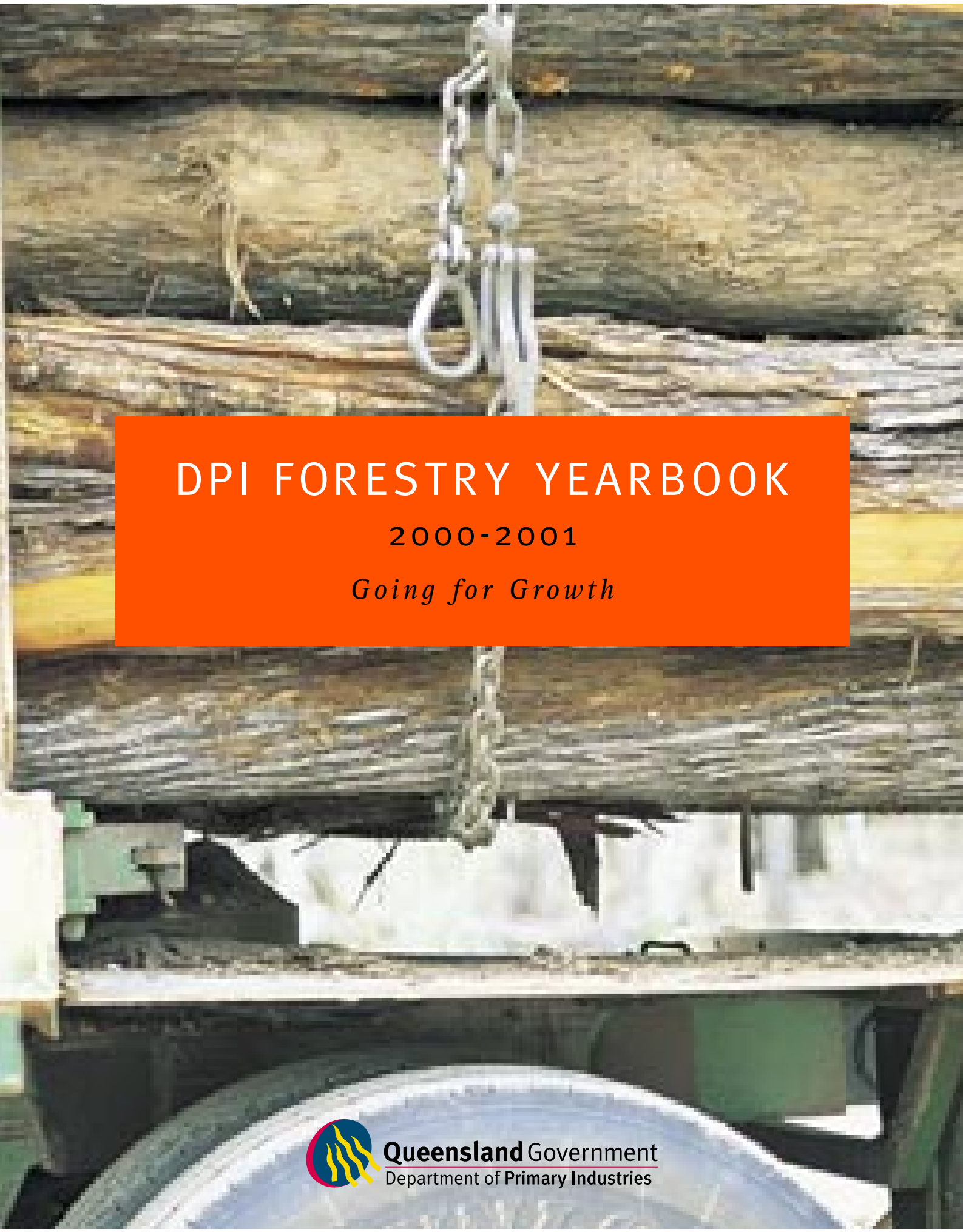


DPI FORESTRY YEARBOOK

2000-2001

Going for Growth

Queensland Government
Department of Primary Industries

DPI Forestry is a successful and innovative commercial forestry business, responsibly managing forestry activities within a sustainable development framework.

Our vision

DPI Forestry is a successful and innovative forestry business that the community and staff are proud to support.

Our mission

DPI Forestry will responsibly manage commercial forestry activities on behalf of the State of Queensland.

Our business goal

To maximise the market value of DPI Forestry assets within a sustainable development framework.

Our values

Responsiveness to business challenges and opportunities, and the needs of the forest industry and the wider community.

Recognition of the achievements and needs of our staff.

Professionalism in all our dealings.

Innovation through continuous business improvement.

Reliability in delivering agreed outcomes.

DPI Forestry 2000-2001

About DPI Forestry

DPI Forestry was established as a commercial business group of the Queensland Department of Primary Industries (DPI) on 1 July 1995. Its core business is focused on:

- managing forest production and associated marketing from Queensland's plantation investments and areas of state-owned native forests allocated for this purpose
- managing and marketing state-owned quarry materials and managing grazing and bee-keeping on identified areas of state forest and timber reserves
- pursuing viable commercial joint-venture or partnership activities associated with producing and marketing forest products and quarry materials
- value adding and other forestry-related activities, as sanctioned or directed from time to time.

In Queensland, responsibility for forest policy and forest operations is shared by a number of government departments and agencies, including the Department of State Development, the Department of Natural Resources and Mines, and the Environmental Protection Agency. DPI Forestry works cooperatively with these entities on forestry-related programs.

About this yearbook

This yearbook reports on DPI Forestry's achievements during 2000-2001 and its financial and non-financial performance against targets set out in the organisation's Performance Contract for the year between the Treasurer of Queensland and the Minister for Primary Industries and Rural Communities.

The yearbook augments financial and non-financial information set out in the *Department of Primary Industries 2000-2001 Annual Report.*

Copies of the *DPI Forestry 2000-2001 Yearbook* can be obtained by telephoning DPI Forestry Corporate Affairs on (07) 3225 2617.

The yearbook can also be accessed through the Queensland Department of Primary Industries web site at www.dpi.qld.gov.au/forestry. This site links to the *Forestry in Queensland* web site, which holds extensive information on the forest and timber industry in Queensland.

Front cover

Cypress pine sawlogs from the Pinedale logging area at Barakula bound for milling at Chinchilla.

Downloadable PDFs

See attached sites - refer to home page

DPI Forestry 2000-2001

DPI Forestry Corporate Affairs coordinated the writing, designing, printing, and the distributing of the *DPI Forestry Yearbook 2000-2001*.

Text: Kieran Lewis, originally, with many changes by others.

Layout and design: John Bottesini.

Photography: Cameron Coward, Russ Boadle, Anthony Vardanega, Kieran Lewis, and Ian Williams.

telephone (07) 3225 2617

fax (07) 3836 0009

Environmental responsibility

Environmental integrity (responsible, sound environmental management) is a core value of DPI Forestry and is essential to its future commercial success. DPI Forestry's environmental management system has been independently certified to conform to the environmental standard AS/NZS ISO 14001.

This yearbook was printed on a waterless press. Waterless printing is the most environmentally friendly printing process available. It eliminates foundation solution and reduces ink wash chemicals, thereby reducing the release of volatile organic compounds into the atmosphere, eliminating the need to dispose of hazardous waste water, and minimising paper waste.

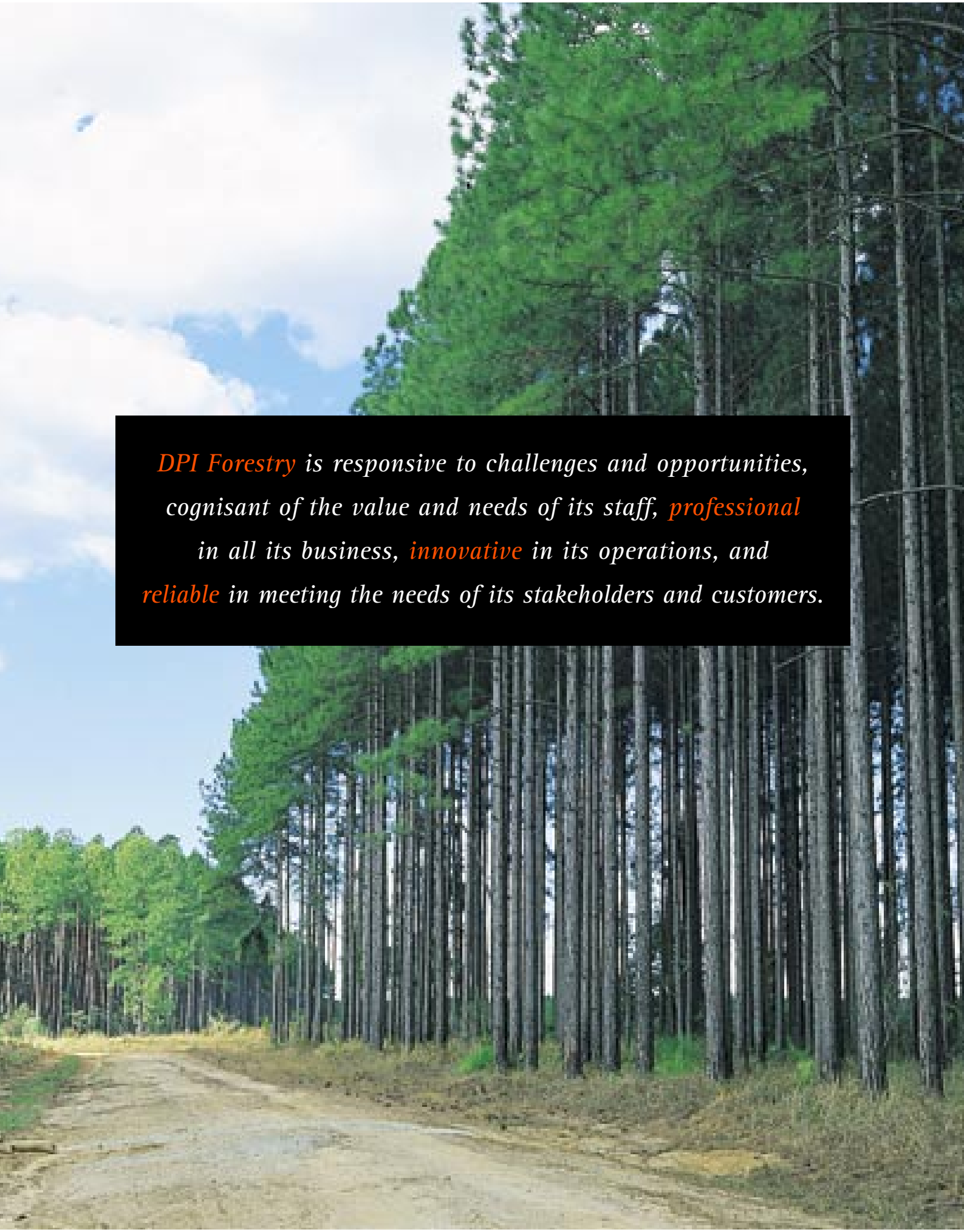
This yearbook is printed on Lusté smooth 280gsm and 135gsm paper, an environmentally friendly chlorine-free product made from 50 percent recyled material and plantation-grown wood pulp.

Printed by Printpoint. Paper supplied by CPI Papers.

