(iii) SSS commutation-the proportion of SSS assumed to commute their pension to a lump sum in any one year

Age	Proportion of pension commuted	
	Retirement	Breakdown
Later of commencement or age 55	.15	.20
	Widow	Widower
55	.2500	.2500
65	.5380	.5800
75	.4825	.5160
85	.3928	.3728

(iv) SSS Pensioner Mortality-assumed mortality rates in 2006/2007 for SSS pensioners(separately for normal retirement/spouses and invalidity)

Age	Retirement pensioners and Spouses and Widows		Invalidity Pensioners	
	Male	Females	Male	Females
55	0.0025	0.0014	0.0081	0.0066
65	0.0070	0.0055	0.0112	0.0125
75	0.0194	0.0157	0.0505	0.0314
85	0.0945	0.0634	0.1134	0.1268

(v) SSS Pensioner Mortality Improvements-per annum assumed rates of mortality improvement for SSS pensioner

Age	Improvement rates(for years post 2006)	
	Male	Females
55	0.0152	0.0113
65	0.0101	0.0065
75	0.0087	0.0068
85	0.0052	0.0080

Historical information {AASB119 – paragraph 120A (p)}

	SASS	SANCS	SSS	TOTAL
	Financial Year to 30 June 2008 \$	Financial Year to 30 June 2008 \$	Financial Year to 30 June 2008 \$	Financial Year to 30 June 2008 \$
Present value of defined benefit obligation	37 425 521	3 812 045	0	41 237 566
Fair value of Fund assets	(39 042 574)	(4 277 975)	0	(43 320 549)
(Surplus)/Deficit in Fund	(1 617 053)	(465 930)	0	(2 082 983)
Experience adjustments – Fund liabilities	(1 629 328)	(15 493)	0	(1 644 821)
Experience adjustments – Fund assets	5 422 540	641 672	0	6 064 212

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June, 2008

16. OTHER ASSETS (continued)

Expected contributions {AASB119 – paragraph 120A (q)}

	SASS	SANCS	SSS	TOTAL
	A\$	A\$	A\$	A\$
Expected employer contributions	0	0	0	0

Funding Arrangements for Employer Contributions

(a) Surplus/Deficit

The following is a summary of 30 June 2008 financial position of the funds calculated in accordance with AAS 25 "Financial Reporting by Superannuation Plans".

	SASS	SANCS	SSS	TOTAL
	30-Jun-08 A\$	30-Jun-08 A\$	30-Jun-08 A\$	A\$
Accrued Benefits	37 334 009	3 826 933	0	41 160 942
Net market value of Fund Assets	(39 042 574)	(4 277 975)	0	(43 320 549)
Net(surplus)	(1 708 565)	(451 042)	0	(2 159 607)

(b) Contribution recommendations

Recommended contribution rates for the entity are

SASS	SANCS	SSS	TOTAL
Multiple of Member Contribution	% of Member Salary	Multiple of Member contributions	
0	0	0	0

(c) Funding method

The method used to determine the employer contribution recommendations at the last actuarial review was the Aggregate Funding Method. The method adopted affects the timing of the cost of the employer

Under the Aggregate Funding method, the employer contribution rate is determined so that sufficient assets will be available to meet the benefits payment to existing members taking into account the current value of assets and future contributions.

(d) Economic assumptions

The economic assumption adopted for the last actuarial review of the Fund were:

Weighted-Average Assumptions	
Expected rate of return on Fund assets backing current pension liabilities	7.7% pa
Expected rate of return on Fund assets backing other liabilities	7.00% pa
Expected salary increase rate	4.00% pa
Expected rate of CPI increase	2.5% pa

Nature of Assets/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, 2008

17. FINANCIAL INSTRUMENTS

Forests NSW principal financial instruments are outlined below. These financial instruments arise directly from Forests NSW operations or are required to finance Forests NSW operations. Forests NSW does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Forests NSW main risks arising from financial instruments are outlined below, together with Forests NSW objectives, policies and processes for measuring and managing risk. Further quantitative and qualitative disclosures are included throughout this financial report.

The Commissioner for the Forestry Commission of NSW has overall responsibility for the establishment and oversight of risk management and reviews and agrees policies for managing each of these risks. Risk management policies are established to identify and analyse the risks faced by Forests NSW, to set risk limits and controls and to monitor risks. Compliance with policies is reviewed by the internal auditors on a continuous basis.

(a) 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 the agency. 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 the agency. Forests NSW has not granted any financial guarantees.

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

The credit risk on the financial assets of Forests NSW has been recognised in the Balance Sheet at the carrying amount, net of any provision for doubtful debts.

Forests NSW has a Credit Policy, which aims to mitigate the credit risk exposure to our sales customers. Customers are assessed with some required to lodge suitable security for the estimated maximum credit exposure based on average monthly sales. The policy requires stringent credit assessment of customers before the granting of any unsecured credit.

(b) 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 manages 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.

(c) 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 no exposure to foreign currency risk and does not enter into commodity contracts.

The effect on profit and equity due to a reasonably possible change in risk variable is outlined in the information below, for interest rate risk and other price risk. A reasonably possible change in risk variable has been determined after taking into account the economic environment in which Forests NSW operates and the time frame for the assessment (i.e. until the end of the next annual reporting period). The sensitivity analysis is based on risk exposures in existence at the balance sheet date. The analysis is performed on the same basis for 2007. The analysis assumes that all other variables remain constant.

(d) Interest rate risk

Exposure to interest rate risk arises primarily through the agency's 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 profit or loss or as available for sale. Therefore for these financial instruments a change in interest rates would not affect profit or loss or equity. A reasonably possible change of $\pm 1\%$ 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's exposure to interest rates is set out in notes 6 and 13.

Exposures arise predominantly from assets and 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.

(e) Other price risk – T Corp Hour Glass Investment facilities

Exposure to 'other price risk' primarily arises through the investment in the TCorp Hour Glass Investment facilities, which are held for strategic rather than trading purposes. Forest 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 (Pre- June 2008 – Up to 2 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 unitholders and to administer the trusts in accordance with the trust deeds. 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. However, 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 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 THE FINANCIAL STATEMENTS

For the year ended 30 June, 2008

17. FINANCIAL INSTRUMENTS (continued)

(f) Other Quantitative Disclosures:-

	2008	2007
(i) Unrealised Gains/(Losses) From Derivatives	\$105 439	\$16 955

(ii) Contractual Maturity Analysis

Contractual maturity analysis of financial liabilities based on undiscounted cash flows

2007

Category	Ageing Order			Total Cash Flows	Market Value
	< 1 year	1 year to 5 years	> 5 years		
Short Term Borrowings	(5 438 088.74)			(5 438 088.74)	(5 422 526.35)
Fixed Rate Borrowings	(30 120 032.66)	(96 595 064.67)	(74 035 940.03)	(200 751 037.36)	(148 045 498.84)

2008

Category	Ageing Order			Total Cash Flows	Market Value
	< 1 year	1 year to 5 years	> 5 years		
Short Term Borrowings	(10 688 628.43)			(10 688 628.43)	(10 610 322.38)
Fixed Rate Borrowings	(9 711 446.28)	(107 000 365.61)	(100 294 970.71)	(217 006 782.60)	(155 383 394.03)

(iii) Sensitivity Analysis

- Interest Rate Risk

	2008	2007
Approximate increase (decrease) in fair value of financial liabilities assuming one percentage point decrease (increase) in interest rates	\$6 400 000	\$5 900 000

- Hour-Glass Investment Facilities

	Change in Unit price	Impact on profit/loss	
		2008 \$	2007 \$
Hour-Glass Cash Facility	+/- 1%	+/- 430	+/- 20 671

The above Hour-Glass Investment Facility fair value sensitivity percentage is derived from historically based volatility information collected over a ten year period, quoted at two standard deviations (i.e. 95% probability).

(iv) Net Fair Value of Financial Assets and Liabilities

a. Off Balance Sheet

Forests NSW have potential financial liabilities which may arise from certain contingencies disclosed in Note 21- Contingent Liabilities. As explained in the note some of the claims can't be quantified in terms of the likely impact on the carrying value of the Forests NSW asset.

b. On Balance Sheet

The net fair value of cash and cash equivalents, the non interest bearing monetary financial assets, and the financial liabilities of Forests NSW approximate their carrying value. Monetary dealing of the financial assets and liabilities are restricted to trading with and by the NSW Treasury Corporation.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June, 2008

17. FINANCIAL INSTRUMENTS (continued)

All Balance Sheet assets are disclosed in the following tables:

Statutory Body

2007	Notes	1 Year or Less \$'000	Over 1 to 5 Years \$'000	More than 5 Years \$'000	Non Interest Bearing \$'000	Total \$'000
Financial Assets						
Cash and Cash Equivalents	6	5 615				5 615
Receivables	8				42 229	42 229
Prepayments					2 951	2 951
Total Financial Assets		5 615			45 180	50 795
Financial Liabilities						
Bank Overdraft and Loans	13	31 211	69 603	58 929		159 743
Trade and Other Payables	12				52 752	52 752
Total Financial Liabilities		31 211	69 603	58 929	52 752	212 495
Net Financial Liabilities		(25 596)	(69 603)	(58 929)	(7 572)	(161 700)

The carrying values of financial instruments equal to the fair value except for loans where the fair value is \$157 916 609

2007	Weighted Average Rate
UBS Australian Bank Bill index	6.42%
T-Corp hour Glass Cash Facility	6.41%

Statutory Body

2008	Notes	1 Year or Less \$'000	Over 1 to 5 Years \$'000	More than 5 Years \$'000	Non Interest Bearing \$'000	Total \$'000
Financial Assets						
Cash and Cash Equivalents	6	11 640				11 640
Receivables	8				40 542	40 542
Prepayments					1 896	1 896
Total Financial Assets		11 640			42 438	54 078
Financial Liabilities						
Bank Overdraft and Loans	13	10 562	77 335	81 592		169 489
Trade and Other Payables	12				49 631	49 631
Total Financial Liabilities		10 562	77 335	81 592	49 631	219 120
Net Financial Liabilities		1 078	(77 335)	(81 592)	(7 193)	(165 042)

The carrying values of financial instruments equal to the fair value except for loans where the fair value is \$165 182 546

2008	Weighted Average Rate
UBS Australian Bank Bill index	7.34%
T-Corp hour Glass Cash Facility	6.82%

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June, 2008

17. FINANCIAL INSTRUMENTS (continued)

Economic Entity

2007	Notes	1 Year or Less \$'000	Over 1 to 5 Years \$'000	More than 5 Years \$'000	Non Interest Bearing \$'000	Total \$'000
Financial Assets						
Cash and Cash Equivalents	6	5 615				5 615
Receivables	8				42 229	42 229
Prepayments					2 951	2 951
Total Financial Assets		5 615			45 180	50 795
Financial Liabilities						
Bank Overdraft and Loans	13	31 211	69 603	58 929		159 743
Trade and Other Payables	12				52 752	52 752
Total Financial Liabilities		31 211	69 603	58 929	52 752	212 495
Net Financial Liabilities		(25 596)	(69 603)	(58 929)	(7 572)	(161 700)

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UBS Australian Bank Bill Index	6.42%
T-Corp hour Glass Cash Facility	6.41%

Economic Entity

2008	Notes	1 Year or Less \$'000	Over 1 to 5 Years \$'000	More than 5 Years \$'000	Non Interest Bearing \$'000	Total \$'000
Financial Assets						
Cash and Cash Equivalents	6	11 640				11 640
Receivables	8				40 542	40 542
Prepayments					1 896	1 896
Total Financial Assets		11 640			42 438	54 078
Financial Liabilities						
Bank Overdraft and Loans	13	10 562	77 335	81 592		169 489
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Total Financial Liabilities		10 562	77 335	81 592	49 631	219 120
Net Financial Liabilities		1 078	(77 335)	(81 592)	(7 193)	(165 042)

The carrying values of financial instruments equal to the fair value except for loans where the fair value is \$165 182 546

2008	Weighted Average Rate
UBS Australian Bank Bill Index	7.34%
T-Corp hour Glass Cash Facility	6.82%

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June, 2008

c. Other Qualitative Disclosures:

Managed debt portfolios

NSW Treasury Corporation (T Corp) 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 to add value by achieving a reduction in [the agency's] 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 \$165.2 million (2007:\$157.9 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 2 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 (T Corp) 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. 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.

18. OPERATING LEASES AND HIRE PURCHASE

At balance date Forests NSW had operating lease/rental agreements totalling \$2 003 000 (2007: \$1 667 000). These agreements relate to occupancy of offices throughout the State. Forests NSW had no other material lease and hire purchase agreements.