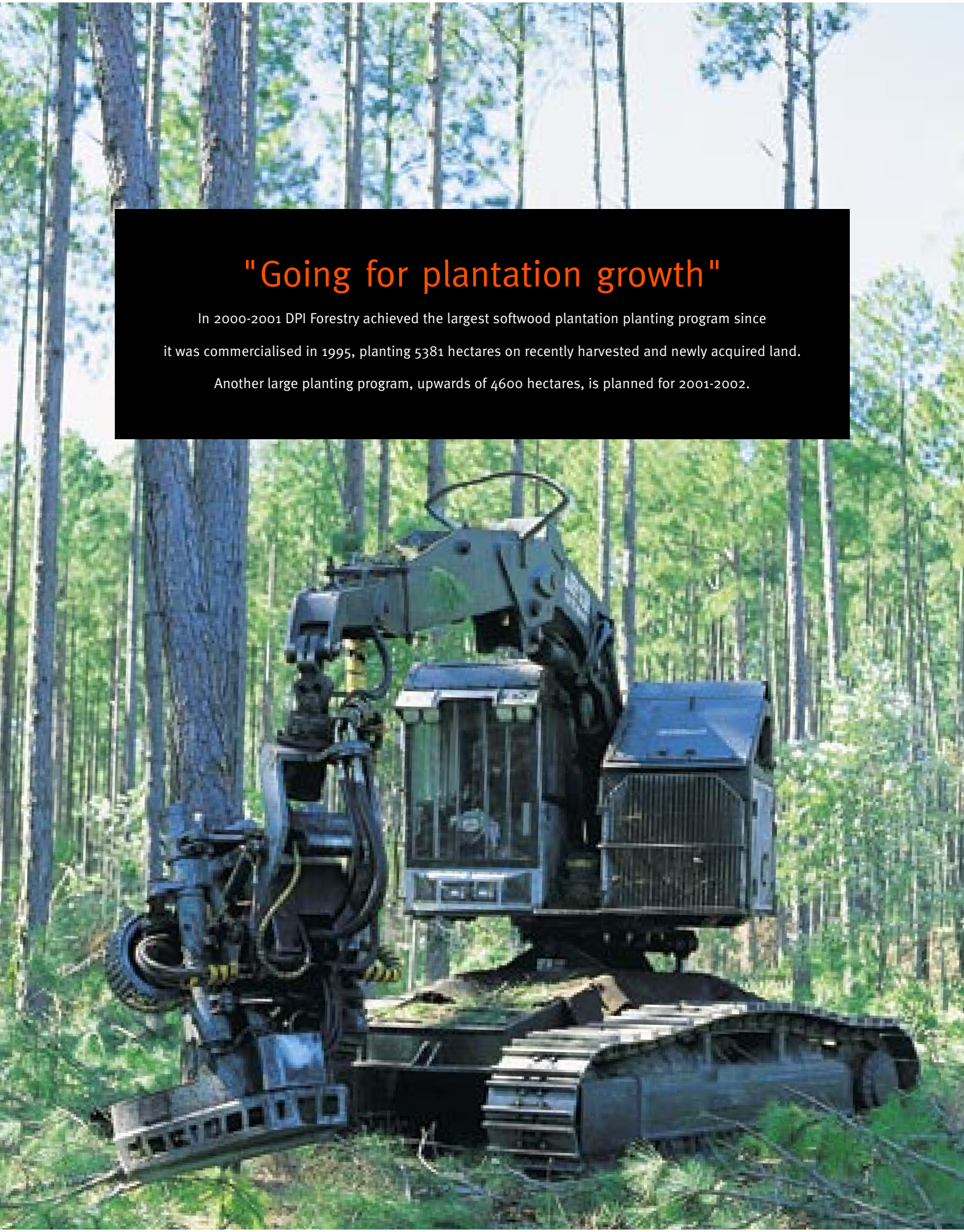
Our thanks

Our thanks to the many DPI Forestry staff who contributed to this yearbook, particularly regional staff for their assistance with photography and text.

www.dpi.qld.gov.au/forestry



DPI Forestry is responsive to challenges and opportunities, cognisant of the value and needs of its staff, professional in all its business, innovative in its operations, and reliable in meeting the needs of its stakeholders and customers.



"Going for plantation growth"

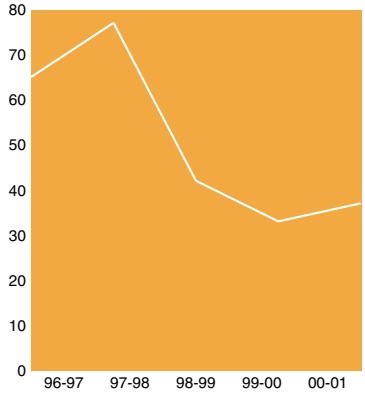
In 2000-2001 DPI Forestry achieved the largest softwood plantation planting program since it was commercialised in 1995, planting 5381 hectares on recently harvested and newly acquired land. Another large planting program, upwards of 4600 hectares, is planned for 2001-2002.

Key achievements 2000-2001

- Achieved profit from ordinary activities, after income tax, of $38.5 million. Returns to the state as dividend, interest, and tax equivalents will be $10.1 million.
- Increased plantation sales volumes to more than 1.67 million cubic metres, despite new dwelling approvals falling to their lowest level in nearly 20 years.
- Finalised a three-year, 140,000 cubic metre sale of sawlog material and harvesting residues from the exotic pine plantation resource in the Ingham-Cardwell region of north Queensland.
- Added 4265 hectares to DPI Forestry's softwood plantation estate through expansions at Bribie Island, Byfield, and in the South Burnett region.
- Achieved the largest softwood planting program since DPI Forestry was commercialised in 1995, with 5381 hectares planted on recently harvested and newly acquired land.
- Planted 933 hectares of hardwood plantation under the South East Queensland Forests Agreement (SEQFA), bringing the total planted since the program started in 1999 to 1230 hectares. The program is on track to achieve a targeted 5000 hectares by 2003.
- Assisted Queensland's Environmental Protection Agency to transfer 403,000 hectares of state-owned native forest, formerly used for timber production, to a new interim conservation tenure of forest reserve under the SEQFA.
- Commissioned an independent review of DPI Forestry's risk management program, which reported the organisation is superior to best practice in its risk management and is highly committed to risk management at all levels.
- Pursued new and ongoing forest and timber research and development projects, including work on exotic pine hybrids, molecular genetics, clonal forestry, resin defects in exotic pine, site preparation and planting systems, hoop pine genetics and market re-positioning, and cypress pine and sandalwood management.
- Promoted DPI Forestry's environmental credentials (independently certified to AS/NZS ISO 14001), domestically and internationally, to facilitate market access for Queensland's timber industry.
- Strengthened DPI Forestry's industry and customer focus, in consultation with staff and local communities, with a move from a six- to a four-region structure.

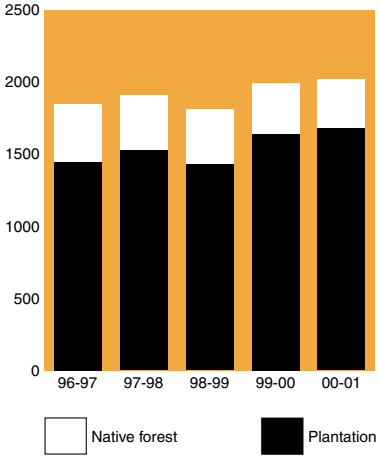
Employee safety

Number of lost time injuries



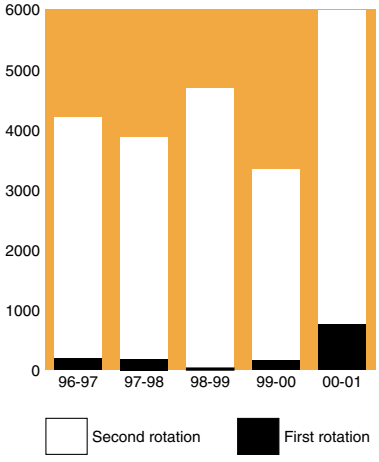
State-owned timber removals

(000s cubic metres)



DPI Forestry plantation establishment

(hectares of softwood and hardwood)



Performance summary

	96-97	97-98	98-99	99-00	00-01
Revenue from ordinary activities[1]					$111.4m
Operating revenue[2]	$86m	$84.5m	$83.4m	$94.2m	$81.3m
Profit from ordinary activities after income tax[3]					$38.5m
Earnings before interest, tax, and timber revaluation (EBITR)[2]	$16.9m	$13.8m	$15.9m	$24.3m	$12.9m
Profit after tax[2]	$7.8m	$5.5m	$9.8m	$19.6m	$8.2m
Profit (EBITR) margin on sales[2]	19.6%	16.3%	19.1%	26%	15.9%
Dividend	$5.1m	$3.9m	$4.6m	$10m	$3.8m
Debt to equity[4]	7.9%	8.8%	7.8%	7.5%	8.6%
Interest on borrowings	$9m	$8.2m	$6.1m	$4.7m	$4.7m
Current ratio	1.1	1.2	1.8	2	2.9
Softwood plantation establishment on state-owned land	4,168 ha	3,797 ha	4,566 ha	3,088 ha	5,381 ha
Hardwood plantation establishment	47 ha	80 ha	125 ha	297 ha[5]	933 ha[5]
Plantation timber sales	1.44m m^3	1.52m m^3	1.42m m^3	1.64m m^3	1.67m m^3
Native forest timber sales	0.39m m^3	0.38m m^3	0.38m m^3	0.35m m^3	0.34m m^3
Quarry material sales	2.6m m^3	2.0m m^3	2.0m m^3	2.0m m^3	2.2m m^3

1 Revenue includes the increment in the net market value of plantation growing timber (partially unrealised), in accordance with Australian Accounting Standard (AAS) 35 "Self-Generating and Regenerating Assets". DPI Forestry adopted this standard from 1 July 2000.

2 Figures calculated in accordance with accounting protocols applicable before adopting of AAS35. Provided for comparative purposes.

3 Calculated in accordance with AAS35.

4 A change in valuation methodology under AAS35 resulted in a write-down in asset valuations, at 1 July 2000, of $167 million, which was adjusted against contributed equity.

5 Hardwood plantation program plantings on public and private land under the South East Queensland Forests Agreement.

“A strong commercial performance”

“I congratulate all our staff on their magnificent contribution in delivering a strong commercial performance under difficult market conditions and in helping to secure a vibrant future for Queensland's forest industry.”

DPI Forestry Executive Director, Ron Beck

Executive Director's report

During the last financial year, DPI Forestry worked with key stakeholders to realise a suite of major achievements that will help secure strong growth and increasing competitiveness for the organisation's business and for Queensland's forest industry, in the medium- and long-term. At the same time, and in close cooperation with our customers, we successfully weathered the severe downturn in housing construction and key timber product sales after the Goods and Services Tax's introduction in July 2000.

The confidence of Queensland's timber industry to invest in future business expansion will be much increased as a result of the year's achievements, some of which are highlighted below.

- *Implementing a new allocation policy for state-owned exotic pine plantation timber in south-east and central Queensland*

  Developed through a whole-of-government process and approved by State Cabinet in December 2000, the new allocation policy will enable DPI Forestry to expand supply of exotic pine final-crop sawlog by more than 400,000 cubic metres over the next 10 years through an innovative "fibre substitution" process.

- *Expanding the state-owned plantation estate by 4265 hectares*

  Adding to significant land purchases over the last few years, DPI Forestry purchased more cleared land in south-east and central Queensland and acquired former private forest plantation land on Bribie Island for plantation expansion.

- *Planting 933 hectares of hardwood plantation in south-east Queensland and securing a further 1032 hectares for future planting*

  DPI Forestry is managing a hardwood plantation program to establish 5000 hectares of hardwood plantations in south-east Queenland by June 2003 as a future substitute for state-owned native forest resources. A key component of the South East Queensland Forests Agreement, the program is being undertaken in partnership with other landowners, supported by $18 million of State Government funding. State Government approval of a scheme enabling DPI Forestry to plant, manage, and harvest land rented from private landowners boosted the willingness of private landowners to contribute land to the program (previously accessed only through joint-venture arrangements).

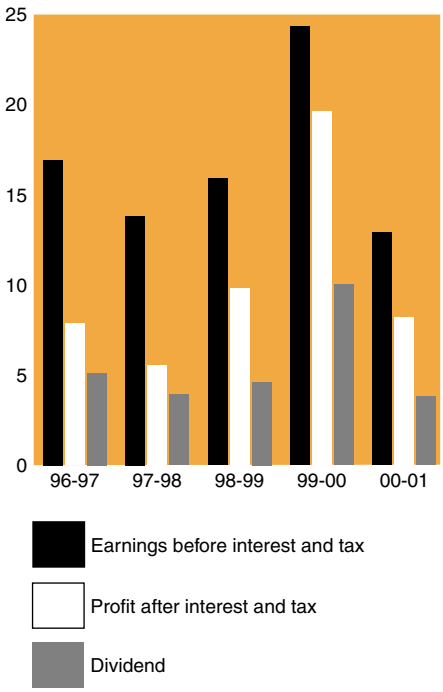
During 2000-2001 the total planted area of DPI Forestry's plantation estate topped 180,000 hectares for the first time – 180,717 hectares to be precise – after record softwood and hardwood planting on 5986 hectares of state-owned land. We plan another large planting program for 2001-2002.

In a boost to the local economy, DPI Forestry negotiated a three-year sale of 140,000 cubic metres of uncommitted exotic pine resource from its 10,000 hectares of forest plantations in the Ingham-Cardwell region of north Queensland.

Meanwhile, under a whole-of-government process consulting closely with regional stakeholders, we are pursuing a long-term sale of the resource to support a future regionally based processing facility.

DPI Forestry commercial performance

$m



Under accounting standard AAS35 introduced during 2000-2001, profit after tax was $38.5 million. For comparative purposes, profit figures shown above are expressed in accordance with previous accounting protocols.