	Economic Entity 2008 \$'000	Statutory Corporation 2008 \$'000	Economic Entity 2007 \$'000	Statutory Corporation 2007 \$'000
Not later than one year	662	662	648	648
Later than one year and not later than five years	1 020	1 020	710	710
Later than five years	321	321	309	309
Total (including GST)	2 003	2 003	1 667	1 667

19. REMUNERATION OF EXTERNAL AUDITORS

	Economic Entity 2008 \$'000	Statutory Corporation 2008 \$'000	Economic Entity 2007 \$'000	Statutory Corporation 2007 \$'000
Audit Office of NSW – Audit of financial statements	370	370	298	298

20. CONSULTANTS

Forests NSW engaged consultants to undertake activities, which require specialist or independent skills. In 2008 the total cost for consultants was \$212 946 (2007: \$210 274).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June, 2008

21. CONTINGENT LIABILITIES

During the financial year 2007/2008, 289 hectares of Timber Reserves in the Western region have been subject to claims under the Native Title Act. The impact of the claim on the carrying amount of the asset can't be quantified at this time.

As at balance sheet date, Forests NSW has potential public liability insurance claims limited to \$190 000, being the net excess on its current public insurance liability policy at the date of the relevant claims.

22. COMMITMENTS

At balance date Forests NSW has the following commitments:

	2008 \$'000	2007 \$'000
i) Capital:		
Establishment of Biological Assets	4 048	1 626
Others	8 763	1 700
	12 811	3 326
ii) Operating	263	17
Total Commitments (a)	13 074	3 343
Input tax Credits (b)	1 170	303

(a) All commitments are expected to be expended in the next financial year and include input tax credits.

(b) Input tax credits are expected to be recoverable from the Australian Taxation Office

23. RELATED ENTITIES

The Public Sector Employment & Management (Department of Primary Industries) Order 2004, made on 23rd June 2004 established the NSW Department of Primary Industries (DPI). The Department comprises the former NSW Agriculture, Mineral Resources NSW, NSW Fisheries and Forests NSW. Forests NSW continues to operate as a self funded Public Trading Enterprise (PTE) aligned with DPI's Primary Industries trading division which has responsibility for identification and development of commercial trading activities and opportunities. Forests NSW is presently the only PTE or commercial activity contained within this section of DPI.

Forests NSW's main related parties for trading are Forestry Commission Division and Department of Primary Industries. Related party transactions based on the Memorandum of Understanding are as follows:

(i) Income Statements

Income Statements 2007	Supply of Personnel Services \$'000	Less Charge back for transfer of Superannuation Gain \$'000	Total Net Supply \$'000	Economic Entity \$'000	Statutory Corporation \$'000
Department of Primary Industries	50 682	(4 663)	46 019	46 019	46 019
Forestry Commission Division	29 465	(1 621)	27 844	-	27 844
Total	80 147	(6 284)	73 863	46 019	73 863

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June, 2008

23. RELATED ENTITIES (continued)

(ii) Balance Sheet

Balance Sheet 2007	Notes	Economic Entity Other Assets \$'000	Statutory Corporation Other Assets \$'000	Economic Entity Non Current Liabilities \$'000	Statutory Corporation Non Current Liabilities \$'000
Department of Primary Industries		11 015	11 015	24 414	24 414
Forestry Commission Division		*-	5 234	-	11 233
Prepaid Superannuation Assets	16(b)	5 234	-	-	-
Total		16 249	16 249	24 414	35 647

* On consolidation, the economic entity has a prepaid superannuation asset. Refer to note 16(b)

(iii) Income Statements

Income Statements 2008	Supply of Personnel Services \$'000	Less Charge back for transfer of Superannuation Gain \$'000	Total Net Supply \$'000	Economic Entity \$'000	Statutory Corporation \$'000
Department of Primary Industries	54 136	-	54 136	54 136	54 136
Forestry Commission Division	29 389	-	29 389	-	29 389
Total	83 525	-	83 525	54 136	83 525

(iv) Balance Sheet

Balance Sheet 2008	Notes	Economic Entity Other Assets \$'000	Statutory Corporation Other Assets \$'000	Economic Entity Non Current Liabilities \$'000	Statutory Corporation Non Current Liabilities \$'000
Department of Primary Industries		9 212	9 212	24 949	24 949
Forestry Commission Division		*-	2 083	-	11 817
Prepaid Superannuation Assets		2 083	-	-	-
Total		11 295	11 295	24 949	36 766

* On consolidation, the economic entity has a prepaid superannuation asset. Refer to note 16(b)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June, 2008

23. RELATED ENTITIES (continued)

Key Management Personnel:

i) Barry Buffier	Commissioner for Forests NSW(01/07/04-01/01/08)
ii) Richard Sheldrake	Commissioner for Forests NSW(02/01/08)
iii) Alastair Howard	Acting CEO (10/03/2006-30/04/2007)
iv) Nick Roberts	CEO (30/04/2007)

	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 2008 Total Compensation	309	-	-	-	-	309
30 June 2007 Total Compensation	253	-	-	-	-	253

The Commissioner for Forests NSW does not received any remuneration for services rendered to Forests NSW.

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 2008, Forests NSW has not raised any provision for doubtful debts relating to amounts owed by key management personnel (2007 nil).

24. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	Economic Entity 2008 \$'000	Statutory Corporation 2008 \$'000	Economic Entity 2007 \$'000	Statutory Corporation 2007 \$'000
Net/(loss) after income tax	80 372	80 372	(98 355)	(98 355)
	80 372	80 372	(98 355)	(98 355)
Adjusted for non-cash items:				
Depreciation	10 477	10 477	10 254	10 254
Loss/(Profit) on disposal of non-current assets	3 635	3 635	744	744
Write-down of plantation , Asset Revocations, Revaluation, (Increment) / Decrement to Profit Loss , Non cash items	38 285	38 285	(30 585)	(30 585)
Biological assets: Revaluation (Increment)/Decrement • Native Forests	20 261	20 261	32 866	32 866
Softwood Plantations	(100 219)	(100 219)	139 775	139 775
	52 811	52 811	153 054	153 054
Change in operating assets and liabilities:				
Movement in receivables	(7 120)	(7 120)	3 139	3 139
Movement in inventories	(446)	(446)	(996)	(996)
Movement in creditors	5 704	5 704	(1 055)	(1 055)
Movement in provisions	7 255	7 255	(2 299)	(2 299)
Movement in income tax	(4 599)	(4 599)	(2 705)	(2 705)
	794	794	(3 916)	(3 916)
Net cash inflow from operating activities	53 605	53 605	50 783	50 783

As at 30 June 2008, Forests NSW had \$5 000 000 available in unused credit a 'Come and Go' Facility held with NSW T-Corp.

End of 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 consolidated financial position of the Forestry Commission of New South Wales (trading as Forests NSW) as at 30 June 2008 and the results of its operations and transactions for the year then ended.

The financial statements have been prepared in accordance with 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.



Richard Sheldrake

Commissioner for the Forestry Commission of New South Wales
17th December, 2008



GPO BOX 12
Sydney NSW 2001

INDEPENDENT AUDITOR'S REPORT

Forestry Commission of New South Wales (Trading as Forest NSW) and controlled entities

To Members of the New South Wales Parliament

I have audited the accompanying financial report of the Forestry Commission of New South Wales (The Commission), which comprises the balance sheets as at 30 June 2008, the income statements, statements of changes in equity and cash flow statements for the year then ended, a summary of significant accounting policies and other explanatory notes for both the Commission and the economic entity. The economic entity comprises the Commission and the entities it controlled at the year's end or from time to time during the financial year.

Qualified Auditor's Opinion

In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had I been able to satisfy myself as to the valuation of the Biological Assets, the financial report:

- presents fairly, in all material respects, the financial position of the Commission and the economic entity as at 30 June 2008, and of their financial performance and their cash flows for the year then ended in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations)
- is in accordance with section 41B of the *Public Finance and Audit Act 1983* (the PF&A Act) and the Public Finance and Audit Regulation 2005.

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

Basis for Qualified Auditor's Opinion

Note 2 (g) (iii) under the heading Native Forest Timber discloses various assumptions relating to the valuation of these forests. I have been unable to obtain sufficient appropriate audit evidence to confirm that these assumptions are statistically reliable to form an opinion on the value of the Native Forest Timber included within Biological Assets. I have been unable to carry out audit procedures to quantify the possible adjustments to the financial report that might have been necessary had this limitation not existed.

My auditor's report for 2007 was similarly qualified for Native Forest Valuation.

Significant Uncertainty Regarding Deferred Tax Liability

Without qualification to the opinion expressed above, I draw attention to Deferred Tax disclosed in Note 2 (d). The Commission intends to obtain a private ruling from the Australian Taxation Office over the deductibility of plantation establishment costs for Biological assets. Until the outcome of this matter is known there is uncertainty over the deferred tax amount included in the non-current liabilities.

Commissioner's Responsibility for the Financial Report

The Commissioner is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the PF&A Act. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

My responsibility is to express an opinion on the financial report based on my audit except as discussed in the qualification paragraph. I conducted my audit in accordance with Australian Auditing Standards. These Auditing Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report 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 controls. 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 report.

I believe that 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 the Economic entity,
- that they have carried out their activities effectively, efficiently and economically, or
- about the effectiveness of their internal controls.

Independence

In conducting this audit, the Audit Office of New South Wales has complied with the independence requirements of the Australian Auditing Standards and other relevant ethical requirements. The PF&A Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General, and
- 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 Achterstraat
Auditor - General

17 December 2008
SYDNEY

FORESTRY COMMISSION DIVISION

ANNUAL FINANCIAL REPORTS

YEAR ENDED 30 JUNE 2008

ABN No: 83 326 008 792

Income Statement	58
Balance Sheet	58
Cash Flow Statement	59
Statement of Changes in Equity	59
Notes to the Financial Statements	60
Statement by Division Head	72
Auditor General's Opinion	73



INCOME STATEMENT

For the year ended 30 June, 2008

	<i>Notes</i>	2008 \$'000	2007 \$'000
Income			
Personnel Services	4	29 389	27 844
Total Revenue		29 389	27 844
Less Expenses from continuing operations			
Wages		18 743	21 230
Superannuation		4 707	848
Annual and Long Service Leave		4 209	3 012
Payroll tax		1 257	1 477
Worker Comp		435	1 214
Fringe Benefits Tax		38	63
Total expenses		29 389	27 844
Net profit/(Loss) for the period		0	0

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

BALANCE SHEET

As at 30 June, 2008

	<i>Notes</i>	2008 \$'000	2007 \$'000
Current assets			
Receivables		11 817	11 233
Other Assets	2	2 083	5 234
Total Assets		13 900	16 467
Current Liabilities			
Provisions	3	11 697	11 003
Amount Due to Related Entity	4	2 083	5 234
Total Current liabilities		13 780	16 237
Non Current Liabilities	3	120	230
Total Liabilities		13 900	16 467
Equity			
Accumulated Funds		0	0
Total Equity		0	0

The above Balance Sheet should be read in conjunction with the accompanying notes.

CASH FLOW STATEMENT

For the year ended 30 June, 2008

	<i>Notes</i>	2008 \$'000	2007 \$'000
Cash flows from operating activities			
Receipts from customers		-	-
Payment to suppliers and employees		-	-
Interest received		-	-
Income Taxes Paid		-	-
Net cash inflow from operating activities		0	0
Cash flows from investing activities			
Payments for property, plant and equipment		-	-
Payments for plantation establishment		-	-
Capitalised Interest on Borrowings		-	-
Proceeds from sale of property, plant & equipment		-	-
Net cash outflow from investing activities		0	0
Cash flows from financing activities			
Proceeds from borrowings		-	-
Repayment of borrowings		-	-
Dividends paid		-	-
Net cash inflow (outflow) from financing activities		0	0
Net increase (decrease) in cash held		-	-
Cash at the beginning of the financial year		-	-
Cash and cash equivalents at the end of the period		0	0

The above cash flow statement should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June, 2008

	Capital \$'000	Accumulated Funds \$'000	Total Equity \$'000
At 01/07/2007	0	0	0
At 30 June 2008	0	0	0

For the year ended 30 June, 2007

	Capital \$'000	Accumulated Funds \$'000	Total Equity \$'000
At 1/07/2006	0	0	0
At 30 June 2007	0	0	0

The above statement of equity should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

Note 1 Summary of Significant Accounting Policies

a) Reporting entity

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. It is a not for profit entity as profit is not its principal objective. It is consolidated as part of 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 objective is to provide personnel services to Forestry Commission of NSW (trading as Forests NSW)

Personnel Service provided to Forestry Commission of NSW is based on a Memorandum of Understanding established on 17th March, 2006.

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

The assumed liabilities were recognised as at 30th June, 2007 with offsetting receivable from Forestry Commission of NSW.

The financial report was authorised for issue by Richard Sheldrake, Director-General of the NSW Department of Primary Industries on 17th December, 2008.

(b) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards and Interpretations, the Public Finance and Audit Act 1983, the Public Finance and Audit (General) Regulation 2005 and specific directions issued by the Treasurer.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated.

Generally, the historical cost basis of accounting has been adopted and the financial report does 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 report.

(c) Income

Income is measured 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.

(d) 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 income statement. 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 income statement.

(e) 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.

(f) Employee benefit 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.

Long Service leave liability was actuarially assessed as at 30/06/2008.

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.

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 income statement 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.

(g) Adoption of new and revised Accounting Standards.

In the current year, Forestry Commission Division has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (The AASB) that are relevant to its operations and effective for the current annual reporting period. The following standards listed below only impacted on the Economic Entity financial statements with respect to disclosure

- AASB 7 Financial instruments: Disclosures
- AASB 101 Presentation of financial statements(revised October 2006)

At the date of authorisation of the financial report, the following Standards and Interpretations were on issue but yet effective:

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

- AASB 8 'Operating Segments' and consequential amendments to other accounting standards resulting from its issue.
- Effective for annual reporting periods beginning on or after 1 January 2009.

Early adoption of new or revised Accounting Standards/Interpretation.

The following Australian Accounting Standards/Interpretations have been mandated by NSW Treasury not to adopt early in this financial report:

- AASB 3 (March 2008), AASB 127 and AASB 2008-3 regarding business combinations;
- AASB 8 and AASB 2007-3 regarding operating segments;
- AASB 101 (Sept 2007) and AASB 2007-8 regarding presentation of financial statements;
- AASB 123 (June 2007) and AASB 2007-6 regarding borrowing costs;
- AASB 1004 (Dec 2007) regarding contributions;
- AASB 1049 (Oct 2007) regarding the whole of government and general government sector financial reporting;
- AASB 1050 (Dec 2007) regarding administered items;
- AASB 1051 (Dec 2007) regarding land under roads;
- AASB 1052 (Dec 2007) regarding disaggregated disclosures;
- AASB 2007-9 regarding amendments arising from the review of AASs 27, 29 and 31;
- AASB 2008-1 regarding share based payments;
- AASB 2008-2 regarding puttable financial instruments;

- Interpretation 4 (Feb 2007) regarding determining whether an arrangement contains a lease;
- Interpretation 12 and AASB 2007-2 regarding service concession arrangements;
- Interpretation 13 on customer loyalty programmes;
- Interpretation 14 regarding the limit on a defined benefit asset;
- Interpretation 129 (Feb 2007) regarding service concession disclosures;
- Interpretation 1038 (Dec 2007) regarding contributions by owners.

2. Other Assets

Accounting policy {AASB 119 – paragraph 120A (a)}

Actuarial gains and losses are recognised immediately in profit and loss in the year in which they occur.

Fund information {AASB 119 – paragraph 120A (b)}

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 {AASB 119 – paragraph 120A(c)}

	SASS	SANCS	SSS	TOTAL
	Financial Year to 30 June 2007 \$	Financial Year to 30 June 2007 \$	Financial Year to 30 June 2007 \$	Financial Year to 30 June 2007 \$
Present value of partly funded defined benefit obligations at beginning of the year	35 192 664	3 357 132	0	38 549 796
Current service cost	883 317	194 235	0	1 077 552
Interest cost	2 023 320	189 954	0	2 213 274
Contributions by fund participants	547 885	0	0	547 885
Actuarial (gains)/losses	2 422 459	12 171	0	2 434 630
Benefits paid	(2 322 567)	(96 786)	0	(2 419 353)
Past service cost	0	0	0	0
Curtailments	0	0	0	0
Settlements	0	0	0	0
Business Combinations	0	0	0	0
Exchange rate changes	0	0	0	0
Present value of partly funded defined benefit obligations at end of the year	38 747 078	3 656 706	0	42 403 784

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

2. Other Assets (continued)

Reconciliation of the fair value of fund assets {AASB 119 – paragraph 120A (e)}

	SASS	SANCS	SSS	TOTAL
	Financial Year to 30 June 2007 \$	Financial Year to 30 June 2007 \$	Financial Year to 30 June 2007 \$	Financial Year to 30 June 2007 \$
Fair value of Fund assets at beginning of the year	38 132 139	3 923 711	0	42 055 850
Expected return on fund assets	2 866 394	295 630	0	3 162 024
Actuarial gains/(losses)	2 888 629	268 220	0	3 156 849
Employer contributions	935 935	198 006	0	1 133 941
Contributions by Fund participants	547 885	0	0	547 885
Benefits paid	(2 332 567)	(96 786)	0	(2 429 353)
Settlements	0	0	0	0
Business combinations	0	0	0	0
Exchange rate changes	0	0	0	0
Fair value of Fund assets at end of the year	43 038 415	4 588 781	0	47 627 196

Reconciliation of the assets and liabilities recognised in the balance sheet {AASB 119 – paragraphs 120A (d) and (f)}

	SASS	SANCS	SSS	TOTAL
	Financial Year to 30 June 2007 \$	Financial Year to 30 June 2007 \$	Financial Year to 30 June 2007 \$	Financial Year to 30 June 2007 \$
Present value of partly funded defined benefit obligations at end of year	38 737 079	3 656 706	0	42 393 785
Fair value of fund assets at end of year	(43 038 415)	(4 588 782)	0	(47 627 197)
Subtotal	(4 301 336)	(932 076)	0	(5 233 412)
Unrecognised past service cost	0	0	0	0
Unrecognised gain/(loss)	0	0	0	0
Adjustment for limitation on net asset	0	0	0	0
Net Liability/(Asset) recognised in balance sheet at end of year	(4 301 336)	(932 076)	0	(5 233 412)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

2. Other Assets (continued)

Expense recognised in income statement {AASB 119 – paragraph 46 & 120A (g)}

	SASS	SANCS	SSS	TOTAL
	Financial Year to 30 June 2007 \$	Financial Year to 30 June 2007 \$	Financial Year to 30 June 2007 \$	Financial Year to 30 June 2007 \$
Components Recognised in Income Statement				
Current service cost	883 317	194 235	0	1 077 552
Interest cost	2 023 320	189 954	0	2 213 274
Expected return on Fund assets (net of expenses)	(2 866 394)	(295 630)	0	(3 162 024)
Actuarial losses/(gains) recognised in year	(466 169)	(256 049)	0	(722 218)
Past service cost	0	0	0	0
Movement in adjustment for limitation on net asset	0	0	0	0
Curtailment or settlement (gain)/loss	0	0	0	0
Expense/(income) recognised	(425 926)	(167 490)	0	(593 416)

Amounts recognised in the statement of recognised income and expense {AASB 119 – paragraph 120A (h)}

	SASS	SANCS	SSS	TOTAL
	Financial Year to 30 June 2007 \$	Financial Year to 30 June 2007 \$	Financial Year to 30 June 2007 \$	Financial Year to 30 June 2007 \$
Actuarial (gains)/losses	0	0	0	0
Adjustment for limit on net asset	0	0	0	0

Cumulative amount recognised in the statement of recognised income and expense {AASB 119 – paragraph 120A (i)}

	SASS	SANCS	SSS	TOTAL
	Financial Year to 30 June 2007 \$	Financial Year to 30 June 2007 \$	Financial Year to 30 June 2007 \$	Financial Year to 30 June 2007 \$
Cumulative amount of actuarial (gains)/losses	0	0	0	0
Cumulative adjustment for limitation on net asset	0	0	0	0

Fund assets {AASB 119 – paragraph 120A (j)}

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

	30-Jun-07
Australian equities	33.6%
Overseas equities	26.5%
Australian fixed interest securities	6.8%
Overseas fixed interest securities	6.4%
Property	10.1%
Cash	9.8%
Other	6.8%

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

2. Other Assets (continued)

Fair value of Fund assets {AASB 119 – paragraph 120A (k)}

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

Expected rate of return on assets {AASB119 – paragraph 120A (l)}

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 {AASB 119 – paragraph 120A (m)}

Actual Return on Fund Assets {AASB 119 – paragraph 120A (m)}

	SASS	SANCS	SSS	TOTAL
	Financial Year to 30 June 2007 \$	Financial Year to 30 June 2007 \$	Financial Year to 30 June 2007 \$	Financial Year to 30 June 2007 \$
Actual return on Fund assets	5 469 035	563 850	0	6 032 885

Valuation method and principal actuarial assumptions at the balance sheet date {AASB 119 – paragraph 120A (n)}

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 entity.

b) Economic Assumptions

	30-Jun-07
Salary increase rate (excluding promotional increases)	4.0% pa to June 2008; 3.5% pa thereafter
Rate of CPI Increase	2.5% pa
Expected rate of return on assets backing current pension liabilities	7.6%
Expected rate of return on assets backing other liabilities	7.6%
Discount rate	6.4% pa

Historical information {AASB119 – paragraph 120A (p)}

	SASS	SANCS	SSS	TOTAL
	Financial Year to 30 June 2007 \$	Financial Year to 30 June 2007 \$	Financial Year to 30 June 2007 \$	Financial Year to 30 June 2007 \$
Present value of defined benefit obligation	38 737 079	3 656 706	0	42 393 785
Fair value of Fund assets	(43 038 415)	(4 588 782)	0	(47 627 197)
(Surplus)/Deficit in Fund	(4 301 336)	(932 076)	0	(5 233 412)
Experience adjustments – Fund liabilities	2 422 459	12 171	0	2 434 630
Experience adjustments – Fund assets	(2 888 629)	(268 220)	0	(3 156 849)

Expected contributions {AASB119 – paragraph 120A (q)}

	SASS	SANCS	SSS	TOTAL
	A\$	A\$	A\$	A\$
Expected employer contributions	991 414	212 770	0	1 204 184

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

2. Other Assets (continued)

Accounting policy {AASB 119 – paragraph 120A (a)}

Actuarial gains and losses are recognised immediately in profit and loss in the year in which they occur.

Fund information {AASB 119 – paragraph 120A (b)}

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 {AASB 119 – paragraph 120A(c)}

	SASS	SANCS	SSS	TOTAL
	Financial Year to 30 June 2008 \$	Financial Year to 30 June 2008 \$	Financial Year to 30 June 2008 \$	Financial Year to 30 June 2008 \$
Present value of partly funded defined benefit obligations at beginning of the year	38 737 078	3 656 706	0	42 393 784
Current service cost	802 455	196 420	0	998 875
Interest cost	2 375 548	221 682	0	2 597 230
Contributions by fund participants	525 035	0	0	525 035
Actuarial (gains)/losses	(1 629 328)	(15 493)	0	(1 644 821)
Benefits paid	(3 385 269)	(247 270)	0	(3 632 539)
Past service cost	0	0	0	0
Curtailments	0	0	0	0
Settlements	0	0	0	0
Business Combinations	0	0	0	0
Exchange rate changes	0	0	0	0
Present value of partly funded defined benefit obligations at end of the year	37 425 519	3 812 045	0	41 237 564

Reconciliation of the fair value of fund assets {AASB 119 – paragraph 120A (e)}

	SASS	SANCS	SSS	TOTAL
	Financial Year to 30 June 2008 \$	Financial Year to 30 June 2008 \$	Financial Year to 30 June 2008 \$	Financial Year to 30 June 2008 \$
Fair value of Fund assets at beginning of the year	43 038 415	4 588 781	0	47 627 196
Expected return on fund assets	3 185 176	349 247	0	3 534 423
Actuarial gains/(losses)	(5 422 540)	(641 672)	0	(6 064 212)
Employer contributions	1 101 756	228 888	0	1 330 644
Contributions by Fund participants	525 035	0	0	525 035
Benefits paid	(3 385 269)	(247 270)	0	(3 632 539)
Settlements	0	0	0	0
Business combinations	0	0	0	0
Exchange rate changes	0	0	0	0
Fair value of Fund assets at end of the year	39 042 573	4 277 974	0	43 320 547

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

2. Other Assets (continued)

Reconciliation of the assets and liabilities recognised in the balance sheet {AASB 119 – paragraphs 120A (d) and (f)}

	SASS	SANCS	SSS	TOTAL
	Financial Year to 30 June 2008 \$	Financial Year to 30 June 2008 \$	Financial Year to 30 June 2008 \$	Financial Year to 30 June 2008 \$
Present value of partly funded defined benefit obligations at end of year	37 425 521	3 812 045	0	41 237 566
Fair value of fund assets at end of year	(39 042 574)	(4 277 975)	0	(43 320 549)
Subtotal	(1 617 053)	(465 930)	0	(2 082 983)
Unrecognised past service cost	0	0	0	0
Unrecognised gain/(loss)	0	0	0	0
Adjustment for limitation on net asset	0	0	0	0
Net Liability/(Asset) recognised in balance sheet at end of year	(1 617 053)	(465 930)	0	(2 082 983)

Expense recognised in income statement {AASB 119 – paragraph 46 & 120A (g)}

	SASS	SANCS	SSS	TOTAL
	Financial Year to 30 June 2008 \$	Financial Year to 30 June 2008 \$	Financial Year to 30 June 2008 \$	Financial Year to 30 June 2008 \$
Components Recognised in Income Statement				
Current Service Cost	802 455	196 420	0	998 875
Interest cost	2 375 548	221 682	0	2 597 230
Expected return on Fund assets (net of expenses)	(3 185 176)	(349 247)	0	(3 534 423)
Actuarial losses/(gains) recognised in year	3 793 213	626 179	0	4 419 392
Past service cost	0	0	0	0
Movement in adjustment for limitation on net asset	0	0	0	0
Curtailment or settlement (gain)/loss	0	0	0	0
Expense/(income) recognised	3 786 040	695 034	0	4 481 074