DPI Forestry's profit from ordinary activities for the year, after income tax equivalents, was $38.5 million. This figure cannot be directly compared with previous years' results, however, as it reflects, in part, our move to comply with Australian Accounting Standard 35 for self-generating and regenerating assets from 1 July 2000. In line with this standard, the incremental value of plantation growing timber during the year was counted as revenue, and, as such, the reported profit figure for 2000-2001 includes significant unrealised revenue of $30.3 million.

Consistent with the standard, DPI Forestry's plantations are now valued using a net present value methodology that better reflects their "going concern" value to the organisation. This replaces the previous net realisable value methodology that accounted for the trees as if they were all harvested on 30 June in the year reported. As a result of this change in valuation methodology, write-downs totalling $167 million were made to DPI Forestry's asset valuations for plantation growing timber, nursery seedling inventories, and access roads, with a balancing adjustment to the State Government's contributed equity.

In performance terms directly comparable with previous years, profit after interest and tax was $8.2 million, down 58 percent on the record 1999-2000 figure. DPI Forestry will return $10.1 million to the state from the year's trading as dividend, interest, tax, and tax equivalents, with the dividend being $3.8 million.

These results reflect the very difficult marketing environment that many of DPI Forestry's timber processing customers faced during the second half of the year, when Queensland's dwelling approvals fell to their lowest level in 20 years. As a result, DPI Forestry sustained a $7 million reduction in its forest products sales from the record levels of the previous year, mainly owing to a 12 percent decline in the volume of high-value plantation sawlog sold.

Notwithstanding this, the overall volume of timber sold was similar to the previous year's volume, as a result of an unprecedented demand for pulpwood (processed and sold into export markets) and increased sales to the cypress sector.

In line with our commitment to sustainable development, DPI Forestry staff continued to improve the organisation's independently certified (to AS/NZS ISO 14001) environmental management system, by applying results of an ongoing sustainability research and development program conducted through the Queensland Forestry Research Institute. DPI Forestry continued to promote these environmental credentials, domestically and internationally, to facilitate market access for our timber processing customers.

Meanwhile, DPI Forestry's staff assisted the Environmental Protection Agency to place about 403,000 hectares of state forest, withdrawn from production and identified for conservation under the South East Queensland Forests Agreement, into a new interim conservation tenure of forest reserve. DPI Forestry continues to provide necessary forest services on these lands, including road maintenance, fire protection, and pest management, but these responsibilities are being progressively transferred to the Queensland Parks and Wildlife Service.

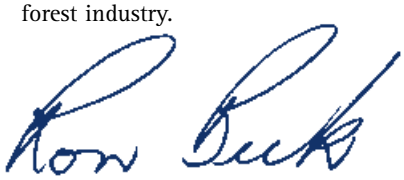
PROFIT AFTER INTEREST AND TAX WAS $8.2 MILLION AND DPI FORESTRY RETURNED $10.1 MILLION TO THE STATE FROM THE YEAR'S TRADING

To evaluate performance against corporate governance standards and private sector benchmarks, DPI Forestry's risk management coordinating committee commissioned Queensland Risk Management Consultants Pty Ltd to conduct a comprehensive independent audit of the organisation's risk management system. The consultants reported that DPI Forestry's risk management practices were "superior to best practice in the risk management field" and that "a risk management culture clearly exists at all levels in the department" – well-deserved recognition of the professional performance of managers and staff across the organisation.

To improve responsiveness to customers and to help streamline operational procedures and costs, we consulted with industry, local communities, and staff on a plan (subsequently implemented in August 2001) to consolidate DPI Forestry's regional operations from six regions to four. The new regions are South East Exotic (with headquarters at Maryborough, initially, but moving to Gympie in about four to six years); South East Hoop (Gympie); South West (Dalby); and North (Ingham). The new regional structure, which required no closure of existing forestry offices and no loss of positions at any centre, is strongly aligned with DPI Forestry's major timber products and enables better coordination of production and sales.

DPI Forestry's staff pride themselves on their responsiveness to customers, their ability to innovate through continuous improvement, their professionalism, and their "can do" ethic. All of these attributes were on display during the year in delivering the very positive results outlined above and detailed in this yearbook.

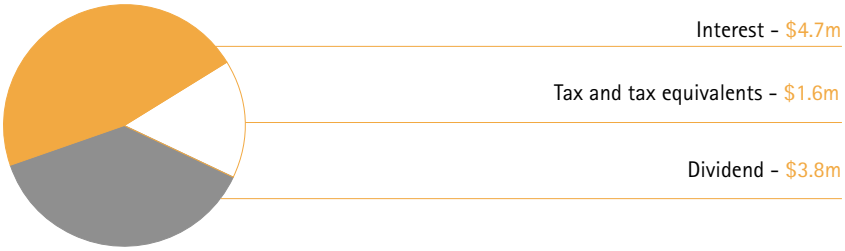
I congratulate all our staff on their magnificent contribution in delivering a strong commercial performance under difficult market conditions and in helping to secure a vibrant future for DPI Forestry and Queensland's forest industry.



Ron Beck
Executive Director

Returns to state from commercial operations

Total $10.1m



"New harvest of hybrids"

DPI Forestry project officer Kate Murray stands before 31-year-old slash pine due for harvest in 2001-2002.

This plantation will be replanted with DPI Forestry's successful slash x Caribbean pine hybrid.

The hybrid combines slash pine's all-round growth performance, straightness, wetter site tolerance,

and wind firmness with Caribbean pine's finer branching, more uniform wood density, and greater growth.

DPI Forestry in profile

DPI Forestry was established as a commercial business group of the Queensland Department of Primary Industries on 1 July 1995. Its business goal is to maximise the market value of its assets within a sustainable development framework.

In the six years since commercialisation, DPI Forestry has returned more than $100 million to the State of Queensland in dividends, debt servicing, tax, and tax equivalents. DPI Forestry manages state-owned production forests as a renewable resource for future generations and maintains high standards of environmental integrity in all its forest production activities. To this end, its management practices are subject to a quality environmental management system based on, and externally certified to, the international standard AS/NZS ISO 14001.

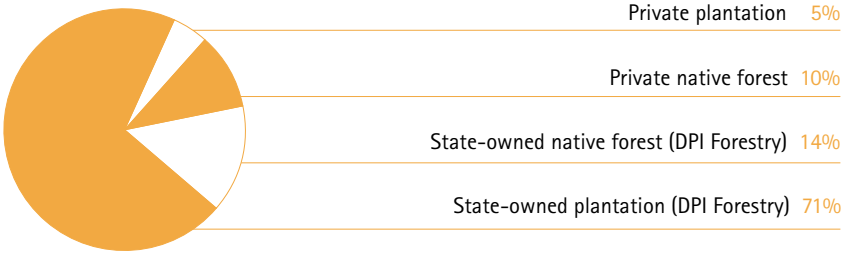
Core business

DPI Forestry has four core business segments:

- management and marketing associated with forest production from Queensland's forest plantations and areas of state-owned native forest allocated for this purpose
- managing and marketing state-owned quarry materials and managing grazing and bee-keeping on identified areas of state forest and timber reserves
- pursuing viable commercial joint-venture and partnership activities associated with producing and marketing forest products and quarry materials
- value adding and other forestry-related activities, as sanctioned or directed from time to time.

Queensland forest production

State total 2.4m m^3



Plantations

DPI Forestry's softwood plantation estate is one of Australia's largest. With expansion in central and southern Queensland during 2000-2001, the estate now covers 185,000 hectares. (Refer Statistical Appendix 6, page 81, for total planted area.)

In 2000-2001, 1.67 million cubic metres of softwood was harvested from these plantations, enough to build more than 100,000 average-sized homes. Almost 90 percent of Queensland's plantation forests are in the state's south-east, with the largest concentration in the Gympie-Beerburrum areas within 200 kilometres of Brisbane. Most of Queensland's state-owned plantations are softwood based, the major species being:

- slash pine (*Pinus elliotti*) – an exotic species grown in the coastal lowlands between the New South Wales-Queensland border and Maryborough, accounting for about 23 percent of DPI Forestry's total softwood resource
- Caribbean pine (*Pinus caribaea*) – also an exotic species predominantly grown in coastal north and central Queensland, constituting about 30 percent of the resource
- native species, mainly hoop pine (*Araucaria cunninghamii*), making up a further 25 percent of the resource
- hybrids of slash pine and Caribbean pine, possessing superior attributes of both parent trees (19 percent), and
- other softwood species (2 percent) and hardwoods (1 percent).

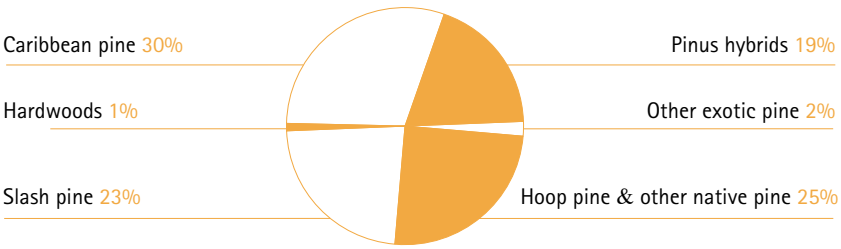
IN 2000-2001, 1.67 MILLION CUBIC METRES OF SOFTWOOD WERE HARVESTED AND DPI FORESTRY MARKETED 340,000 CUBIC METRES OF NATIVE FOREST LOG TIMBER

Nursery staff Christine Reiffel (left), Anne Dumbleton, and nursery overseer Darren Luxford tend to spotted gum seedlings at DPI Forestry's Ingham nursery.

DPI Forestry is coordinating the Queensland Government's $18 million commitment to planting 5000 hectares of native hardwood plantations by 2003, under the South East Queensland Forests Agreement (SEQFA) signed in September 1999. At 30 June 2001, 2260 hectares had been secured for this program (with 1230 hectares planted) through land purchase, joint-ventures and land-rental agreements with private and public landowners. Main south-east Queensland regions of interest under the program are Crows Nest, Sunshine Coast, Burnett, Bundaberg, and Moreton. Major species to be planted include Gympie messmate, blackbutt, spotted gum, flooded gum x river red gum hybrids, white gum, and western white gum.

Composition of the state-owned plantation estate*

Total planted area - 180,717 ha



**Excludes joint ventures*

Native forests

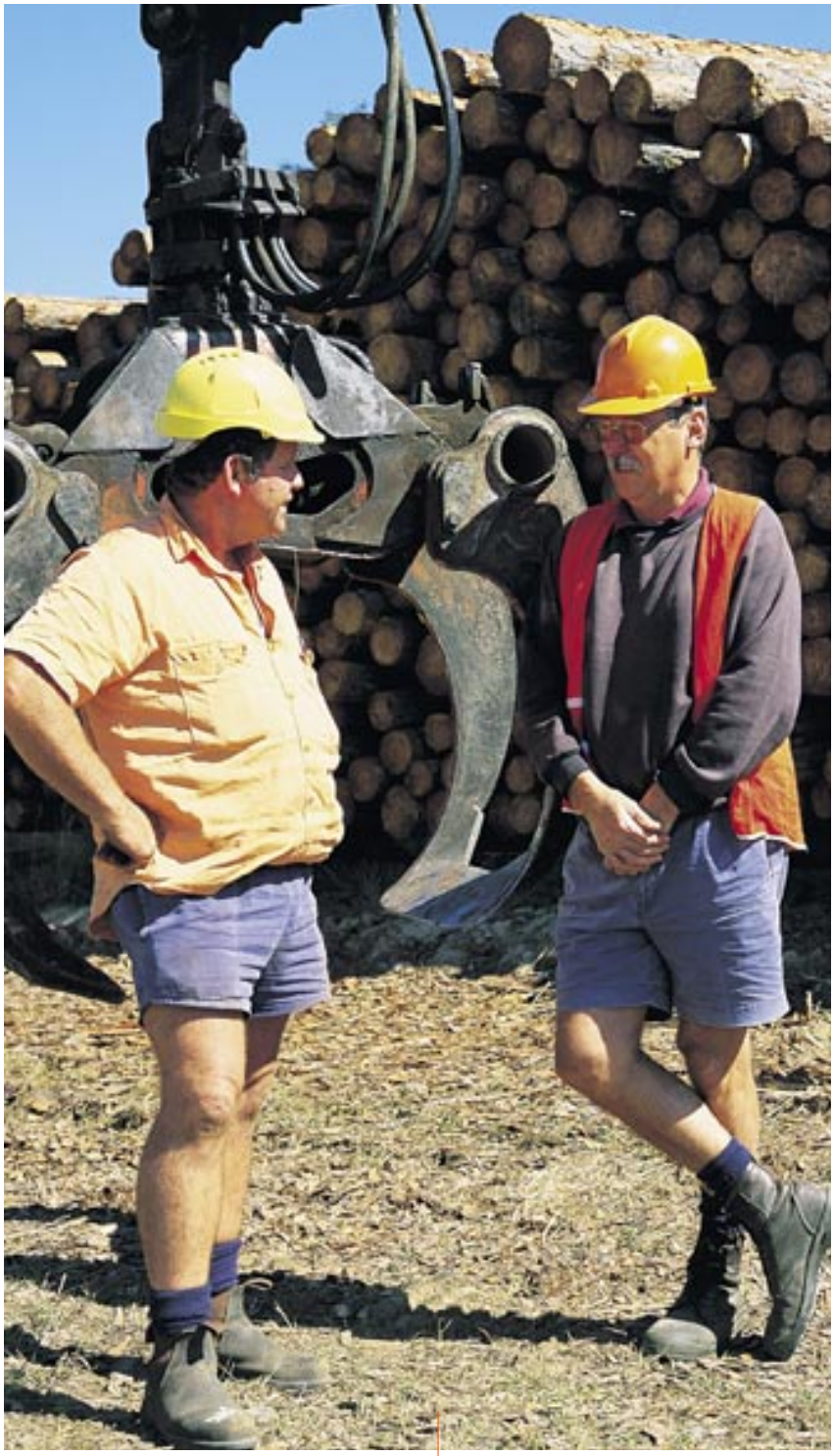
In 2000-2001 DPI Forestry marketed 340,000 cubic metres of native forest log timber from state-owned forests, more than half of Queensland's annual native forest wood supplies. The dominant commercial species, eucalypts and cypress, provide timber with distinctive characteristics related to strength, durability, and appearance.