Amounts recognised in the statement of recognised income and expense {AASB 119 – paragraph 120A (h)}

	SASS	SANCS	SSS	TOTAL
	Financial Year to 30 June 2008 \$	Financial Year to 30 June 2008 \$	Financial Year to 30 June 2008 \$	Financial Year to 30 June 2008 \$
Actuarial (gains)/losses	0	0	0	0
Adjustment for limit on net asset	0	0	0	0

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

2. Other Assets (continued)

Cumulative amount recognised in the statement of recognised income and expense {AASB 119 – paragraph 120A (i)}

	SASS	SANCS	SSS	TOTAL
	Financial Year to 30 June 2008	Financial Year to 30 June 2008	Financial Year to 30 June 2008	Financial Year to 30 June 2008
	\$	\$	\$	\$
Cumulative amount of actuarial (gains)/losses	0	0	0	0
Cumulative adjustment for limitation on net asset	0	0	0	0

Fund assets {AASB 119 – paragraph 120A (j)}

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

	30-Jun-08
Australian equities	31.6%
Overseas equities	25.4%
Australian fixed interest securities	7.4%
Overseas fixed interest securities	7.5%
Property	11.0%
Cash	6.1%
Other	11.0%

Fair value of Fund assets {AASB 119 – paragraph 120A (k)}

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

Expected rate of return on assets {AASB119 – paragraph 120A (l)}

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 {AASB 119 – paragraph 120A (m)}

	SASS	SANCS	SSS	TOTAL
	Financial Year to 30 June 2008	Financial Year to 30 June 2008	Financial Year to 30 June 2008	Financial Year to 30 June 2008
	\$	\$	\$	\$
Actual return on Fund assets	(2 680 098)	(292 425)	0	(2 972 523)

Valuation method and principal actuarial assumptions at the balance sheet date, {AASB 119 – paragraph 120A (n)}

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-Jun-08
Salary increase rate (excluding promotional increases)	3.5% pa
Rate of CPI Increase	2.5% pa
Expected rate of return on assets backing current pension liabilities	8.3%
Expected rate of return on assets backing other liabilities	7.3%
Discount rate	6.55% pa

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

2. Other Assets (continued)

c) Demographic Assumptions

The demographic assumptions at 30 June 2008 are those used in the 2006 triennial actuarial valuation. A selection of the most significant assumptions is shown below:

(i) SASS Contributors – the number of SASS contributors expected in any one year (out of 10 000 members) at the ages shown, to leave the fund as a result of death, resignation, retirement and redundancy. Promotional salary increase rates are also shown

Number of members expected in any one year, out of 10 000 members at the age shown to leave the fund as a result of:						
Age Nearest Birthday	Death	Total & Permanent Disability	Retirement	Resignation	Redundancy	Additional promotional salary Increase rate %
Males						
30	4	8	-	280	150	2.90
40	6	10	-	150	150	1.80
50	11	30	-	112	150	0.00
60	30	-	1400	-	150	0.00
Females						
30	2	2	-	372	150	2.90
40	3	6	-	175	150	1.80
50	7	28	-	144	150	0.00
60	18	-	1500	-	150	0.00

(ii) SSS Contributors – the number of SASS contributors expected in any one year (out of 10 000 members) at the ages shown, to leave the fund as a result of death, resignation, retirement and redundancy. Promotional salary increase rates are also shown

Number of members expected in any one year, out of 10 000 members at the age shown to leave the fund as a result of:						
Age Nearest Birthday	Death	Ill-health Retirement	Retirement (R60 for females)	Cash resignation (R60 for females)	Preservation (R60 for females)	Additional promotional salary Increase rate %
Males						
30	4	42	-	178	95	2.90
40	6	54	-	80	140	1.80
50	11	144	-	20	50	0.00
60	30	-	6 500	-	-	0.00
Females						
30	2	6	-	204	124	2.90
40	3	21	-	72	105	1.80
50	7	103	-	30	90	0.00
60	18	-	6 300	-	-	0.00

Note: Different assumptions apply to females who have elected to retire at age 55 (R55 members)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

2. Other Assets (continued)

(iii) SSS commutation-the proportion of SSS assumed to commute their pension to a lump sum in any one year

Age	Proportion of pension commuted	
	Retirement	Breakdown
Later of commencement or age 55	.15	.20
	Widow	Widower
55	.2500	.2500
65	.5380	.5800
75	.4825	.5160
85	.3928	.3728

(iv) SSS Pensioner Mortality-assumed mortality rates in 2006/2007 for SSS pensioners(separately for normal retirement/spouses and invalidity)

Age	Retirement pensioners and Spouses and Widows		Invalidity Pensioners	
	Male	Females	Male	Females
55	0.0025	0.0014	0.0081	0.0066
65	0.0070	0.0055	0.0112	0.0125
75	0.0194	0.0157	0.0505	0.0314
85	0.0945	0.0634	0.1134	0.1268

(v) SSS Pensioner Mortality Improvements-per annum assumed rates of mortality improvement for SSS pensioner

Age	Improvement rates(for years post 2006)	
	Male	Females
55	0.0152	0.0113
65	0.0101	0.0065
75	0.0087	0.0068
85	0.0052	0.0080

Historical information {AASB119 – paragraph 120A (p)}

	SASS	SANCS	SSS	TOTAL
	Financial Year to 30 June 2008 \$	Financial Year to 30 June 2008 \$	Financial Year to 30 June 2008 \$	Financial Year to 30 June 2008 \$
Present value of defined benefit obligation	37 425 521	3 812 045	0	41 237 566
Fair value of Fund assets	(39 042 574)	(4 277 975)	0	(43 320 549)
(Surplus)/Deficit in Fund	(1 617 053)	(465 930)	0	(2 082 983)
Experience adjustments – Fund liabilities	(1 629 328)	(15 493)	0	(1 644 821)
Experience adjustments – Fund assets	5 422 540	641 672	0	6 064 212

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

2. Other Assets (continued)

Expected contributions {AASB119 – paragraph 120A (q)}

	SASS	SANCS	SSS	TOTAL
	A\$	A\$	A\$	A\$
Expected employer contributions	0	0	0	0

Funding Arrangements for Employer Contributions

(a) Surplus/Deficit

The following is a summary of 30 June 2008 financial position of the funds calculated in accordance with AAS 25 "Financial Reporting by Superannuation Plans".

	SASS	SANCS	SSS	TOTAL
	30-Jun-08	30-Jun-08	30-Jun-08	
	A\$	A\$	A\$	A\$
Accrued Benefits	37 334 009	3 826 933	0	41 160 942
Net market value of Fund Assets	(39 042 574)	(4 277 975)	0	(43 320 549)
Net (surplus)	(1 708 565)	(451 042)	0	(2 159 607)

(b) Contribution recommendations

Recommended contribution rates for the entity are

	SASS	SANCS	SSS	TOTAL
Multiple of Member Contribution	% of Member Salary	Multiple of Member contributions		
	0	0	0	0

(c) Funding method

The method used to determine the employer contribution recommendations at the last actuarial review was the Aggregate Funding Method. The method adopted affects the timing of the cost of the employer

Under the Aggregate Funding method, the employer contribution rate is determined so that sufficient assets will be available to meet the benefits payment to existing members taking into account the current value of assets and future contributions.

(d) Economic assumptions

The economic assumption adopted for the last actuarial review of the Fund were:

Weighted-Average Assumptions	
Expected rate of return on Fund assets backing current pension liabilities	7.7% pa
Expected rate of return on Fund assets backing other liabilities	7.00% pa
Expected salary increase rate	4.00% pa
Expected rate of CPI increase	2.5 % pa

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

2. Other Assets (continued)

Nature of Assets/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.

3. Provisions

	Notes	2008 \$'000	2007 \$'000
Current Liabilities			
Accrued Wages		896	700
Payroll Tax		303	302
Leave Entitlements		10 481	9 976
FBT		17	25
Less other miscellaneous provision		-	-
Total Current Liabilities		11 697	11 003
Non Current Liabilities			
Leave Entitlements		120	230
Total Non Current Liabilities		120	230
Total Liabilities		11 817	11 233

All personnel administration costs and related audit fees are met by the parent entity, Forests NSW.

4. Related Parties Transactions

	Notes	2008 \$'000	2007 \$'000
Supply of Personnel Services to Forestry Commission of NSW		29 389	27 844
Current Amount due to Forestry Commission of NSW		2 083	5 234

End of Audited Financial Statements

STATEMENT BY DIVISION HEAD

(as Public Sector Employment Legislation Amendment Act 2006)

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 2008.

The financial statements have been prepared in accordance with 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.



Richard Sheldrake

Director-General of The NSW Department of Primary Industries.
17th December, 2008.



GPO BOX 12
Sydney NSW 2001

INDEPENDENT AUDITOR'S REPORT

Forestry Commission Division

To Members of the New South Wales Parliament

I have audited the accompanying financial report of Forestry Commission Division (the Division), which comprises the balance sheet as at 30 June 2008, the income statement, statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes.

Auditor's Opinion

In my opinion, the financial report:

- presents fairly, in all material respects, the financial position of the Division as at 30 June 2008, and its financial performance and cash flows for the year then ended in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations)
- is in accordance with section 41B of the *Public Finance and Audit Act 1983* (the PF&A Act) and the Public Finance and Audit Regulation 2005.

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

The Director General's Responsibility for the Financial Report

The Director General is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the PF&A Act. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the Division's preparation and fair presentation of the financial report 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 Division's internal controls. 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 report.

I believe that 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, or
- about the effectiveness of its internal controls.

Independence

In conducting this audit, the Audit Office of New South Wales has complied with the independence requirements of the Australian Auditing Standards and other relevant ethical requirements. The PF&A Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General, and
- 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.



Ron Hegarty FCA
Director, Financial Audit Services

17 December 2008
SYDNEY

STATUTORY INFORMATION

APPENDICES

Charter	76
Chief Executive's Performance	76
Code of Conduct	77
Committees (Internal)	77
Consultants	78
Consumer Response	78
Credit Card Certification	78
Energy Consumption	78
Equal Employment Opportunity	79
Ethnic Affairs Priority Statement	80
Financial Information	80
Freedom of Information	81
Human Resources	82
Information Technology	84
Insurance	84
Internal Controls	85
Legislation and Legal Issues	85
Major Works in Progress	85
Objectives	85
Occupational Health and Safety	85
Overseas Visits	86
Places of Business	88
Privacy Management	89
Property Disposals	89
Publications and Website	89
Research and Development	90
Risk Management	90
Timber Yield	94
Waste Management	94
Workers Compensation (Self-Insured)	95

APPENDICES

CHARTER

Forests NSW is the registered business name of the Forestry Commission of New South Wales.

The Forestry Commission is constituted by the *Forestry Act 1916*, and is subject to the direction of the responsible Minister. The Commission also administers the *Timber Marketing Act 1977*, which provides for control of the sale and use of certain timbers.

The Commission's operations are wide ranging including native forest management, plantation establishment and maintenance, fire protection, recreation, and marketing of forest products.

The objects of the Commission are set out in the Forestry Act 1916. The Commission is required to:

- conserve and utilise the timber on Crown-timber lands and land owned by the Commission or otherwise under its control or management to the best advantage of the State;
- provide adequate supplies of timber from Crown-timber lands and land owned by the Commission or otherwise under its control or management 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 Crown-timber lands and land owned by the Commission or otherwise under its control or 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 thereon, consistent with the use of State forests for the purposes of forestry and of flora reserves; and
- provide natural resource environmental services (whether within or outside of New South Wales).

In the attainment of its objectives and the exercise and performance of its powers, authorities, duties and functions under the Act, the Commission is required to take all practical steps that it considers necessary or desirable to ensure the preservation and enhancement of the quality of the environment.

The Commission may make recommendations to the Minister with respect to any of its objects, powers, authorities, duties or functions and shall, when requested by the Minister to do so, make recommendations to the Minister with respect to any matter relating to its objects, powers, authorities, duties or functions.

CHIEF EXECUTIVE'S PERFORMANCE

Name

Nick Roberts

Position & Level

Chief Executive
Forests NSW
SES Level 6

Remuneration

\$311 950

Period in Position

1 July 2007 to 30 June 2008

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 despite qualification of Forests NSW accounts by the Audit Office. Key tasks have been undertaken to achieve operational requirements and leadership has been provided to deliver outcomes consistent with government policy.

Achievements over the last 12 months include:

- Achieved an underlying trading profit of \$42.6M,
- Reduced expected debt levels by \$21.7M, indicating a cash saving of \$2.9M.
- Developed a Corporate Business Strategy to guide business growth to the year 2011.
- Developed business unit structures for nurseries and workshop services.
- Commissioned an independent review of native forest valuation procedures following an audit qualification in 2007. Forests NSW has made recommended system changes to increase confidence around forest valuation.

APPENDICES

- Completed the tender process for the allocation of up to 250 000 cubic metres per annum of sawlog and up to 70 000 tonnes annually of biomass resource from Forests NSW Bombala plantations. A 20 year wood supply agreement was signed on 28 April 2008 between Forests NSW and Willmott Timbers Pty Ltd.
- Passed a WorkCover audit in Central Region.
- Developed and implemented a detailed Safety Improvement Plan. Although safety results were disappointing, safety initiatives have been established to target improved performance.
- Maintained environmental performance to the ISO 14001 standard and Australian Forestry Standard AS4708.
- Published the six remaining regional Ecologically Sustainable Forest Management (ESFM) Plans completing the suite of ESFM Plans for all native and planted forests regions.
- Commenced an environmental impact statement for native Red Gum and Cypress forests in south western NSW following an agreement reached with the National Parks Association in the Land and Environment Court.
- Commenced a review of the Forest Agreements and Integrated Forestry Operations Approvals for coastal native forests.
- Invited a short list of companies to submit firm proposals to invest in re-establishing forestry plantations on Forests NSW land. This followed a call for expressions of interest.



Richard Sheldrake
Director-General
NSW Department of Primary Industries
Commissioner for Forests

CODE OF CONDUCT

Forests NSW adopted the NSW DPI Code of Conduct from May 2006. The Code of Conduct was published in Forests NSW 2005-2006 Annual Report.

The Code of Conduct outlines the public sector values of integrity, diligence and accountability and provides a minimum standard of behaviour expected of public employees.

COMMITTEES (INTERNAL)

Forests NSW has a number of key internal committees to set strategic directions, facilitate and monitor policies, performance and operations. The Committees are:

Senior Management Team

Nick Roberts (Chair)
Malcolm Clinch
Ross Dickson
Della Farthing
Martin Grealy
Bob Orman
Erle Robinson
Rahmat Khaiami (Secretary)

Audit and Risk Management

Alan Gleeson (Independent Chair)
Ross Dickson
Rahmat Khaiami
(External and internal auditors are invited to attend meetings)
(The Committee has been disbanded and replaced by DPI Audit and Risk Management Committee of which FNSW Chief Executive is a member, and oversees FNSW audit and risk management activities)

Commercial and Investment Services

Nick Roberts (Chair)
Malcolm Clinch
Rahmat Khaiami
Michael Bullen
Bob Orman
Allan Cook (External Advisor)

IT and Systems Development

Malcolm Clinch (Chair)
Ian Cooper
Ross Dickson
Martin Grealy
Bryan Rowsthorne
Grant Michell

APPENDICES

CONSULTANTS

\$30 000 or more	
DTI Limited (Environmental and Management Services)	30 066.17
Ecosurveys Pty Ltd (Environmental)	43 945.00
Poyry Forest Industry Ltd (Management Services)	68 000.00
	\$142 011.17
\$30 000 or less During the year there were 15 consultancies of less than \$30 000	
Engineering	255.00
Environmental	13 967.43
Management Services	6 876.53
Property Valuation	7 377.98
Human Resources/Recruitment	26 183.01
Financial Accounting	16 275.00
	\$70 934.95
Total	\$212 946.12

CONSUMER RESPONSE

As a commercial operator, Forests NSW aims to provide a level of service that will generate ongoing business with current and future customers.

Individuals, customers, special interest and community groups may make representations on policy and other issues at any time. Comment is specifically invited on the provision of forest management plans and may be invited from time to time on specific issues, such as policy development or recreation use in State forests.

Whether as a commercial customer of Forests NSW or as a member of the public people can expect:

- honest, courteous and friendly service
- competent and conscientious assistance
- to be treated fairly
- to be assisted without discrimination, and
- a reasonable turnaround time.

Forests NSW has a Good Neighbour Policy which can be found on our website. This outlines our commitment to developing and maintaining excellent relationships with our neighbours.

If a customer or member of the public is not satisfied with the service we provide or has a complaint about forest operations, the issue should be addressed to the local regional office.

Commercial difficulties concerning product quality or operational and other relevant problems should be addressed on-site to the marketing foreman. If there is a difficulty that involves policy, the issue should be raised at the regional level.

Forest operations and the public's use of the forests sometimes lead to complaints by some stakeholders. Forests NSW adopted NSW DPI policy and procedure for handling customer service complaints that cannot be resolved through normal complaint handling processes with frontline staff.

Information on Complaint Handling is available on the NSW DPI Internet website.

CREDIT CARD CERTIFICATION

Subject to meeting Forests NSW requirements, eligible staff are issued with corporate credit cards to facilitate travel, accommodation and limited purchases.

Forests NSW monitors use of these cards on a monthly basis. Business Service Centres process all payments and the Chief Executive Officer or relevant senior manager approves all expenses associated with card use.

Credit card use in Forests NSW has been in accordance with the Premier's Memoranda and Treasurer's Directions.

ENERGY CONSUMPTION

Forests NSW continues to subscribe to the NSW Government Energy Management Policy (GEMP) objectives and the Australian Government Greenhouse Energy program as an integral part of its business, although being a public trading enterprise, Forests NSW participation is voluntary.

The benefits of participating include achieving a reduction in greenhouse gas emissions and comprehensive cost savings.

The specific target in the GEMP was to reduce the statewide energy consumption of government buildings where feasible, by 25% of the 1995 level by 2005.

Forests NSW has this year achieved a reduction in electricity consumption of 35% and a reduction in total carbon emissions of 29.5% on 1995 levels.

APPENDICES

Green power comprises 6% of the total energy purchased in the West Pennant Hills complex in Sydney. Forests NSW will be expanding the purchase of green power to other office locations.

Forests NSW is currently a partner in a project undertaken jointly through the University of Newcastle and the University of Sydney to develop a methodology to investigate the most effective means of reducing the ecological footprint of a corporate or Government entity, such as Forests NSW. The project will produce data which will allow for a more sophisticated multifunctional forest policy development.

EQUAL EMPLOYMENT OPPORTUNITY

Forests NSW values equity and believes that the principles of equity and EEO must be embedded in the development and implementation of all policies and practices.

Through these policies and practices Forests NSW implements the following principles:

- Fair practices in the workplace
- Management decisions without bias
- Recognition and respect for social/cultural backgrounds of staff and clients
- Staff training and development linked to both employee and business needs

- A workplace free of harassment and discrimination
- Access to grievance resolution process

WOMEN'S EMPLOYMENT STRATEGY

A Women's Employment Strategy was launched by NSW DPI in 2006. Forests NSW is represented on the Women's Consultative Group which developed an Action Plan implemented throughout Forests NSW in 2006-07. This year the Action Plan has been updated and a revised 'Action Plan: Progress and Targets 2008-2009' has been developed.

This new Action Plan continues to support the aims of the Strategy to ensure that the potential of NSW DPI women is realised, and that they are recognised as key contributors in the workplace.

ABORIGINAL EMPLOYMENT STRATEGY

Forests NSW has developed a multi-pronged Indigenous Employment Strategy. It incorporates partnerships with relevant Government bodies also focussed in creating opportunities for Aboriginal people and provides access to apprenticeships, cadetships for foresters and commercial graduate opportunities. A cadetship was recruited to and commenced at the Southern Cross University.

Table 1. Trends in the Representation of EEO Groups in percentage	Benchmark or Target	2005	2006	2007	2008
Women	50%	20%	19%	18%	17%
Aboriginal People & Torres Strait Islanders	2%	4.4%	6.5%	7.5%	7.6%
People Whose Language First Spoken as a Child was not English	20%	3%	3%	2%	3%
People with a Disability	12%	11%	15%	14%	15%
People with a Disability Requiring Work-related Adjustment	7%	-	-	-	-

Table 2. Trends in the Distribution of EEO target groups	Benchmark or Target	2005	2006	2007	2008
Women	100	96	100	103	110
Aboriginal People & Torres Strait Islanders	100	63	71	71	68
People Whose Language First Spoken as a Child was not English	100	n/a	105	132	125
People with a Disability	100	82	82	84	79
People with a Disability Requiring Work-related Adjustment	100	-	-	-	-

This statistical data is based on the Workforce Profile Report and consists of a regular voluntary collection of anonymous data on the characteristics of NSW public sector employment and includes data on job characteristics (such as employment category, remuneration and leave); individual characteristics (such as gender and age) and the change (or movement) in these characteristics.

The figures for women are a correct representation whilst that for other diversity groups is an extrapolation calculated using the figures available.

APPENDICES

ETHNIC AFFAIRS PRIORITY STATEMENT

Forests NSW is committed to the four principles of cultural diversity proclaimed in the New South Wales Charter of Principles for a Culturally Diverse Society. Forests NSW has set out objectives and actions for the Ethnic Affairs Priority Statement (EAPS) and the EAPS and Equity Program Statements.

To implement EAPS Statement, Forests NSW will:

- respect the diversity of its employees, clients and the community in developing and implementing policies and practices;
- make decisions without bias;
- ensure, as the need arises, availability of interpreters or information in languages other than English;
- explore avenues to identify the cultural demographics of the communities in which it operates;
- promote EAPS to employees by including associated literature/information in job information kits, at initial induction and training.

Forests NSW is dedicated to the development of profitable, sustainable primary industries for New South Wales.

All residents of New South Wales have access to the services and open facilities of Forests NSW. Wherever possible, clients' special needs are addressed professionally, expeditiously and in a manner appropriate to those needs.

FINANCIAL INFORMATION

Liability Management Performance

Clause 13(1) of the Annual Reports (Statutory Bodies) Regulation 1995 is not applicable to Forests NSW as the level of debt servicing costs as at 30 June 2008 is below the limit determined by the Treasurer.

Investment Management Performance

Forests NSW received interest on cash investments in 2007-2008 of \$1 165 000 (in 2006-2007 the amount was \$619 000). The amount received was solely from Treasury Corporation on amounts lodged on their 24-hour call facility.

Payment of Accounts

The schedules below shows aged analysis of accounts payable and payment performance for each quarter of 2007-08.

Aged Analysis					
Quarter	Current (ie. 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
September 2007	24 754 403	9 204 683	574 154	309 808	170 674
December 2007	35 180 898	8 122 088	964 695	230 831	2 191 053
March 2008	36 236 046	10 264 787	1 122 648	216 537	880 232
June 2008	40 403 283	7 297 272	1 107 335	587 198	958 303

Accounts Paid On Time				
Quarter	Target %	Actual %	Actual \$	Total Amount Paid \$
September 2007	90%	89.34%	33 959 086	35 013 722
December 2007	90%	89.45%	43 302 986	46 689 564
March 2008	90%	90.55%	46 500 832	48 720 250
June 2008	90%	86.59%	47 700 556	50 353 392

APPENDICES

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.

Subsidiary Companies

Forests NSW did not control any entity of the kind referred to in Section 39(1A) of the *Public Finance and Audit Act, 1983* as at 30 June 2008.

Under Schedule 3 of the PSEMA (Public Sector Employment Management Act), Forests NSW administers and has dominant control of the Forestry Commission Division.

Grant to Non-Government Community Organisations

Forests NSW did not make any grants to non-Government community organisations during 2007-2008.

FREEDOM OF INFORMATION

Forests NSW satisfied the requirements of the *Freedom of Information (FOI) Act* in 2007-08 in that a Summary of Affairs was published in the New South Wales Government Gazette (six monthly basis) and an annual Statement of Affairs was available to members of the public in our offices throughout the State.

The number of applications received in 2007-08 (19) was six more than in the previous year. Thirteen applications were granted in full. Three applications were carried forward.

Six internal review requests were received four of which the original determinations upheld and the two remaining requests released further documentation.

Total time devoted to processing FOI applications was at least 100 hours. Fees received totalled \$1812. There were eleven requests for reduction of fees, all of which were granted.

	Personal		Other		Total	
	06/07	07/08	06/07	07/08	06/07	07/08
FOI Requests	-	1	13	18	13	19
Brought Forward	-	-	1	-	1	-
Completed	-	1	14	12	14	13
Transferred	-	-	-	1	-	1
Withdrawn	-	-	3	-	3	-
Unfinished	-	-	0	3	0	3
No response from applicant	-	-	-	2	-	2
Granted in Full	-	1	8	10	8	12
Granted in Part	-	-	1	2	1	2
No records found	-	-	-	-	-	-
Refused	-	-	-	-	-	-
Deferred	-	-	-	-	-	-
Requiring Formal Consultation	-	-	1	4	1	4
Discounts allowed	-	1	4	10	4	11
Completed in 0-21 days	-	1	13	9	13	10
22 to 35 days	-	-	-	2	-	2
Over 35 days	-	-	-	2	-	2
Processing Hours						
0 -10 hours	-	1	13	10	13	11
10 - 20 hours	-	-	-	3	-	3
Over 20 hours	-	-	-	-	-	-
Internal Reviews Requested	-	-	1	6	1	6
Internal Reviews Finalised	-	-	1	6	1	6
No. of Ombudsman's Reviews	-	-	-	-	-	-

APPENDICES

HUMAN RESOURCES

As at end June 2008, Forests NSW employed a total of 943 employees. This figure comprises 470 public servant employees involved in management, administration and technical roles, and 473 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.