Sandalwood, a timber valued for its aromatic oil, is also harvested and exported into Asian markets. A large proportion (84 percent) of native forest removals in Queensland is sawlog, mainly for the building industry's use.

The remaining timber is used in a variety of applications, including landscaping, fencing, railway sleepers, girders, and poles.

Quarries

DPI Forestry manages and markets quarry materials from state-owned lands. It provides about 8 percent of Queensland's total quarry material supplies through products such as sand, gravel, road base, crushed aggregate, and landscaping rock.



Assistant Forest Manager (Beerburrum) Stan Ward (right) with Weyerhaeuser Australia carrier Greg Martin during slash pine loading from clearfall harvesting at Beerburrum.

Research and development

Innovative research and development (R&D) underpin DPI Forestry's success as a forest grower. The Queensland Forestry Research Institute (QFRI), a part of the Department of Primary Industries' Agency for Food and Fibre Sciences, conducts this R&D, which, in 2000-2001, focused on projects to improve DPI Forestry's productivity and product quality, and to enhance the environmental sustainability of its forest operations.

DPI Forestry organisational structure

Executive Director
Ron Beck

Operations Division

General Manager Alan Harvey

- Regions
  - North - Ingham
  - South West - Dalby
  - South East Exotic - Maryborough
  - South East Hoop - Gympie
- South East Queensland Hardwood Plantation Program
- Operations Support
- Forest Policy

Marketing Division

General Manager Stephen Walker

- Marketing Development and Sales
- Resources
- Mapping & Geographical Information

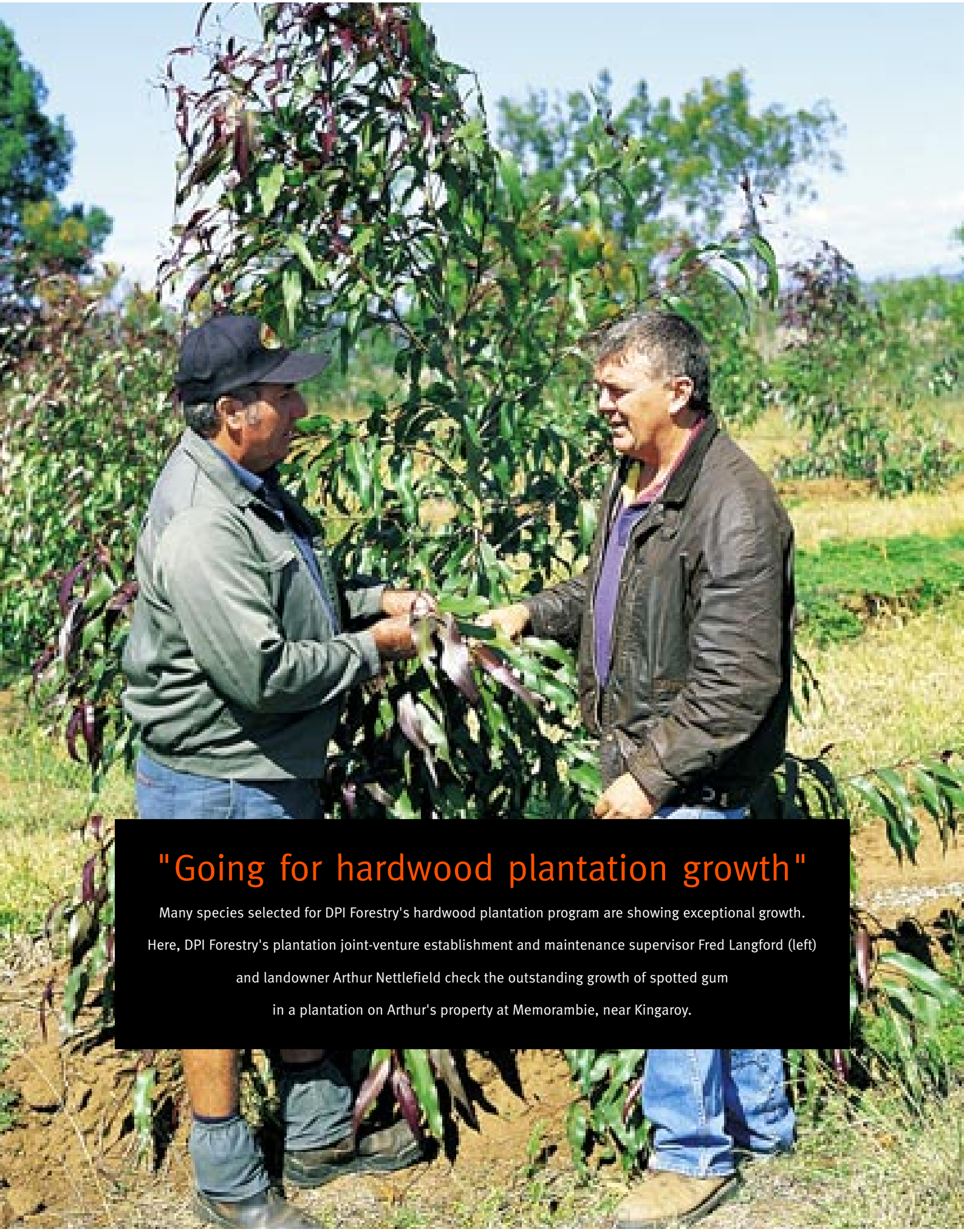
Business Services Division

General Manager Geoff Blake

- Finance
- Business Planning & Policy
- Information Management
- Human Resources

Executive Services

- Strategic Business
- Risk & Environmental Management
- Operational Review
- Legal
- Corporate Affairs



"Going for hardwood plantation growth"

Many species selected for DPI Forestry's hardwood plantation program are showing exceptional growth. Here, DPI Forestry's plantation joint-venture establishment and maintenance supervisor Fred Langford (left) and landowner Arthur Nettlefield check the outstanding growth of spotted gum in a plantation on Arthur's property at Memorambie, near Kingaroy.

Commercial performance

Goal

Maximise the market value of DPI Forestry and achieve a commercial rate of return

Key performance targets

- *Achieve earnings before interest, tax, and timber revaluations of $15.7 million and a profit after interest and tax of $11 million*
- *Implement a commercially focused research and development program, particularly for clonally based short-rotation exotic pine sawlogs*
- *Finalise strategic reviews for plantation hoop pine marketing and for south-east Queensland foliage resources*
- *Undertake a 5518-hectare plantation establishment and re-establishment program*
- *A broad framework for an independent review of the hoop pine processing sector was developed and progress was made towards a harvesting strategy for the native wildflower and foliage industry*
- *The largest plantation establishment program since DPI Forestry's commercialisation was achieved, with 5381 hectares of softwood and 933 hectares of hardwood planted*

Results

- *Earnings before interest and tax of $12.9 million, and profit after interest and tax of $8.2 million*
- *Strong progress in forest and timber research and development through new and ongoing projects on exotic pine hybrids, molecular genetics, and clonal forestry*

Financial performance

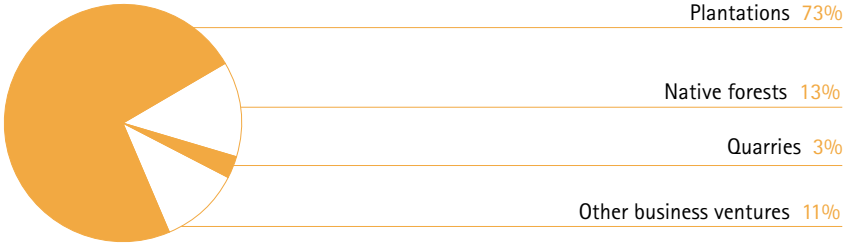
In its 2000-2001 financial statements, DPI Forestry reports profit from ordinary activities after income tax of $38.5 million.

This result reflects, in part, accounting policy changes associated with adopting Australian Accounting Standard 35 "Self-Generating and Regenerating Assets" (AAS35) from 1 July 2000. Consistent with this standard, DPI Forestry's self-generating and regenerating assets (mainly plantations) are now valued using the net present value (NPV) methodology, one of the methodologies supported in the standard.

With the incremental value of plantation growing timber now counted as revenue, the reported profit figure for 2000-2001 includes significant unrealised revenue of $30.3 million.

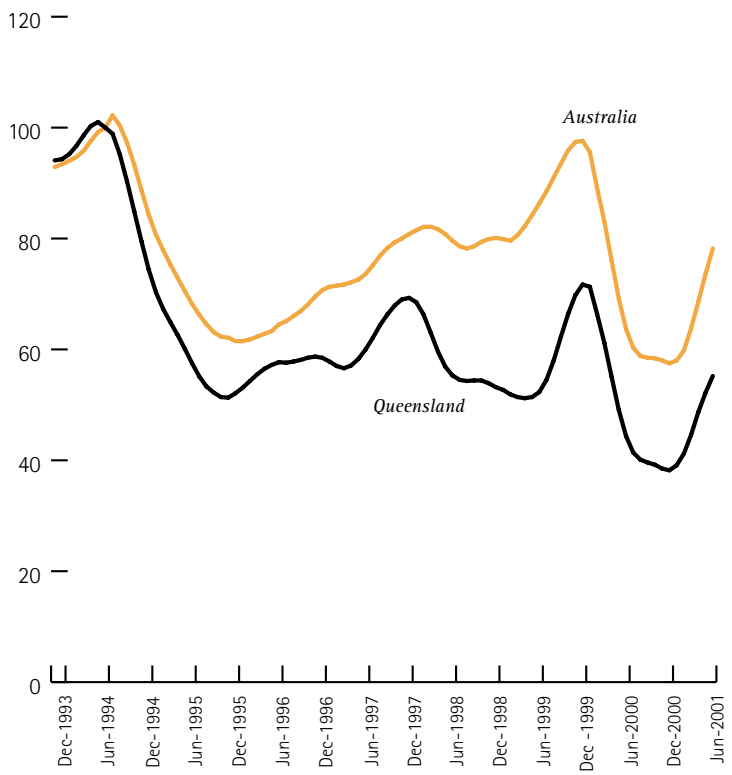
Revenue contribution of business segments

Total sales and receipts - $81.3m



New dwellings approvals trend series index

July 1994 = 100



In performance terms compared directly with previous years, DPI Forestry's earnings before interest and tax were down on last year's record figures to $12.9 million (a fall of 47 percent), with profit after interest and tax of $8.2 million (a fall of 58 percent).

The main reason for this was the downturn in the Queensland building industry, particularly during July-December 2000, when seasonally adjusted dwelling approvals fell to their lowest level in 20 years after the Goods and Services Tax was introduced on 1 July 2000. Because the dwelling construction industry is the largest user of sawn timber in Australia (accounting for 70 percent of consumption), DPI Forestry's major revenue generator, plantation sawlogs, faced a 12 percent volume shortfall on the previous year.

Nevertheless, overall plantation sales volumes were up slightly on the previous year to 1.67 million cubic metres, owing to an unprecedented demand for pulpwood, which, aided by a low Australian dollar, was processed and sold mainly into export markets.

Native forest timber sales volumes were 343,000 cubic metres, down 2 percent on the previous year, with the cypress sector being the strongest performer, showing a 12.5 percent volume increase. Increased quarry material sales of 2.24 million cubic metres were also recorded, up 11 percent on the previous year.