Employee Numbers – Five Year Trend			
Year Ended 30th June	Public Servants	Forestry Commission Division Employees	Total
2004	620	492	1112
2005	547	485	1039
2006	538	531	1069
2007	539	506	1045
2008	470	473	943

Structural Adjustment

Forests NSW has continued its structural adjustment which commenced in 2006 after negotiations with the Public Service Association (PSA) regarding the restructure of the organisation to improve business support services and efficiencies. The restructure of the public servant workforce progressed through its final stages in 2007-08, under the auspices of the Memorandum of Understanding drafted between the PSA and Forests NSW.

Salary and Wage Movement

In July 2007 and April 2007 both public servants and Forestry Commission Division employees (staff covered by the Crown Employees Fieldwork and Other Staff Award) were granted a 4% salary increase based on established performance/productivity improvements.

There were no major industrial disputes during the year. However Forests NSW has been involved in extensive negotiations with the Australian Workers Union (AWU) and Australian Manufacturers Workers' Union (AMWU) to negotiate a new Award for Forestry Commission Division employees which expired in April 2008. Industrial Relations policies and practices continued to be determined by the Public Employment Office and/or the NSW DPI.

Training

Extensive training was conducted in the area of Safety Leadership. Behaviours that underpin a safety culture and training that explains the Safety Management System and how it can be best used to maximize the safety of employees were highlighted in this program.

Leadership and Management development has received high profile over the past year. Forests NSW has launched its 'Leader Within' program that aims to enhance employees knowledge as to leadership styles for themselves and others and how to utilise that knowledge to increase their own personal effectiveness. A residential program is followed up with one-on-one professional coaching. There are plans to expand on this program in 2009 to include other elements such as Business Acumen, Strategic Thinking and Change Management.

Seven employees are participating in the DPI Management and Leadership Program that commenced in June 2008. To support this program an Introduction to Management program has been developed and is currently being piloted within Forests NSW. This is aimed at new managers, or those who have been in a managerial role for sometime and may need to update their skills and knowledge around managing people.

A number of corporate training courses were conducted in the areas of safety, operations, business and fire.

Numbers and Levels of SES Staff 2008 as at 30 June 2008									
SES level	1	2	3	4	5	6	7	8	Total
Total	0	0	5	0	0	1	0	0	6

Numbers and Levels of Female SES Staff 2008 as at 30 June 2008									
SES level	1	2	3	4	5	6	7	8	Total
Total	0	0	0	0	0	0	0	0	0

APPENDICES

Number of Total Staff by Salary Levels									
Level	Number								
	Total Staff	Respondents	Men	Women	Aboriginal People & Torres Strait Islanders	People from Racial, Ethnic, Ethno-Religious Minority Groups	People Whose Language First Spoken as a Child was not English	People with a Disability	People with a Disability Requiring Work-related Adjustment
< \$35 266	18	6	11	7	0	0	0	1	0
\$35 266 - \$46 319	278	65	257	21	9	5	1	14	0
\$46 320 - \$51 783	145	48	132	13	7	1	0	11	0
\$51 784 - \$65 526	156	71	101	55	4	5	2	7	0
\$65 527 - \$84 737	172	91	121	51	0	14	5	9	0
\$84 738 - \$105 923	83	48	76	7	0	12	4	3	0
> \$105 923 (non SES)	48	37	45	3	0	1	0	1	0
> \$105 923 (SES)		0	0	0	0	0	0	0	0
Total	900	366	743	157	20	38	12	46	0

Percent of Total Staff by Employment Basis									
Subgroup as % of Total Staff in each Category. Subgroup as Estimated Percent of Total Staff in each Employment Category									
EMPLOYMENT BASIS	Total Staff	Respondents	Men	Women	Aboriginal People & Torres Strait Islanders	People from Racial, Ethnic, Ethno-Religious Minority Groups	People Whose Language First Spoken as a Child was not English	People with a Disability	People with a Disability Requiring Work-related Adjustment
Permanent Full-time	860	41%	85%	15%	5.4%	10%	3%	13%	
Permanent Part-time	29	45%	17%	83%		23%	8%	15%	
Temporary Full-time	3	67%	33%	67%	50.0%				
Temporary Part-time									
Contract - SES									
Contract - Non SES									
Training Positions	8	25%	100%						
Retained Staff									
Casual	108	7%	57%	43%					
Total	1008	37%	80%	20%	4.8%	9%	3%	11%	
Estimate Range (95% confidence level)					3.2% to 6.4%	7.0% to 11.4%	1.6% to 4.2%	8.8% to 13.6%	

This statistical data is based on the Workforce Profile Report and consists of a regular voluntary collection of anonymous data on the characteristics of NSW public sector employment and includes data on job characteristics (such as employment category, remuneration and leave); individual characteristics (such as gender and age) and the change (or movement) in these characteristics.

The figures for women are a correct representation whilst that for other diversity groups is an extrapolation calculated using the figures available.

APPENDICES

INFORMATION TECHNOLOGY

Forests NSW network infrastructure has been upgraded in line with the continued development and integration of Commercial Services, forest management and financial operations. This development work included:

Sales Related Systems

Improvements were made to the provision of information and general reporting through our Internet Web system. In particular, contractors involved in harvest and haulage operations, are advised of any new safety alerts issued by Forests NSW as soon as they log into the system. The safety alerts can be viewed online and downloaded. This is a quick method of advising contractors on important safety issues and complements formal advice provided on safety alerts.

Customers are also able to view and dispute log details through this web site. This allows quicker resolution of matters with a minimum need for Forests NSW staff to attend meetings on site.

Finance and Payroll Systems

A major upgrade to the Finance system allowed for the introduction of a Windows based version that provides more streamlined reporting to internal users. Easier access to information has also assisted in streamlining the provision of reporting to external stakeholders.

Key system improvements have supported the more effective and efficient delivery of business services across Forests NSW including sales, fleet, records and payroll processing.

Data Centre Relocation

Forests NSW has finalised the move of its data centre from Pennant Hills to our West Pennant Hills Corporate Facility. Major upgrades were made to the Human Resources and Finance systems requiring introduction of new server hardware.

Wide Area Network connectivity was also established between the Department of Primary Industries network at Orange and Forests NSW network at West Pennant Hills. This has allowed the facilitation of access for staff from both networks into corporate applications.

Information Security Management System

Following the implementation of an Information Security Management System (ISMS) in 2006-07, the Information Security Steering Group has maintained its Certification for disaster recovery capabilities of the SCION sales system and CHRIS HR/payroll system by the establishment of a new recovery site in Coffs Harbour. This complies with the requirements of the ISO/IEC 27001:2005 standard.

Firewood Licences Available Online

Forests NSW has trialled internet applications for firewood licences in the Riverina, on the south coast and the mid north coast. Instead of needing to travel to a Forests NSW office, customers are able to complete an application, pay their fees and download licences and maps online.

This arrangement has been popular with customers and will be available state-wide from July 2008.

INSURANCE

Forests NSW continued to maintain extensive insurance coverage. These policies are sourced from the local and global insurance markets at competitive rates. Presently Forests NSW has in place many specific policies with relevant underwriters substantially covering various risk exposures, including General Liability, Motor Vehicle, Industrial Special Risks, Aircraft, Personal Accident, Burglary and Marine Cargo.

Only one claim of significance was received during the year. This related to losses suffered as result of a fire allegedly escaping from a State forest in December 2006 and damaging a neighbouring plantation. Forests NSW, through its insurers, are defending this claim.

In addition to the externally provided insurable risk coverage, Forests NSW is licensed by NSW WorkCover to be self insured for Workers Compensation purposes. As required, Forests NSW also holds an external policy providing coverage in the event abnormal claims are incurred. Forests NSW continues to enhance its internal management systems and planning processes which are contributing toward further improving Forests NSW performance in forest operations, safety and business services.

APPENDICES

INTERNAL CONTROLS

Management Audit and Review Unit and on their appointment as the Internal Auditor in 2008, IAB Services conducted internal audits and reviews into Forests NSW systems, processes and activities to assess the adequacy of internal controls. Management Audit and Review Unit reported directly to the Chief Executive Officer and the Audit and Risk Management Committee to ensure maximum independence and objectivity. IAB Services report to the Audit and Risk Management Committee and have access to the Chief Executive Officer as required.

The audits and reviews conducted during the year included financial, management, operational audits, investigation and special projects as required. Management Audit and Review Unit coordinated protected disclosures and maintained a fraud and corruption hotline to enable prompt inquiry into allegations of fraud, corruption, maladministration and/or serious and substantial waste of public resources. These functions are now undertaken by NSW DPI.

Overall, internal controls over financial and related operations during the year were adequate.

LEGISLATION AND LEGAL ISSUES

The Forestry Act 1916 was amended under the Statute Law Revision Program of 2008 to increase the maximum term for a forest materials licence from 5 years to 20 years.

The Forestry Regulation 2004 was amended to increase the fees for licences and permits based on CPI and Average Wage Movements.

Forests NSW recovered a sum of \$230,000 by way of professional costs having successfully defended a personal injury litigation case.

A number of other routine, litigation, advice and contract preparation tasks were completed to the satisfaction of the Senior Management Team.

MAJOR WORKS IN PROGRESS

There were no major works in progress or undertaken during 2007-08. Capital commitments included:

Growing Stock	\$4 047 532
Others	\$8 763 462
Total	\$12 810 994

OBJECTIVES

Forests NSW management objectives, as identified in its Statement of Affairs, are to:

- sustain our financial performance
- deliver ecologically sustainable management of natural resources
- provide accountability to the community, and
- support our people.

These objectives encompass ensuring the supply of timber to processing industries, protection of the biodiversity of State forests, achievement of environmental benefits and provision of community amenities, all within the framework of running a profitable business for the people of New South Wales.

Reporting on our objectives is included in our *Social, Environmental and Economic (Seeing) report*, the NSW DPI Annual Report and this Annual Report.

Reports on our operational performance are prepared and submitted to Treasury on a quarterly basis.

OCCUPATIONAL HEALTH AND SAFETY

Workplace Safety - Incident Statistics 2007-08	
Number of Lost Time Incidents (LTIs)	41
Days lost due to workplace incidents (due to incidents occurring in F2006)	527
Lost Time Frequency Rate	4.5

APPENDICES

Regions Recording a Year (2007-08) Free of Lost Time Incidents		
Region/Directorate	No. Staff	No. Hrs Worked (Yr)
Planted Forests Directorate	5	9 467
Native Forests Directorate	5	10 016
Office of the CEO	8	21 794
Commercial Services	22	45 723
Financial & Operational Business Services	88	210 116

Combined Workplace Incident Statistics - past five years.					
	F2008	F2007	F2006	F2005	F2004
1. Frequency Rate*	4.5	3.3	2.7	3.1	2.8
2. Incident Rate#	4.4	3.3	2.4	2.9	2.8
3. Average Lost Time Rate†	13	11.9	14.6	7.8	7
No. Lost Time Incidents (LTI)	41	32	26	30	31
No. Days Lost Due to LTIs	57.9	39.1	38.8	25.3	19.4
4. Lost Time Severity RateΔ	290	195.5	194.1	113.7	97.2

*The number of Lost Time Incidents (LTIs) 200,000 hours worked

#The number of LTIs per 100 employees

†Average lost time rate is time lost in days divided by the number of injuries

ΔThe number of days lost per 200,000 hours worked

OVERSEAS VISITS

Overseas Visits from 1 July 2007 - 30 June 2008

Name/Position	City/Country/Date	Purpose
Mr Matthew Pope Infrastructure Forester Hume Region Planted Forests Operations	Portland USA 01/07/07-19/02/08	Recipient of Gottstein fellowship to investigate best practice in integrated field data capture systems. Funded by Gottstein Trust, World Forest Institute, Forests NSW and Mr Pope.
Mr Richard Forrester Acting Chief Timber Inspector Commercial Services	Auckland New Zealand 25-27/07/07	To attend a meeting of Australian Standards TM6 committee (oversees standards related to preservative treatment and handling of treated timber). Internally funded by Forests NSW.
Mr Dean Anderson Regional Manager Macquarie Region Planted Forests Operations	Scotland 10/08/07-20/03/08	Staff exchange agreement with Forestry Commission Scotland. Internally funded by Forests NSW.
Mr Bob Orman A/Director Planted Forests Operations	Rotorua New Zealand 01-04/10/07	To represent and maintain Forests NSW interests as a member of the Radiata Pine Breeding Company (the primary seed source for Forests NSW). Internally funded by Forests NSW.
	Rotorua New Zealand 11-14/02/08	Attend Radiata Pine Breeding Company Board meeting. Site inspection/trials. Internally funded by Forests NSW.
	Rotorua New Zealand 15-19/06/08	Attend Radiata Pine Breeding Company Board meeting, technical meeting and site inspections. Attend Proseed meeting. Internally funded by Forests NSW.