New timber sales

A major new timber sale in north Queensland was negotiated during the year. DPI Forestry's exotic pine resource in the Ingham-Cardwell region of north Queensland, covering some 10,000 hectares, reached an age at which a major harvesting operation could be sustained and 140,000 cubic metres of the resource was sold to Queensland processors through three-year sale agreements. This sale will boost the local economy and provide continuing employment to local DPI Forestry staff, pending the long-term sale of this resource.

To secure such a sale, DPI Forestry is participating in a whole-of-government approach (including relevant Queensland Government departments, local authorities, and local development bureaus) to secure long-term processing of this resource in a regionally based facility. As part of this process DPI Forestry obtained independent expert advice on processing and marketing options for the resource and sought the views of well-known forestry companies on processing options.

In south-west Queensland the offering for sale of 100,000 cubic metres of cypress pine in the Tambo region resulted in the town's first-ever sawmill being opened in 2001. The resource is being sold over 10 years to Toowoomba-based processor N.K. Collins Industries, which owns and operates the Tambo mill.

DPI FORESTRY STRIVES TO INCREASE ITS PRODUCTION BY OPTIMISING OPERATIONS IN THE EXISTING FOREST ESTATE AND BY ENLARGING THE ESTATE ITSELF

Plantation establishment

Long-term economic forecasts indicate a growing shortfall in timber supply throughout the area known as the Pacific Rim in the first quarter of this century. To ensure its domestic and international customers are in the best position to meet this projected shortfall, DPI Forestry is striving to increase its production by optimising the use of the existing forest estate where possible, and by enlarging the estate itself.

Commensurate with this objective, in 2000-2001 DPI Forestry achieved its largest softwood plantation establishment program undertaken since commercialisation, with 5381 hectares planted on state-owned land.

This included planting on the new 2200-hectare Pumicestone State Forest on Bribie Island. DPI Forestry plans another large softwood planting program of 4670 hectares in 2001-2002.

DPI Forestry is also coordinating the establishment of hardwood plantations on state and privately owned land to implement the Queensland Government's $18 million commitment to establish 5000 hectares of hardwood plantings by 2003 under the SEQFA. During 2000-2001, 933 hectares were planted, bringing the total since the program started in September 1999 to 1230 hectares. A further 1900 hectares are being targeted under this program during 2001-2002.

(For information on land purchased for softwood and hardwood plantation expansion, see "Business growth", pages 23-27.)

Softwood allocation policy

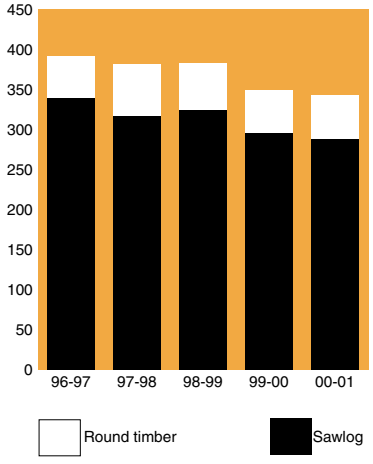
In December 2000 State Cabinet approved a new policy for allocating state-owned exotic pine plantation timber in south-east and central Queensland. The new policy will lead to larger volumes of timber being sold from these areas and will give processors the confidence to invest in future mill expansions.

The policy provides for 568,430 cubic metres of available sawlog and round timber resource from south-east and central Queensland to be offered non-competitively to DPI Forestry customers for sale agreements of up to 15 years (10 years fixed, with potential for a five-year extension). Through a process known as "fibre substitution" (in which specialist processors purchase other mills' residues rather than standing timber), final crop sawlog availability is being increased to meet increased demand from sawmillers wanting to expand their operations.

Over the next 10 years, exotic final crop sawlog supply will increase from 700,000 cubic metres a year to more than 1.16 million cubic metres a year. (For further details, see "Business systems", page 44.)

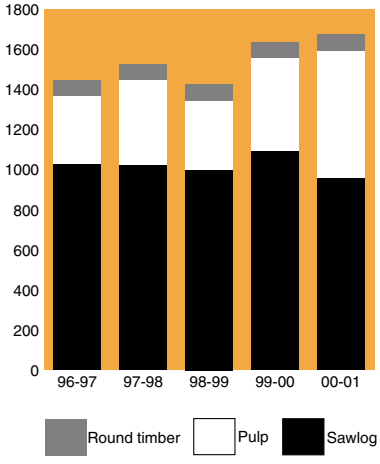
State-owned native forest timber removals

('000s cubic metres)



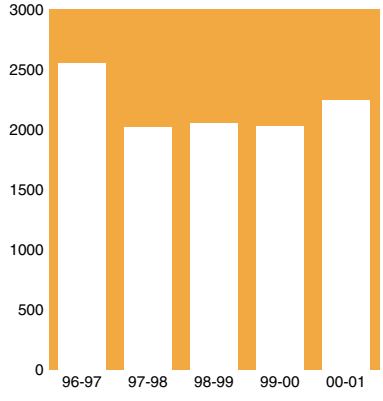
State-owned plantation timber removals

('000s cubic metres)



State-owned quarry material removals

('000s cubic metres)



Senior resources project officer Steve Grallelis (right) discusses with contractor John Brodie the first major harvesting sale of sawlogs from the Cardwell State Forest.

Commercial research and development

DPI Forestry believes the key to a sustained profit base in the longer term lies in increasing the profitability of its core products through commercially focused research and development. In 2000-2001 DPI Forestry continued this focus, mainly through the Queensland Forestry Research Institute.

In addition, DPI Forestry benefited from several collaborative projects funded by such organisations as the Cooperative Research Centre for Sustainable Production Forestry (CRC-SPF), the Forest and Wood Products Research and Development Corporation (FWPRDC), and the Australian Research Council (ARC).

More than half of DPI Forestry's research funds was invested towards its major exotic pine profitability project. Progress, results, and key research and development findings were communicated through such means as seminars, reports, technical notes, journal articles, workshop presentations, field days, conferences, field visits, and on-site forums. Research highlights for the year are summarised below.

Inter-variety exotic pine hybrids

DPI Forestry's main hybrid breeding program relates to the hybrid between *Pinus elliottii var. elliottii* (PEE) x *P. caribaea var. hondurensis* (PCH). However, research is showing that other hybrids also have potential. The encouraging early performance of several "novel" hybrids, involving *P. caribaea var. bahamensis* (PCB) and *P. caribaea var. caribaea* (PCC), led to more extensive trials established across multiple sites from 1998. The objective of these trials was greater volume, better straightness, better wind-firmness, and reduced overall defect levels in PCC x PCH compared to PCH. During 2000-2001 the genetic variation in natural and domesticated populations of PCB was reported and a comprehensive breeding strategy for genetic improvement of PCB was documented. A similar strategy is planned for PCC during 2001-2002.

Molecular genetics

The Queensland Forestry Research Institute and DPI Forestry jointly hosted a Molecular Genetics and Biotechnology Awareness Forum in Brisbane in April 2001. More than 35 people attended the forum, which DPI Forestry and the Cooperative Research Centre for Sustainable Production Forestry jointly sponsored. Topics presented included the role of genomics in plant breeding, genetic markers and genetic mapping, marker aided selection, embryogenesis, population diversity, and gene flow between natural and planted forests. The forum highlighted the CRC-SPF's excellent work in molecular genetics and increased DPI Forestry's awareness of the potential benefits of applying biotechnology and molecular genetics to forests.

THE KEY TO A SUSTAINED PROFIT BASE LIES IN INCREASING DPI FORESTRY'S PROFITABILITY THROUGH COMMERCIALLY FOCUSED RESEARCH AND DEVELOPMENT

Clonal forestry

The rapid implementation of clonal forestry in south-east Queensland and parts of central Queensland, based on highly selected individuals of the PEE x PCH hybrid, is a core strategy to improve the long-term profitability of DPI Forestry's exotic pine plantation estate. In May 2001 a Clonal Forestry Update Forum was held to review research progress and critically appraise future research directions. A revised clonal forestry strategy will be a major output resulting from this forum.

Resin defects in exotic pine

Resin defects in slash and Caribbean pine not only seriously downgrade product value for both structural- and appearance-grade timber products but also increase processing costs. Since the level of resin defects in existing forest plantations cannot be reduced, one option to manage this defect is to identify it early and divert affected material to products in which resin is less of a problem. Preliminary investigations for predicting resin defects based on external tree symptoms, including collaborative sawing studies, started during 2000-2001.

Site preparation and planting systems

A key priority for DPI Forestry is developing effective establishment systems for poorly-drained second-rotation plantation sites on Queensland's coastal lowlands. During 2000-2001 initial results and establishment details were documented for a broad-scale trial at Tuan to test levels of genetic improvement, nursery stock, and site preparation techniques.

Genetic gains for hoop pine

Since the mid-1980s DPI Forestry's hoop pine plantations have been established using seed from open-pollinated seed orchards (known as "half-sib" seed). However, significant gains in growth, straightness, and inter-node length are possible by carefully selecting and mass-producing "full-sib" seed, in which both the male and female parents are known. The impressive potential for full-sib families was reported, including recommendations for several outstanding families.

Based on this information and an analysis of the likely costs and benefits associated with full-sib family forestry, a new orchard was established at Yarraman to produce seed from a small number of highly productive families.

Hoop pine market re-positioning

Research continued on a suite of jointly funded DPI Forestry-FWPRDC projects, as part of DPI Forestry's assistance to industry in re-positioning hoop pine in domestic and international markets.

This included investigations into kiln-induced brown stain, a significant issue for the hoop pine processing sector. Possible causes were investigated in a bid to control kiln-induced brown stain problems associated with high-temperature kiln drying.

Findings from one study looking at alternative chemical treatments and the effect of log storage time revealed that, overall, the incidence of kiln stain was very high regardless of log storage time, chemical treatment, position in tree, presence of brown stain heartwood, log sealing, or forest compartment. These findings reinforce the need to pursue studies into the underlying cause of brown stain to discover a commercially acceptable solution.

Sandalwood management

The valuable native sandalwood resource on remote Crown holdings provides economic benefits to regions in north-west Queensland, mainly from a log-processing operation based in Richmond, which has established export markets for processed sandalwood logs and chips.

DPI Forestry has embarked on a three-year series of studies to demonstrate the sustainability of sandalwood harvesting operations. Progress reports for growth and yield studies being undertaken in Queensland's "Gulf delta" region and near Hughenden were completed during 2000-2001.

In addition, an assessment of the value of sandalwood as fodder for cattle concluded that sandalwood harvesting, as currently practised, was unlikely to have any impact on the grazing value of affected Crown lands.

Loading cypress pine logs from the Barakula State Forest, for milling at Chinchilla.

Cypress pine management

Anecdotal evidence from cypress pine sawmillers suggests that forest management history influences timber quality. In particular, intensively managed forests seem to be producing higher amounts of feature-quality timber (for use in flooring, for example). The implications are that silvicultural factors such as regeneration, stand management, harvest intensity, and fire history have an important influence in determining the quality of trees taken from cypress forests. To verify this anecdotal evidence, DPI Forestry collaborated with the FWPRDC in three mill studies to compare wood quality from "well-managed", "partially-managed", and "unmanaged" forests from each of three specifically chosen cypress regions: in south-west and eastern Queensland, and in central-west New South Wales. A comprehensive report on these studies is due in late 2001.

Strategic reviews

Reviews of the pricing and marketing of hoop pine and of the growing market for forest foliage and flowers began in 2000-2001 and stand to deliver benefits to both these industry sectors.

DPI Forestry is implementing a package of measures to help the hoop pine sector combat the aggressive competition it has been experiencing for a number of years in both traditional domestic and newly developed export markets. In 1998, in response to these market challenges, DPI Forestry implemented a package for industry comprising a price discount, a price freeze for two years, and a change in minimum log standards, estimated to be equivalent to a royalty discount of 25 percent. In 1999 these arrangements were extended for a further two-and-a-half years to 20 June 2002, and included industry agreement on an independent price review of the hoop pine sector between August 2001 and February 2002. After consulting industry about the continuing market difficulties, the planned independent price review was brought forward under a whole-of-government approach, with joint representation from both industry and government. Among other things, the review is seeking to determine an indexation system for price adjustment that would serve the industry better than the present reliance on Australia's consumer price index.

During 2000-2001 DPI Forestry continued its involvement with the Araucaria Australia Group (AAG), an incorporated association, comprising State Government representatives, hoop pine growers and producers, and other stakeholders, which works to enlarge domestic and overseas hoop pine markets. Through its own research and development sub-committee, the AAG also manages a hoop pine "market repositioning" project funded by the Forest and Wood Products Research and Development Corporation. This project is investigating kiln drying processes, steaming, lathing, gluing, and surface hardening for hoop pine.