APPENDICES

Name/Position	City/Country/Date	Purpose
Ms Helen Smith Research Officer Tree Improvement Unit Land Management & Forestry Services	Johannesburg, Durban South Africa 19-27/10/07	To attend IUFRO Working Party meeting on Improvement and Culture of Eucalypts. Internally funded by Forests NSW.
	Guangzhou, Zhanjiang, Liuzhou Peninsula, Hepu, Qinzhou, Nanning, Dongmen, Guilin, Beijing 16/05/07-01/06/07	ACACA project reviewing Chinese technologies for plant propagation by tissue culture & spindle-less lathe technology for veneering small logs. Travel funded by ACACA
Mr Michael Henson Tree Improvement Manager Tree Improvement Unit Land Management & Forestry Services	Christchurch, Rotorua New Zealand 6-9/11/07	Attend Radiata Pine Breeding Company Technical Committee meetings. Internally funded by Forests NSW.
	Hanoi, Nanning, Guangxi, Liuzhou, Hunan, Guangdong Vietnam & China. 12-23/11/07	ACIAR project aimed at improving the value chain for plantation grown eucalypt sawn wood in China, Vietnam and Australia: Genetics and Silviculture. Travel funded by ACIAR
	Christchurch, New Zealand 21-24/01/08	Review FRST research project on Compromised Wood Quality and arrange handover of project. Visit Forests NSW seed supplier (Proseed). Internally funded by Forests NSW.
	Rotorua, New Zealand 20-23/05/08	Attend Radiata Pine Breeding Company Technical Committee meetings. Internally funded by Forests NSW.
Mr Nick Roberts Chief Executive Officer	Tokyo, Japan Guangzhou, China 19-21/11/07	To discuss and promote business opportunities in Japan and China for Forests NSW. Internally funded by Forests NSW.
Mr Kris Gounder Manager, Harvest Systems & Regulation Forest Management Unit Land Management & Forestry Services	Buenos Aires Argentina 23/11/07-04/12/07	To attend the 18th Montreal Process Working Group meeting. Funded by Forestry and Forests Products Committee.
Mr Gavin Jeffries Regional Manager, Monaro region & A/ Regional Manager Macquarie region Planted Forests Operations	Auckland, Napier, Nelson, New Zealand 25/11/07-02/12/07	Participation in benchmarking project related to second rotation site preparation, to ensure best practice procedures. Internally funded by Forests NSW.
Mr Charlie Taylor Resource Protection Manager Hume region Planted Forests Operations	Auckland, Napier, Nelson, New Zealand 25/11/07-02/12/07	Participation in benchmarking project related to second rotation site preparation, to ensure best practice procedures. Internally funded by Forests NSW.
Mr Dane Thomas Research Scientist Plantation Improvement Land Management & Forestry Services	Christchurch, New Zealand 21-24/01/08	Meet with University of Canterbury representatives re future student projects and with FRST re research project on Compromised Wood Quality. Visit Forests NSW seed supplier (Proseed). Internally funded by Forests NSW.
	Guangzhou, Zhanjiang, Liuzhou Peninsula, Hepu, Qinzhou, Nanning, Dongmen, Guilin, Beijing 16/05/07-01/06/07	ACACA project aimed at improving the economics of short rotation eucalypt plantations for high value end use in Australia and China. Travel funded by ACACA.
Mr Steve Boyton Senior Technical Officer Tree Improvement Unit Land Management & Forestry Services	Nanning, Liuzhou & Guilin, Guangxi China 30/03/08-12/04/08	ACIAR project aimed at improving the value chain for plantation grown eucalypt sawn wood in China, Vietnam and Australia: Genetics and Silviculture. Travel funded by ACIAR.

APPENDICES

PLACES OF BUSINESS

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

Corporate 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

Cumberland State Forest

PO Box 100, Beecroft 2119
121-131 Oratava Ave, West Pennant Hills 2125
(02) 9871 3377 Fax (02) 9872 6447

Cumberland Nursery

PO Box 100, Beecroft 2119
121-131 Oratava Ave, West Pennant Hills 2125
(02) 9871 3222 Fax (02) 9871 3456

Planted Forests Branch Office

PO Box 915, Albury 2640
Ellis Street (off Thurgoona Drive)
Thurgoona, via Albury
(02) 6043 1007 Fax (02) 6043 1051

Native Forests Branch Office

PO Box J19, Coffs Harbour Jetty 2450
Cnr High & Hood Streets
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

Central Region (Maitland Office)

PO Box 344
Hunter Region Mail Centre NSW 2310
516 High Street, Maitland NSW 2320
(02) 4931 6574 Fax (02) 4933 0772

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 St 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

Northern Region

Grafton Forest Technology Centre
PMB 4, Grafton 2460
Trenayr Road, Junction Hill (Grafton)
(02) 6640 1660 Fax (02) 6640 1650

Northern Region (Walcha Office)

PO Box 71, Walcha 2354
19E Hill Street, Walcha
(02) 6777 2511 Fax (02) 6777 2179

Southern Region

PO Box 42, Batemans Bay 2536
Crown Street, Batemans Bay
1300 880 568 Fax (02) 4472 6557

Southern Region (Eden Office)

PO Box 273, Eden 2551
13B Bass Street, Eden
1300 880 568 Fax (02) 6496 3258

Western Region

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

Western Region (Riverina Office)

PO Box 610, Deniliquin 2710
449 Charlotte Street, Deniliquin
(03) 5881 9999 Fax (03) 5881 4200

APPENDICES

PRIVACY MANAGEMENT

Forests NSW respects the privacy of our employees and members of the public who use our services. As a public trading enterprise, Forests NSW must comply with the requirements of the *Privacy and Personal Information Protection Act 1998* (PPIPA) and the *Health Records and Information Privacy Act 2002*.

Forests NSW adopted the Privacy Management Plan for NSW DPI which was developed during 2004-05.

No reviews were requested under Part 53 of PPIPA during 2007-08

PROPERTY DISPOSALS

State forests lands totalling 12 399 ha were revoked and transferred as additions to national parks, nature reserves or special conservation areas, or otherwise compulsorily acquired for other purposes.

Four properties were disposed of with a total value of \$652 313.

These properties were surplus assets and not required for timber production purposes.

All documents relating to property disposals are available for access under the *Freedom of Information Act 1989*.

PUBLICATIONS AND WEBSITE

Website

Forests NSW web pages are part of the NSW Department of Primary Industries website, with the new address of www.dpi.nsw.gov.au/forests.

During the year, NSW DPI and Forests NSW commenced a review of the current forest website and it is planned to go live with the new web site structure and content during the coming year.

Bush Telegraph magazine

The *Bush Telegraph* is a free, forestry magazine with more than 20 000 copies printed and distributed across New South Wales, Australia and internationally each quarter. Current and back issues of the *Bush Telegraph* can be viewed on the website.

To join the mailing list, simply complete the on-line registration form at www.dpi.nsw.gov.au/forests or fax your postal or email details to (02) 9871 6941. Please specify whether you would like the magazine in hard copy or electronic format.

Following a review of the magazine during 2007-08, commencing in 2009 the *Bush Telegraph* will become a bi-annual magazine with a March and a September issue.

Recreation Brochures and Maps

A range of recreational brochures and maps continued to be available from Forests NSW including:

- general recreation in State forests brochure
- use of recreational vehicles in State forests brochure
- guidelines for staging an event in State forests
- guides to activities in Cumberland State Forest in Sydney's north-western suburbs, outlining the recreation opportunities available, volunteer activity programs and also school holiday and community activities on offer
- recreational brochures covering the Central Coast, Lower North Coast, Mid North Coast, Southern Highlands, South Coast, South West Slopes, Western NSW and Riverina
- the Forest NSW Forest Map series which currently covers the Central Coast, Lower North Coast, Mid North Coast, Central West and South Coast of the state.
- The Best Bush Map - a handy glovebox guide for those who like to explore State forests, national parks and Crown reserves in NSW.

During the year, work commenced on developing a new Forest Map for the Far South Coast and this is anticipated to be publically released for sale next financial year.

Copies of Forests NSW maps and the Best Bush Map can be purchased over the telephone from the Forests NSW Information Centre on Ph: 1300 655 687 or 9871 3377.

Fact Sheets

A series of fact sheets, known as Primefacts, is available on-line and in hard copy on a variety of forest related topics. During the year, a number of forests related Primefacts were updated and re-printed.

APPENDICES

Educational Publications

A variety of education materials and resources are available on-line.

Primary School Activity Sheets are produced as an insert in the Bush Telegraph magazine. The sheets can be used by teachers as a classroom resource.

Cumberland State Forest continues to be a popular excursion destination for teachers and students in Sydney, with a variety of support materials available.

Statistics and Reporting Documents

- Forests NSW Annual Report 2006-07
- Forests NSW Social, Environmental and Economic Report 2006-07
- Forests NSW Facts and Figures 2006-07

Copies of these publications are available from the Forests NSW Information Centre on Ph: (02) 9871 3377 or 1300 655 687, fax (02) 9872 6447 or email cumberland@sf.nsw.gov.au.

RESEARCH AND DEVELOPMENT

Forests NSW research and development objectives are primarily delivered through NSW Department of Primary Industries (DPI) Science and Research, as well as units of its own Land Management and Forestry Services branch. The NSW DPI Forest Science Centre of Excellence is co-located with Forests NSW, within Cumberland Forest at West Pennant Hills. The Forest Science Centre is home to the Forest Resources Research unit of DPI Science and Research.

Forest Resources Research has three research Programs and a Scientific Support group for biometrics, data management and geographic information systems. The Programs: Forest Health Management; New Forests and Forest Biodiversity and Ecology deliver rigorous scientific outcomes to support Forests NSW business and strategic objectives and the corporate objectives of NSW DPI.

The **New Forests** team undertakes research into the environmental services provided by planted forests in the areas of carbon sequestration, salinity management and land rehabilitation, to underpin the development of markets for environmental outcomes. They also undertake research on possible adaptation strategies for Australian forests in response to climate change.

The **Forest Health** team undertakes research on the health of the native and planted, production forest estate. The group also undertakes annual surveys of the Forests NSW plantation estate to identify health problems. The group is investigating the capture of emerging technologies, such as satellite and airborne sensors to assess the health and condition of forests.

The **Forest Biodiversity** team delivers research and advice to measure and maximise biodiversity in planted and native forests and for assessing the ecological sustainability of forestry operations. Much of this work is contributing to the investigation of biodiversity monitoring and its relevance to the needs of forestry managers.

See the Research and Development Annual Report 2007-08 available on Forests NSW website for full details of the outcomes of these programs.

RISK MANAGEMENT

EXTERNAL - ONGOING DECLINE IN HOUSING AND CONSTRUCTION MARKETS

Assessment:

Medium probability / high impact

The main influence on demand for Forests NSW hardwood and softwood sawlogs is activity in the residential building market, which includes both new dwellings and alterations and additions. Activity in these markets tends to follow distinct cycles of four to five years between peaks and troughs.

Softwood timber demand is closely related to the need for framing timber for the residential building market. Forests NSW is aiming to increase its product diversification through development of new value-added sawlog products including those better suited to the alteration and additions market.

In 2007-08, activity in the New South Wales dwelling construction market has remained relatively flat. However, this has been partly offset by a rise in dwelling starts in Victoria and Queensland. Further expansion is forecast in Queensland during 2008-09, due to a dwelling stock deficiency and a gradual improvement in affordability. These factors should also contribute to a recovery emerging in New South Wales. Starts in Victoria are expected to decrease marginally.

APPENDICES

There is improved momentum in the value of alterations and additions as residential property markets recover and jobs growth remains strong. National activity will show modest growth in 2008-09. It is evident that the substantial pent-up demand for new dwellings in New South Wales and Queensland will translate in the short term into a higher number of house additions, as some families seek to accommodate more people in an existing dwelling.

Forests NSW is continuing to look for new revenue sources together with implementing improvements in operational and financial operations to offset reduced revenues.

As Forests NSW operations and cost structures are primarily based on estate management activities rather than delivery of product, any downturn in revenue will flow directly through to profits.

EXTERNAL – CHANGES IN GOVERNMENT POLICY

Assessment:

Low probability / high impact (native forests), low impact (plantations)

There are no major changes in NSW Government policy expected to impact on Forests NSW financial performance.

All transfers of areas and resources to National Parks arising from the Government Brigalow Belt Assessment Decision have been finalised.

Scheduled reviews of forest resources have commenced in coastal and tableland native forests and hardwood plantations to update inventory calculations and provide greater accuracy and certainty around available supplies necessary to meet ongoing wood supply agreement commitments. These reviews are expected to be completed within the next twelve months.

EXTERNAL – ENVIRONMENTAL

Assessment:

Medium probability / moderate impact

Forests NSW is undertaking an Environmental Assessment of its harvesting and roading activities in south-western NSW. It is possible that additional measures may be identified to ameliorate the impact of those activities on the environment. Should such additional measures be identified, they would be likely to impact in some way on timber availability and/or cost of production.

EXTERNAL – REQUIREMENTS OF REGULATORY BODIES

Assessment:

Low probability / moderate impact

Regulatory requirements that accompanied the regional forest agreements have provided additional certainty for planning but further negotiation is required to rationalise and simplify their implementation.

The development of the Integrated Forestry Operations Approval to detail the regulatory environment applicable to the Brigalow Belt and Nandewar is well advanced.