The wild-harvest sector of the native wildflower and foliage industry in south-east Queensland, meanwhile, relies heavily on access to state-owned native forests and exotic plantations.

DPI FORESTRY CONTINUES TO HELP THE HOOP PINE SECTOR, ASSIST THE WILD-HARVEST SECTOR OF QUEENSLAND'S WILDFLOWER AND FOLIAGE INDUSTRY, AND EXPLORE INDUSTRY OPTIONS FOR ITS RESOURCE

Previously small and ad hoc, the native wildflower and foliage industry became more professional and concentrated from 1996, when DPI Forestry decided to conduct competitive tendering for native wildflower and foliage from state land. The market is now very competitive, and local firms have garnered prized domestic and overseas markets for their products.

However, many of the south-east Queensland native forests to which the industry has had access are being transferred to conservation reserves under the SEQFA. In light of this, in May 2000 Queensland Premier Peter Beattie endorsed a statement of principles for a professional, responsible, and ecologically sustainable foliage industry in south-east Queensland.

As part of this announcement, DPI Forestry undertook to provide a broad strategy for the industry's move to become plantation-based. The strategy looks at phase-out arrangements for native forest access, monitoring harvest practices to ensure sustain-ability, pricing arrangements, appropriate research, and recognising the industry's contribution to rural employment and export income generation. By July 2001 DPI Forestry had completed a draft strategy in consultation with stakeholders and was awaiting formal sign-off by other State Government agencies.

Additional resources in south-west Queensland

During 2000-2001 DPI Forestry continued to explore commercial options for industry use of some 30,000 cubic metres a year of timber grown in the Warwick-Stanthorpe area. This resource became available in late 1999 when one of the area's major sawmill operations, Warwick Sawmills, was placed in provisional liquidation.

DPI Forestry subsequently pursued negotiations with a New Zealand-based sawmiller towards a viable resource package to support restarting mill operations. Unfortunately, these negotiations were ended when the company withdrew its interest in the resource.

More recently, DPI Forestry has held discussions with local processors about the resource, with one local processor agreeing to test the timber's suitability for future use.

Forestry customers recognised

Two DPI Forestry-nominated businesses were recognised at the Queensland Primary Industries Achievement Awards in March 2001. Cedar Hill Flowers and Foliage won the Primary Industries Environment Award and Allied Timber Products was a finalist in the Primary Industries Innovation and Development Award.

Based in Woombye, Cedar Hill Flowers and Foliage exports Queensland forest foliage internationally, carving a lucrative market from an unusual forest product. Allied Timber Products was recognised for the company's innovative agreement with DPI Forestry to "own" one of DPI Forestry's forest plantations, coupled with a $2 million expansion of the company's softwood processing operations in Burpengary. (For further details, see "Business growth", page 26.).

The annual Primary Industries Achievement Awards are designed to recognise innovation and excellence in the state's primary industries.

Primary Industries and Rural Communities Minister Henry Palaszczuk (left) with Allied Timber Products' Col Galley (centre) and Cedar Hill Flowers and Foliage's Wayne Bennett.

"Going for forest products growth"

DPI Forestry works closely with Queensland's native wildflower and foliage industry to ensure its resource is sustainably harvested from plantation and native forests.

Here, DPI Forestry Beerburrum forest ranger Geoff Pearce (right) supervises the collection of broadleaf umbrella ferns by Andy Driscoll (left) and James Roemermann from Cedar Hill Flowers and Foliage.

Business growth

Goal

Expand the asset and resource base to enhance long-term commercial returns

Key performance targets

- *Implement and manage State Government-funded initiatives under the South East Queensland Forests Agreement (SEQFA), including hardwood plantation establishment*
- *Expand state-owned plantations in strategic locations*
- *Develop commercially viable new business opportunities and partnerships*

Results

- *SEQFA implementation on track, including 1230 hectares of hardwood plantation established and 403,000 hectares of native forest placed in interim conservation reserves*
- *Land acquisitions added 4265 hectares to the softwood plantation estate*
- *New business initiatives successfully pursued*

South East Queensland Forests Agreement

In September 1999 the Queensland Government reached an agreement with key timber industry and conservation stakeholders on a plan to transition, over 25 years, from the harvesting of state-owned native forests in south-east Queensland to high-value short-rotation hardwood plantation forests. Known as the South East Queensland Forests Agreement (SEQFA), the agreement gives industry unprecedented resource security and provides for more than 400,000 hectares of state-owned native forest to become a new interim conservation tenure of forest reserve.

Under the SEQFA the Queensland Government has committed $18 million to establish 5000 hectares of hardwood plantations by June 2003. The plantations will be established on private land, obtained for the purpose through joint-venture and land-rental agreements, and on state-owned land. A further $8 million was committed for a hardwood timber research and extension program through the Queensland Forestry Research Institute.

Hardwood plantations are being established in the Crows Nest, Sunshine Coast, Burnett, Bundaberg, and Moreton regions. The main eucalypt species to be planted include Gympie messmate, blackbutt, spotted gum, flooded gum x river red gum hybrids, white gum, and western white gum.

During 2000-2001 the Queensland Government spent more than $2.6 million through DPI Forestry on the south-east Queensland hardwood plantation program, planting 933 hectares (and cultivating a further 763 hectares), bringing the total area planted since the program started in 1999 to 1230 hectares. A further 1900 hectares are being targeted for planting during 2001-2002.

Additional land secured for the program totalled 1032 hectares. DPI Forestry is securing land to meet the 5000 hectares hardwood plantation target through joint venture arrangements, corporate alliances, land acquisition, and, as a new option implemented during 2000-2001, rental of land from private landowners. Under this land rental scheme, DPI Forestry plants, manages, and harvests land rented from private landowners, who can then diversify their income and profit from the use of formerly under-utilised land.

To expand interest in hardwood plantations in south-east Queensland, DPI Forestry put a promotion and extension scheme in place for the program and worked to secure links with agribusiness to demonstrate the economic and environmental benefits of plantation forestry. This resulted in establishing equity crop-sharing arrangements with 41 landholders covering 722 hectares.

Connections were also made with the Queensland Dairyfarmers organisation to promote linkages with the dairy industry; and an agreement was reached with the Gladstone Water Board to establish a hardwood plantation at Gladstone's Awoonga Dam. In a major land acquisition, DPI Forestry purchased 360 hectares of cleared land at Coolabunia near Kingaroy for hardwood plantation establishment.

Because salinity affects a number of parcels of land earmarked for hardwood plantations, DPI Forestry forged links with private forest research organisation Saltgrow Pty Ltd that is developing eucalyptus hybrid clones with an increased salt tolerance.
A 2-hectare trial plot, to test the salt tolerance and growth rates of selected hardwood species and hybrids, including spotted gum and the southern blue gum x river red gum hybrid, was set up on land owned by the South Burnett Institute of TAFE at Kingaroy. The research trial was planted in March 2001 and preliminary results are very encouraging.

General forest workers Narelle Duffy and Darryl Steel water Gympie messmate seedlings at Coolabunia in Queensland's South Burnett region.

The trial is part of Saltgrow Pty Ltd's nationwide search to identify and breed hardwoods suitable for commercial timber plantations on saline lands.
It brings a step closer the identification of a group of commercial hardwoods to suit south-east Queensland's broad range of soil types.

During 2000-2001 DPI Forestry also set up pest and disease monitoring arrangements with the Queensland Forestry Research Institute; set up administrative databases to ensure pin-point monitoring of all aspects of the hardwood plantation program; identified the necessary legal processes required for land acquisition procedures, including clarification of *profit a prendre* registration procedures; and appointed a plantation development officer and plantation project officer to work full-time on the project from the Beerburrum forestry office.

THE SOUTH EAST QUEENSLAND FORESTS AGREEMENT AND LAND PURCHASES IN SOUTH-EAST AND CENTRAL QUEENSLAND CONTINUE TO EXPAND HARDWOOD AND SOFTWOOD RESOURCES

The SEQFA calls for more than 400,000 hectares of state forests within south-east Queensland to be withdrawn from timber harvesting. By 30 June 2001 DPI Forestry had assisted the Environmental Protection Agency to place about 403,000 hectares of this land in a new interim conservation tenure of forest reserve. Until full management of these new reserves is assumed by the Queensland Parks and Wildlife Service (a part of the Queensland Government's Environmental Protection Agency), DPI Forestry provides necessary forest services on these lands, including road maintenance, fire protection, and pest management.

Meanwhile, under a 25-year supply guarantee, DPI Forestry is balancing this transition by supplying the region's native forest hardwood sawmillers with alternative log supplies. Because changes in harvesting areas have, in some cases, meant additional haulage costs for holders of 25-year sales permits, DPI Forestry is providing compensation through the State Government's hardwood sawlog haulage assistance scheme.

Softwood plantation expansion

Bribie Island plantations

During 2000-2001 DPI Forestry began planting on the new 2200-hectare Pumicestone State Forest on Bribie Island. Recently acquired by DPI Forestry, this land was formerly owned and managed as an exotic pine plantation by Australian Paper Mills (APM). After APM relinquished its interest in this plantation in 1986, the then Department of Natural Resources subjected the land to a detailed review in the 1990s. Plans for new forest plantations on the land have been under consideration since 1996, when DPI Forestry submitted an expression of interest to reforest the land.

To develop its Bribie Island plantation, DPI Forestry worked closely with four local indigenous groups to ensure that the hundreds of culturally significant sites on the land were clearly marked. Each site will be protected during forest operations to ensure minimal disturbance. DPI Forestry is also training contractors and other key personnel who will work on the island in cultural awareness issues.

In addition, an attractive grotto of native and exotic trees in the centre of the plantation will be retained. This is the site of the first European settlement on the island, although little remains except scattered timbers from the original hut.

Central Queensland plantation expansion

DPI Forestry purchased three blocks of privately owned land to extend exotic pine plantations at Byfield, in central Queensland. This land will expand the Byfield estate from 6900 hectares to about 8900 hectares. It will increase the supply of high-quality Caribbean pine and Caribbean x slash pine hybrids for millers and the building industry in central Queensland.

In keeping with the Queensland Government's policy of not clearing native forest for plantation expansion, most of the land purchased had been earlier cleared for agriculture, and all land was subject to rigorous assessment by the Department of Natural Resources and Mines (DNRM) before acquisition. DNRM assessed two of the three blocks as regrowth vegetation and "not of concern" to it, allowing DPI Forestry to clear up to 80 percent of the land. The third block was assessed as having varying amounts of "intact vegetation" and this will be retained.

Hoop pine plantation expansion

In early 2001 hoop pine plantations in Queensland's South Burnett region were boosted with DPI Forestry's acquisition of about 65 hectares of land near Nanango for plantation expansion. Cleared for agriculture, but covered in re-growth vegetation, the formerly freeholded land is adjacent to an existing state forest and will enhance the productivity of the region's extensive hoop pine plantation estate.

WORK ON THE PROPAGATION OF WOLLEMI PINE CONTINUED DURING 2000-2001,

AT A PURPOSE-BUILT PROPAGATION FACILITY AT GYMPIE

New business initiatives

New joint-venture model

An innovative joint-venture between timber millers Allied Timber Products Pty Ltd, of Burpengary, and DPI Forestry was finalised during 2000-2001. It has delivered significant benefits to Queensland. The joint-venture model is a dramatic shift from the traditional state-owned forest model. It involves the joint "ownership" of a 370-hectare exotic pine plantation at Beerburrum and assures a future timber supply for Allied Timber Products, providing resource security that has given the company the confidence to proceed with a $2 million mill expansion.

The benefits of this new joint-venture arrangement are many. They include DPI Forestry's ability to gain improved cash flow from another organisation's equity investment in a plantation forest. The timber and building industry also benefits through an assurance of resource supply and an increase in sawn timber production. Benefits also accrue to the environment, with Allied Timber Products' innovative use of young plantation-based timber to manufacture high-quality building products. DPI Forestry believes the arrangement will become a model for future joint-ventures.

Primary Industries and Rural Communities Minister Henry Palaszczuk (left), Birkdale Nursey Director Barbara McGeoch, QFRI Director Dr Russell Haines, and DPI Forestry Executive Director Ron Beck, with a Wollemi pine.

Wollemi pine

Work on the propagation of Wollemi pine, at a purpose-built propagation facility at Gympie, continued during 2000-2001. In conjunction with Birkdale Nursery in Brisbane, a marketing plan was devised for the pine's eventual release for sale in about 2005. In partnership with Birkdale Nursery, DPI Forestry was selected in 1999 by Sydney's Royal Botanic Gardens (RBG) to undertake the worldwide commercialisation of the Wollemi pine, a rare primitive tree discovered in 1994 in the remote Wollemi Gorge National Park, 150 kilometres north-west of Sydney.

During the year DPI Forestry and Birkdale Nursery Pty Ltd set up a jointly owned company, Wollemi Australia Pty Ltd, to work with the RBG to market, distribute, and sell the Wollemi pine and associated products, nationally and internationally. The Queensland Forestry Research Institute is doing extensive research and development work on the pine.

Site preparation for second rotation plantations, with a new $500,000 John Deer four-wheel-drive tractor, at Byfield in central Queensland.

Other capital investment

Nursery expansions

DPI Forestry undertook capital works to expand productive capacity in two of its four nurseries during 2000-2001. Major works were undertaken at Beerburrum, where a new dam was built to augment the existing water supply. Meanwhile, works undertaken at Toolara will allow the nursery to set an additional 360,000 cuttings a year, bringing its annual production to 1.96 million cuttings.

Forestry machinery & equipment

DPI Forestry invested $3.2 million on machinery and equipment during the year, including three motor graders, four skidders, two rubber-tyred tractors, one fire appliance, two large tank trailers, and miscellaneous equipment. These purchases brought DPI Forestry's total fleet size to 632 items, valued at $26 million.

One of the most significant pieces of equipment procured was the first of a new generation of super fire tankers, which Primary Industries and Rural Communities Minister Henry Palaszczuk commissioned on 24 July 2001.

Designed and assembled by DPI Forestry staff at the organisation's Gympie workshop at a cost of $200,000, the new tanker has a capacity of 4000 litres. Metalworking industries in Gympie made the unit's tank and lockers. The tanker's innovations include in-cabin protection for its fire crew and improved pump motor and hoses. During the latter half of 2001 it will be based at the Tuan State Forest for evaluation trials, which will determine the timetable for building similar units to eventually replace DPI Forestry's eight-strong fire-tanker fleet.

"Sifting silt & sediment for sustainability"

Silt traps catch and measure sediment from forestry roads during harvesting, as part of DPI Forestry's ongoing commitment to sustainable forestry operations. Here, DPI Forestry's South East Exotic regional manager Peter Locos (left), Queensland University of Technology researcher Adam Forsythe (centre), and Queensland Forestry Research Institute hydrologist Dr Ken Bubb inspect a silt trap in the Beerburrum State Forest.

Sustainability

Goal

Conduct commercial forest production operations in accordance with community expectations for sustainable forest use

Key performance targets

- *Continuously improve DPI Forestry's independently certified (to AS/NZS ISO 14001) environmental management system*
- *Pursue balanced and equitable environmental codes of practice for forestry operations*
- *Undertake research and development in support of sustainable forest management*

Results

- *New initiatives improved DPI Forestry's environmental management system and independent audits of the system reported no non-conformances*
- *Ongoing input occurred with other agencies to develop codes of practice for plantation forests, native forests, and private forests*
- *An extensive research program continued in water quality, debris retention, hoop pine soil nutrition, and forest protection*

Environmental management system

DPI Forestry is committed to ensuring and demonstrating that its production systems can be sustained over time, based on sound scientific principles, applied research, and community standards. Its management practices are subject to a quality-controlled environmental management system (EMS), which is itself based on the international environmental standard AS/NZS ISO 14001. DPI Forestry gained independent environmental certification to this standard in December 1999, becoming the first state forest management agency in Australia to do so. AS/NZS ISO 14001 certification covers management of the environmental aspects of selective harvesting in native forests; establishing, growing, and harvesting forest plantations; and establishing infrastructure such as forestry roads and associated works.

In February 2001 DNV Certification Pty Ltd, the external company that certified DPI Forestry's EMS, conducted environmental audits of the organisation's Brisbane central office and its Monto and Yarraman districts, and reported no non-conformances.

The Queensland Government's Environmental Protection Agency also undertakes regular environmental audits of DPI Forestry's operations and 29 of these were carried out during 2000-2001. None of these showed breaches of the relevant environmental Acts.

To check compliance with set environmental procedures and desired environmental outcomes, DPI Forestry's field supervisors routinely use a system of sound practice indicators (SPIs), which have been enhanced over the last three years to better reflect DPI Forestry's ongoing commitment to environmental sustainability. The SPI results for 2000-2001 (see chart) show satisfactory implementation of sound environmental practices across field activities, with overall performance against SPIs an improvement on 1999-2000.

INDEPENDENT CERTIFICATION OF DPI FORESTRY'S ENVIRONMENTAL MANAGEMENT SYSTEM PROVIDES COMPETITIVE ADVANTAGES TO CUSTOMERS, ESPECIALLY THOSE WITH EXPORT INTERESTS

DPI Forestry continues to implement new initiatives to ensure the sustainability of its operations. In 2000-2001 these included introducing a controlled incident reporting procedure and updating staff position descriptions to include both specific and general environmental responsibilities. The incident reporting procedure allows all staff to report any incidents of environmental concern they observe so that forest operations can be continually improved. As well, operational staff began an assessment and environmental refresher training program to accredit them to national competency standards (in particular, National Competency Unit FPIC 1009A).

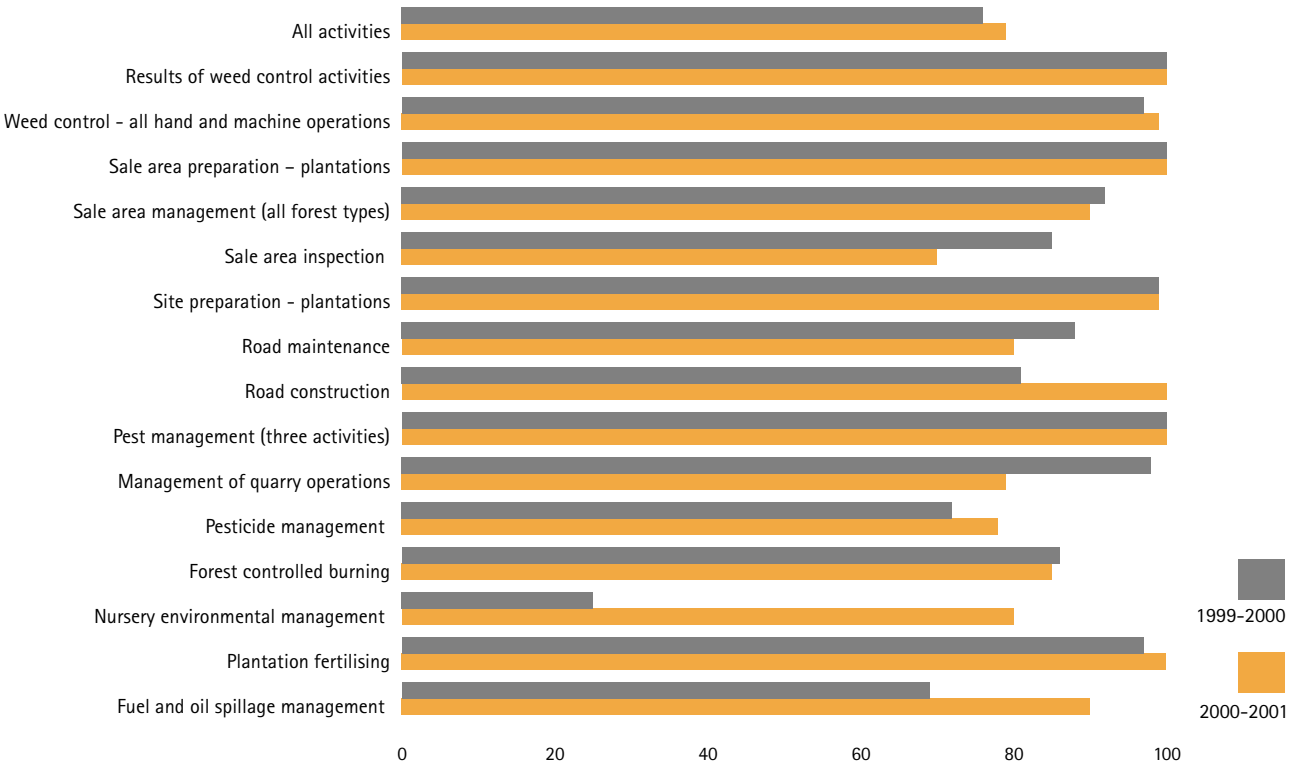
All of DPI Forestry's environmental procedures are reviewed and updated regularly. In 2000-2001, particularly, the organisation's wet-weather harvesting guidelines and sections of its nursery manual covering exotic pine shoot production, exotic pine cuttings, and exotic pine seedlings were revised.

During the year DPI Forestry also resolved to conduct an environmental risk management review of its exotic pine hybrid clonal planting program on the state's coastal lowlands.
All of DPI Forestry's environmental procedures are placed on the organisation's intranet, *FORWEB*, to ensure wide corporate access to them.

Overall, DPI Forestry's EMS continues to enhance the organisation's environmental quality management by providing focus on key environmental issues, highlighting areas for improvement, fine-tuning operational standards, and streamlining and linking environmental processes. Independent certification of the EMS is also providing a degree of competitive advantage to DPI Forestry's customers, especially those with export interests.

Statewide environmental management

% pass rate on sound practice indicators



Contractor Ken Murray harvests cypress pine in the Dalby forestry district with a Bell harvester. This harvester reduces environmental impacts on the surrounding forest by giving the operator greater control over falling trees.

Codes of practice

Queensland is a signatory to Australia's National Forest Policy Statement that mandates the nation's forest growers to conduct forest operations in line with defined codes of practice.

The Environmental Protection Agency's Queensland Parks and Wildlife Service has been preparing a suite of codes that set environmental management standards for forest operations in Queensland.

To date, DPI Forestry's involvement in forest code development has focused on plantation and native forest codes. While DPI Forestry applies environmental practices and procedures to its management of state-owned plantations, a plantation code has not yet been adopted, although the organisation supports such a code because it will help demonstrate and market the plantation timber industry's environmental integrity.

DPI Forestry's preferred outcome is a single "competitively neutral" plantation code for use in private and Crown plantations, incorporating common environmental standards that are similar to standards accepted for agricultural land uses.

A code of practice also applies to timber harvesting of Crown native hardwood forests in south-east Queensland, and its application is ratified by all stakeholders in the South East Queensland Forests Agreement.

A review of the code began in 2000-2001. The Queensland Parks and Wildlife Service is leading this review with DPI Forestry and the timber industry as key stakeholders. After the review the QPWS intends to extend its application beyond south-east Queensland to all Crown hardwood timber production in the state.

A code of practice for the harvesting of western cypress pine on Crown sales was implemented from October 2000, with the support of DPI Forestry and the Queensland Timber Board.

In mid-2000 a whole-of-government process, to develop a Queensland forest practices system (QFPS), was initiated. The objective is to achieve sustainable forest management and harvest security in private forests. The Department of State Development is leading this process. One QFPS outcome will be native forest and plantation codes for private land that can be enforced by development assessment processes under Queensland's Integrated Planning Act.

DPI FORESTRY SPENT ABOUT $500,000 ON RESEARCH TO IMPROVE EXOTIC AND HOOP PINE PLANTATION MANAGEMENT SUSTAINABILITY AND TO MINIMISE OFF-SITE IMPACTS

Environmental research and development

Sustainable plantation management systems that maintain site productivity while minimising adverse off-site impacts are critical for DPI Forestry to maintain its high standing as one of the southern hemisphere's leading forest growers. About $500,000 was spent on research to improve the sustainability of exotic and hoop pine plantation management, including water quality and yield, debris retention systems to control hill slope erosion, hoop pine soil nutrition, and forest protection.

Exotic pine forests impact little on water quality

Results from a large-scale catchment study, conducted over six years to examine the impacts from exotic *Pinus* plantation management on water quality in south-east Queensland's coastal lowlands, were reported during 2000-2001. They showed that both stream flow and export loads of nitrogen, phosphorous, and suspended solids were within the range reported for forest-dominated catchments in Australia and overseas. Further, the results consistently showed that forest operations had the least impact on water quality of all production land use.

The study comprised "nested" water catchments in the Toolara State Forest, with a 395-hectare upper "control" sub-catchment that drained to a lower 904-hectare sub-catchment. Stream monitoring stations were constructed at drainage outlets in each sub-catchment.

A combination of regular "grab" samples, automated sampling during rainfall and flooding, and "real time" sampling with instruments *in situ* were carried out to monitor trends in the key water-quality parameters of nitrogen, phosphorous, and suspended solids. A 12-month "snapshot" of water quality in local streams was also taken to provide a reference data set for the south-east Queensland coastal lowland region.