The *Plantations and Reafforestation Act 1999* provides an integrated consent framework for the assessment of plantation proposals. Regulatory requirements are integrated within a single approval issued by the Department of Natural Resources. The Code of Practice developed as a regulation to the Act (*Plantations and Reafforestation Code 2001*) incorporates standards for soil and water protection, management of native vegetation, cultural heritage and threatened species.

The streamlining of consent provides added efficiencies to plantation establishment and greater incentive for plantation investment.

a) Native Forests Term Agreement Commitments

Decreases in the north coast 20 Year wood supply agreement commitments were successfully re-negotiated in 2004 in response to some additional Government land reservation decisions. In response, customers were provided greater certainty for the remaining years of the agreements through removal of the interim resource review provisions in agreements, originally scheduled for 2006 and recommencement of the 20 year duration of the Agreements.

Forests NSW has implemented strategies that aim to reduce risk of exposure and enable corrective actions, including:

- the development and publishing of regional ecologically sustainable forest management (ESFM) plans for all regions following public consultation
- improvements to inventory information (additional plots established to replace plots now in national park estate plus updates from areas harvested)

APPENDICES

- increasing the role of plantations in log supply and supplementation of timber supply from private property sources
- monitoring studies to indicate where management action is needed as part of continuous improvement, and
- extension of log merchandising to improve flexibility in timber supply to meet allocations.

b) Softwood Supply - General

Forests NSW current softwood contractual commitments (that arise under contracts currently in place and from contracts that are currently in negotiation) are equal to the predicted long-term sustainable yield from the existing Forests NSW plantation base. The majority of these contracts have options for renewal and while it is expected that commitments of similar magnitude will follow, there is the opportunity in most cases to review and adjust volume for the renewed term.

Forests NSW operates a comprehensive inventory and yield prediction system to predict future timber flows for the plantation estate. This system is the basis for determining the sustainable yield. Long-term timber allocations are made in light of the sustainable yield figures.

Forests NSW ability to achieve its contracted softwood supply commitments is strengthened by its ability to deliver the timber to the customers on time and to specification. Sales have moved from a stumpage basis to a mill door basis in many areas due to Forests NSW taking the contractual responsibility for delivering the timber to its customers. Forests NSW has covered the risks of non-performance by the following actions:

- the development of internal organisational skills in delivering timber (contract management and logistics)
- tendering for the contractor capacity needed to deliver the timber volumes required
- the incorporation of flexible arrangements within the contracts to match the volatility of the timber market impacting on work allocated to contractors
- the continued roll-out of delivered sales in all appropriate regions where possible, attempting to realise the benefits from improved control over product flows, such as economies of scale and flexibility of delivery, and

- the continued funding of the required infrastructure (roads, bridges, safety improvement) to support the delivered sales.

EXTERNAL - GLOBAL COMPETITIVE PRESSURES

Assessment:

Moderate probability / moderate impact

The upturn in the Australian domestic timber market has generated relatively high domestic timber prices, particularly in the softwood timber market. This has increased the Australian timber market's attractiveness to importers, particularly large multinational European softwood companies that have during previous booms, established a foothold which they may now try to capitalise on.

One factor serving to insulate domestic producers is the emerging interest in the credentials of imported timber in regard to legality and sustainability of harvest.

Forests NSW certification under the Australian Forestry Standard (AFS) has enhanced the competitiveness of timber products produced from NSW State forests in international markets.

A new Australian grading system for structural pine and the impact of high oil prices on transport costs should also reinforce the competitive advantage of locally produced timber.

EXTERNAL - COLLAPSE OF A MAJOR CUSTOMER

Assessment:

Low probability / high impact (Plantation Softwood)

Low probability / moderate impact (Native Forests)

While revenue collection history is good, increased exposure of cashflows arising from the progressive introduction of delivered sales has made tight internal procedures even more important.

Forests NSW has revised its Credit Policy and Procedures to improve consistency of customer treatment and response to delayed payment of invoices.

Softwood Customers

The internationalisation of ownership in the NSW softwood industry over recent years has seemingly guaranteed that collapse of one of the major processors is unlikely. The global owners of these facilities have huge financial resources and can survive the worst of the forest sector cycles.

APPENDICES

At the next level Forests NSW, through its updated credit policy and improved financial management, is vigilant in maintaining required levels of security and constant monitoring of customers' accounts, Forests NSW exposure, financial health and creditworthiness.

Hardwood Customers

In the hardwood sector, approximately half of Forests NSW exposure lies with one major customer where no risk is seen. This customer is a large national building products company with its hardwood timber production dominated by high value adding activity. The other customers are small to medium sawmilling operations which, since the resource security and investment decisions following the Regional Forest Agreements since 1998, have been in the process of increasing their output of higher value added hardwood timber products.

The hardwood sector is better insulated from the volatility in timber demand faced by softwood producers due to its lesser reliance on the residential housing construction market.

GENERAL - NATURAL DISASTER

Assessment:

High probability / high impact)

The most serious risk to Forests NSW estate arises from fire, pests, diseases, wind and snow storms. While overall risk from pests and diseases are considered relatively low based on historical context, fire risk is high and effective protection plans and resources are in place to protect this substantial resource as outlined below.

Fire

Forests NSW Operational Branches continue to maintain high levels of planning, preparedness and suppression capacity. The whole of the estate is served by the fire tower network, integrated fail-safe communication systems and a lightning strike display system which pinpoints a lightning strike to within 200 metres. These detection systems are backed up by fixed and rotary winged aircraft, a small but strategically deployed fleet of bulldozers and the associated transport. Fire tankers and light 4 x 4 initial attack units complete the fire defence system.

Over recent years there has been special emphasis on the employment of seasonal firefighters and the training of silvicultural contractors in fire fighting techniques.

Recent wet weather conditions on the north coast of NSW has lowered the potential risk of fire in this area, although other parts of the State remain relatively dry or in drought conditions.

Pests and Diseases

The Planted Forests Division utilises internationally accepted techniques for the survey and detection of pests and diseases in the plantation estate. These surveys are carried out on an annual basis and are followed by a comprehensive report which outlines findings and recommends courses of action.

An issue highlighted in health surveys undertaken in 2007-08 was tree mortality associated with the long term drought and an increase in *Ips gradicollis* (bark beetle) attack. Research undertaken by NSW DPI in collaboration with Forests NSW continues to investigate methods to reduce the impact of *Ips* beetle attack.

Storm Damage

This is largely beyond Forests NSW control and is part of the plantation business worldwide. Thinning programs are designed to reduce susceptibility to wind-throw damage. The Planted Forests Division has demonstrated a capacity to salvage wind and storm damaged plantations over many years, quickly followed by establishment of new forest.

FINANCIAL - LOSS OF LIQUIDITY

Assessment:

Low probability / moderate impact

The forecast financial position is heavily reliant on attainment of established sales targets and minimum capital expenditure spending.

Throughout the year all non-essential operating expenditure has been, and will continue to be, kept under tight controls. Capital expenditure programs continue to be closely monitored to ensure that they satisfy minimum acceptable hurdle and internal rates of return (IRR's). Only essential replacements and priority new projects are undertaken.

There have been significant cost benefits of moving to a centralised transaction handling process from the large number of regional sites down to only three business centres.

Forests NSW will continue to look at opportunities to increase returns through pricing provisions in existing wood supply agreements particularly in conjunction

APPENDICES

with expectations for eventual domestic housing market recovery based on the considerable pent-up demand in dwelling commencements, particularly in NSW.

Forests NSW also continues to look at opportunities for new revenue sources that offer the potential for increasing commercial returns, in such areas as private and plantation management services, carbon sequestration certificates, land repair and mine site rehabilitation.

TIMBER YIELD

Product	2007-2008
Sawlog & Veneer Logs (m³)	
Native Forest Hardwood Sawlogs	609 648
Hardwood Plantation Sawlogs	121 889
Cypress Pine Sawlogs	49 176
Plantation Softwood Sawlogs	2 071 424
Plantation Softwood Veneer Logs	30 038
Native Forest Hardwood Veneer Logs	6 739
Hardwood Plantation Veneer Logs	10 460
Total	2 899 374
Poles, Piles & Girders (m³)	
Native Forest Hardwood	24 681
Plantation Hardwood	14 250
Total	38 931
Round Timber (m³)	
Preservation Plantation Softwood	87 786
Other Native Forest Hardwood	-
Total	87 786
Pulpwood (tonnes)	
Native Forest Hardwood Pulpwood	500 007
Plantation Hardwood Pulpwood	77 079
Plantation Softwood Pulpwood	1 169 201
Total	1 746 287
Other (tonnes)	
Other Forest Products	55 577
Total	55 577

WASTE MANAGEMENT

Forests NSW continued its commitment to the management of waste through the implementation of its Waste Reduction and Purchasing Policy (WRAPP). The main focus is on:

- Reducing the overall waste volume generated.
- Reduction in the volume of waste disposed to landfill.
- Recycle appropriate wastes.
- Use of recycled content materials.

During 2007-08, the following waste reduction and recycling initiatives were undertaken:

- Tested recycled content paper in upgraded photocopiers and printers. This has resulted in recycled paper being used across a number of machines in the organisation.
- Introduction of an e-document/filing management system and scanning of incoming correspondence, invoices for e-storage and recycling of originals (where appropriate).
- Purchase/lease of multifunction machines with reduction in the number of individual printers with the aim of reducing paper usage and long term electronic waste disposal.
- Printers/ photocopiers use 90 -95% of recycled cartridge toners
- Obsolete and used computers (electronic waste) sent to recycling or donated to charities.
- Excess vegetation (eg branches, leaves etc) waste from Cumberland State Forest redirected to green waste facilities.
- 100% of used tyres and waste oils from Forests NSW fleet vehicles and plant sent to recyclers.
- Scrap metal recycled from all Forests NSW workshops.
- 16 640 kgs of pre-cut office paper recycled in all offices
- 5 000 kgs of paper recycled as a result of the relocation of Corporate Office from Pennant Hills to West Pennant Hills.

APPENDICES

WORKERS COMPENSATION (SELF-INSURED)

Claims Under Litigation	
Claims Finalised (settled/heard) during 2007-08	
Claims	4
Total cost of finalisation	\$160 638
Recoveries	
Claims	0
Total cost of finalisation	0
Hearing Loss Claims	
Claims	1
Application to Resolve a Dispute in the Workers' Compensation Commission. For workers' compensation benefits for;	
a) Lump Sums Claims	3
b) Loss of Wages Claims	1
Applications for Damages in the Workers' Compensation Commission	
Claims	0

INDEX

This information is provided to facilitate identification of Forests NSW compliance with statutory disclosure requirements.

Annual Report Cost	96
Assets	11
Charter	76
Chief Executive's Performance	76
Code of Conduct	77
Committees (Internal)	77
Consultants	78
Consumer Response	78
Controlled Entity	14
Corporate Business Strategy	2
Credit Card Certification	78
Energy Consumption	78
Equal Employment Opportunity	79
Ethnic Affairs Priority Statement	80
Financial Statements	9
Five Year Comparison	4
Freedom of Information	81
Grants to Non Government Community Organisations	81
Highlighting our Performance	5
Human Resources	82
Information Technology	84
Insurance	84
Internal Controls	85
Investment Management Performance	80

Legislation and Legal Issues	85
Letter of Presentation to Minister	2
Liability Management Performance	80
Major Works in Progress	85
Objectives	85
Occupational Health and Safety	85
Our Customers	2
Organisational Structure	3
Overseas Visits	86
Overview	6
Payment of Accounts	80
Places of Business	88
Privacy Management	89
Property Disposals	89
Publications and Website	89
Research and Development	90
Risk Management	90
Subsidiary Companies	81
Timber Yield	94
Vision and Mission	1
Waste Management	94
Who We Are	1
Workers Compensation (Self-Insured)	95

Annual Report Production Cost: \$5064.40 (incl. GST)

We wish to thank all the staff of Forests NSW for their contribution to this Annual Report.

Annual Reporting Working Group

Ann Denlow (Project Manager), Tim Burke, Geoff Barrett, Norm Farmer, Kaye Gidney, Liz Hinson, Susie Kable, Michael Loi and Andrew Stirling

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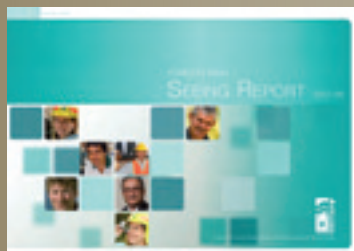
Ross Longley

Printer details: Precision Printers Pty Ltd.

Caring for the environment – In the interest of protecting and preserving our environment, this report is printed on an Australian recycled paper that contains 35% locally sourced waste which is made up of 15% post consumer waste and 20% pre consumer waste. An additional 20% of the fibre sourced is mill broke. The remaining fibre has been sourced according to the PEFC Chain of Custody Standard – PEFC/21-31-08 which promotes sustainable forest management. All fibre suppliers operate under the ISO 14001 standard.



Annual Report 2007-08



Seeing Report 2007-08



Facts and Figures 2007-08