The study's methodology included using a network of piezometers to monitor ground-water depth and quality, with cross-sectional surveys of watercourses adjoining riparian zones carried out before and after harvest treatments. After a four-year calibration period, one harvest treatment, consisting of clearfelling and re-establishing 80 hectares of mature 36-year-old *Pinus* and thinning a 24-year-old *Pinus* stand, was done on the lower sub-catchment.

The study's results showed that both stream flow and export loads of nitrogen, phosphorous, and suspended solids were highly episodic, which is in keeping with the ephemeral nature of streams originating in the state's coastal lowlands region.

Annual export loads for nitrogen, phosphorous, and suspended solids ranged from 0 to 8.8, 0 to 0.5 and 0 to 606 kilograms a hectare, respectively. These loads were within the range reported for forest-dominated catchments, both in Australia and other parts of the world, and are recognised as the lowest ranked land-use with respect to impacts on water quality.

Despite major rain and flooding that occurred shortly after the clearfelling and thinning operations, no harvest impacts were observed on the water quality parameters measured. Similarly, no harvest impact was noted on ground water quality within the study catchment. Cross-sectional surveys of the watercourse protection zones found these to be stable in the harvested area.

Debris retention to control hill slope erosion

Research on the effects of continuous-rotation hoop pine plantations on site fertility has suggested that soil nutrients and organic matter substantially decline when forest residue is burned during site preparation. In response to these findings, DPI Forestry introduced residue retention systems, including systems that rake larger debris with dozers or excavators to form windrows along hill contours. The effects of these practices are being researched using trials on a hill slope at Amamoor.

The trials compare dozer versus excavator windrow raking to find which method might replace residue burning with the least environmental impact. The study's first findings were reported during 2000-2001. They showed that, while a dozer may increase erosion in the unlikely event of extended or heavy rainfall, there is little difference in soil movement or loss between either method.

DPI Forestry is conducting extensive research to study how the formation of windrows can reduce erosion on steep plantation terrain. These windrows are being formed on hoop pine hill slopes at Imbil.

The Amamoor study involves the setting of water collection troughs beneath windrows to determine how windrow formation affects the total level of nutrient and organic matter in water run-off. Data from initial assessments suggest that, despite the seemingly higher proportion of bare earth after using a dozer for site preparation, there is very little difference between excavator or dozer use once weeds become established on the site.

However, during 1998-1999 the Amamoor site recorded 590 millimetres of rain over 72 hours, an event that occurs, on average, only once in 50 years. The impact from this has dominated the study's results. Despite similar run-off between the two methods during the rainfall, there was a 141 percent greater movement of soil between the windrows made by a dozer (measuring 6.45 tonnes a hectare, or about 0.7 millimetres of soil) compared with the windrows made by an excavator (measuring 2.68 tonnes a hectare, or about 0.3 millimetres of soil). Researchers believe that the many track imprints the dozer leaves along the slope concentrate run-off and increase erosion.

Interestingly, the total soil transported by raking the windrows is relatively similar for both methods – 1.72 tonnes a hectare for those raked by dozer and 1.24 tonnes a hectare for those raked by excavator.

Hoop pine plantations at Imbil are being used for extensive research and development to improve sustainable forest production.

Hoop pine soils and nutrition

In March 2001 a successful field day on hoop pine soils and nutrition – showcasing recent progress and research findings – was held at Imbil. The field day was attended by 35 people, including representatives from DPI Forestry, the Queensland Forestry Research Institute, and the Cooperative Research Centre for Sustainable Production Forestry. Presentations included investigations into soil carbon dynamics and nitrogen, application of advanced nuclear magnetic resonance to soil organic matter (SOM) studies in forest plantations, soil biological studies in relation to SOM dynamics, catchment and erosion studies, and testing and identifying soil invertebrates as potential indicators of biodiversity.

The objective of this work is to improve chemical and biological indicators of soil quality for sustainable plantation management.

Forest protection

DPI Forestry's research during 2000-2001 also focused on understanding and negating (as much as possible) specific and generic threats to its forests.

To this end, research continued on minimising the risk of Sirex wood wasp damage to DPI Forestry's plantations. The wasp, a major pest in the radiata pine plantations of southern Australia, is steadily moving north and is likely to reach Queensland by 2010.

A study to assess whether Sirex wasps can lay eggs in Caribbean pine should be completed in 2002. A training package on the wasp is also being prepared for distribution to DPI Forestry staff during 2001-2002.

Research also continued on hoop pine root rot and on the recent incursion of the destructive Japanese sawyer beetle into Australia from China. In addition, DPI Forestry's four major nurseries – at Beerburrum and Toolara in south-east Queensland and at Walkamin and Ingham in north Queensland – were inspected. Routine forest health surveillance inspections also occurred throughout the state, with a focus on incidences of die-back, deformation, and stunting of young *Pinus* and hoop pine trees.

The imported red fire ant, discovered in Brisbane in 2000, poses a serious threat not only to forestry, but also to agriculture, health, and the environment. As a business unit of the Queensland Department of Primary Industries, DPI Forestry has allocated resources to DPI-coordinated programs to help control the ant's spread from Brisbane to other parts of the state.

During the year DPI Forestry also participated in a lyngbya steering committee and supported research into pollutants that may initiate algal blooms, particularly *Lyngbya majuscala*, in Moreton Bay. Research partners include the University of Queensland, the Queensland University of Technology, and the Queensland Forestry Research Institute.

"Going for skills growth"

DPI Forestry boosts staff skills and job satisfaction through staff development programs.

DPI Forestry's Barakula forest overseer Jacob Tangey, having completed his traineeship two years ago, oversees key forest activities in DPI Forestry's South West region. Here, he supervises cypress pine harvesting by contract cutters Lance (left) and Scott Volp, in the Barakula State Forest.

Workforce development

Goal

Enhance workforce culture, capabilities, and competencies to meet existing and emerging business needs

Key performance targets

- *Negotiate a new enterprise bargaining agreement to provide flexible and commercially focused employment conditions*
- *Undertake a workforce planning audit and effect further workforce enhancements*

Results

- *DPI Forestry's third enterprise bargaining agreement was approved by the Queensland Industrial Relations Commission in January 2001*
- *A workforce review was completed, as were other workforce systems enhancements*

Staff profile

At 30 June 2001 DPI Forestry employed 729 people, more than 80 percent of whom were located close to customers in Queensland's regional areas. This figure included 139 female officers (19 percent of the total).
The average age of DPI Forestry personnel in 2000-2001 was 44 years. DPI Forestry staff's acknowledged expertise and enthusiasm are the key ingredients in making the organisation a successful commercial forest grower. During the year their sustained commitment was formally acknowledged with the presentation of long-service plaques to 29 officers throughout the state.

On 1 July 2000 Queensland Forestry Research Institute staff (about 120 personnel) became a part of the Department of Primary Industries' Agency for Food and Fibre Sciences and are no longer counted in the DPI Forestry staff profile.

Enterprise bargaining agreement

In January 2001 DPI Forestry reached its third enterprise bargaining agreement (EB3) between management, staff, and unions. The agreement is in accordance with the relevant sections of Queensland's Industrial Relations Act and, when put to a staff vote in December 1999, received the approval of 89 percent of eligible staff who registered a vote. From January 2001 DPI Forestry worked towards developing and implementing initiatives included in EB3.
In terms of DPI Forestry's workforce, these initiatives included:

- improved wage and salary pay classification structures
- wage and salary packaging arrangements
- a review of existing contracting arrangements
- converting long-term casual and temporary wages employees to permanent status
- converting temporary graduates to permanent status, and
- developing a policy to pay an allowance to employees with fire-fighting accreditation.

Salaried and wages pay classification structures, conversion of wages employees (long-term temporary and long-term casual) to permanent status, and fire-fighting conditions for salaried employees were developed and are under discussions with the relevant trade unions. Public sector-wide wage and salary packaging arrangements are now available to staff, while other options with salary packaging and related benefits are under review.

A number of EB3 initiatives will be finalised during 2001-2002. Some involve discussions with the relevant trade unions or are awaiting the results of public sector-wide reviews, and include:

- developing an occupational health and safety management system to AS4801 standard
- expanding the use of TAFE-delivered training and development programs
- reviewing and reclassifying wage and salary structures
- developing a DPI Forestry code of conduct guide, and
- developing a harassment awareness program.

DPI Forestry's human resources unit is preparing information and training programs for major initiatives under EB3 as they are completed, with several planned for delivery across Queensland during the second half of 2001.

In accordance with the enterprise agreement, staff received all pay increases due, including two $150 bonus payments contingent on satisfactory progress towards implementing a continuous improvement program focused on enhanced environmental outcomes, workforce health and safety, barriers to productivity, internal communication, and better use of intranet-based information.

Workforce systems enhancement

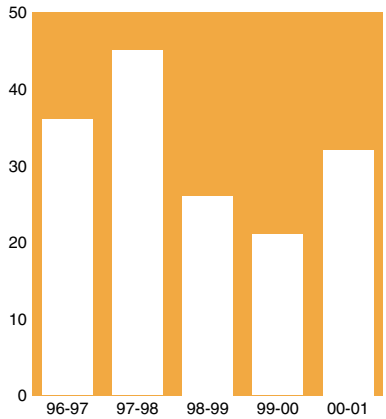
Enhancements to DPI Forestry's workforce systems were completed during 2000-2001 with major improvements in workforce planning, payroll software, overtime processes, and time data administration.

A workforce planning exercise was initiated that, when finalised in the second half of 2001, will enable DPI Forestry to plan and manage its workforce requirements more effectively to meet business needs in the longer term. The exercise thoroughly reviewed staffing arrangements and succession planning, in which senior DPI Forestry staff were asked to identify future staff requirements.

DPI Forestry's payroll software programs were improved, particularly to provide simpler and more informative pay advice to employees. Additionally, an employee overtime calculator was developed.

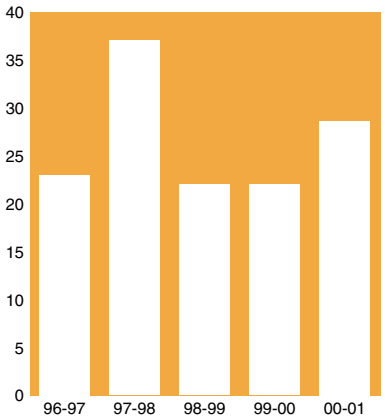
Accident frequency

Accidents per million work hours



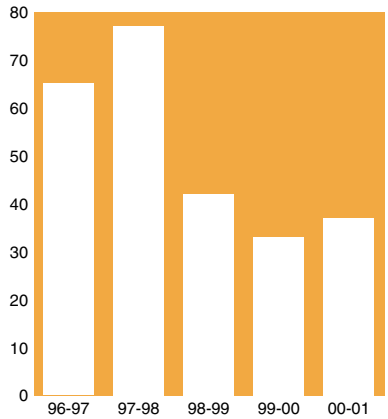
Lost time duration

Average days lost due to injury



Lost time injuries

Number of injuries



DPI FORESTRY HAS EFFECTED MAJOR IMPROVEMENTS IN WORKFORCE PLANNING, PAYROLL SOFTWARE, OVERTIME PROCESSES, AND TIME DATA ADMINISTRATION

Formerly, overtime calculation was protracted, particularly when multiple overtime claims were generated by employees engaged in extraordinary work conditions, such as fighting forest fires. The overtime calculator, essentially a spreadsheet with specific built-in "filters", was provided to all wages employees (salaried employees are not affected) enabling them to answer a series of questions as they enter overtime data, with each question narrowing the amount of further data to be entered. Initially, the overtime calculator was used solely for fire-fighting teams. However, it was so effective at streamlining administration that it was adopted for wages staff throughout the organisation.

The administration of wage payments was also streamlined through a time data administration manual to ensure DPI Forestry employee timesheets are captured consistently across the state. Timesheet details are entered into DPI Forestry's SAP software programs (through an intermediary program called Cross-Application Time Sheet, or CATS) for wage calculation purposes.

Almost all DPI Forestry wages staff are based in regional and rural centres and the administration of CATS is handled through the organisation's Rockhampton office, with data fed to that office from all other centres. The new manual has already helped reduce delays that previously occurred in calculating wage employee entitlements.

Training and skills development

In early 2001 the Australian National Training Authority approved a national training package in forest growing and management. The package helps trainees by enabling their qualifications to be recognised nationally and helps DPI Forestry workplace assessors by providing a national standard as a benchmark. DPI Forestry recently committed itself to providing additional traineeships in forest growing and management, and in horticulture.

DPI Forestry staff also have year-round access to workplace training and skills development to ensure multi-skilling and versatility. To help staff achieve their potential, the Department of Primary Industries study and research assistance scheme (SARAS) supported nine DPI Forestry salary employees with their chosen study programs. (SARAS provides financial assistance and assistance with leave and other arrangements.) These study programs ranged from diplomas to PhDs.

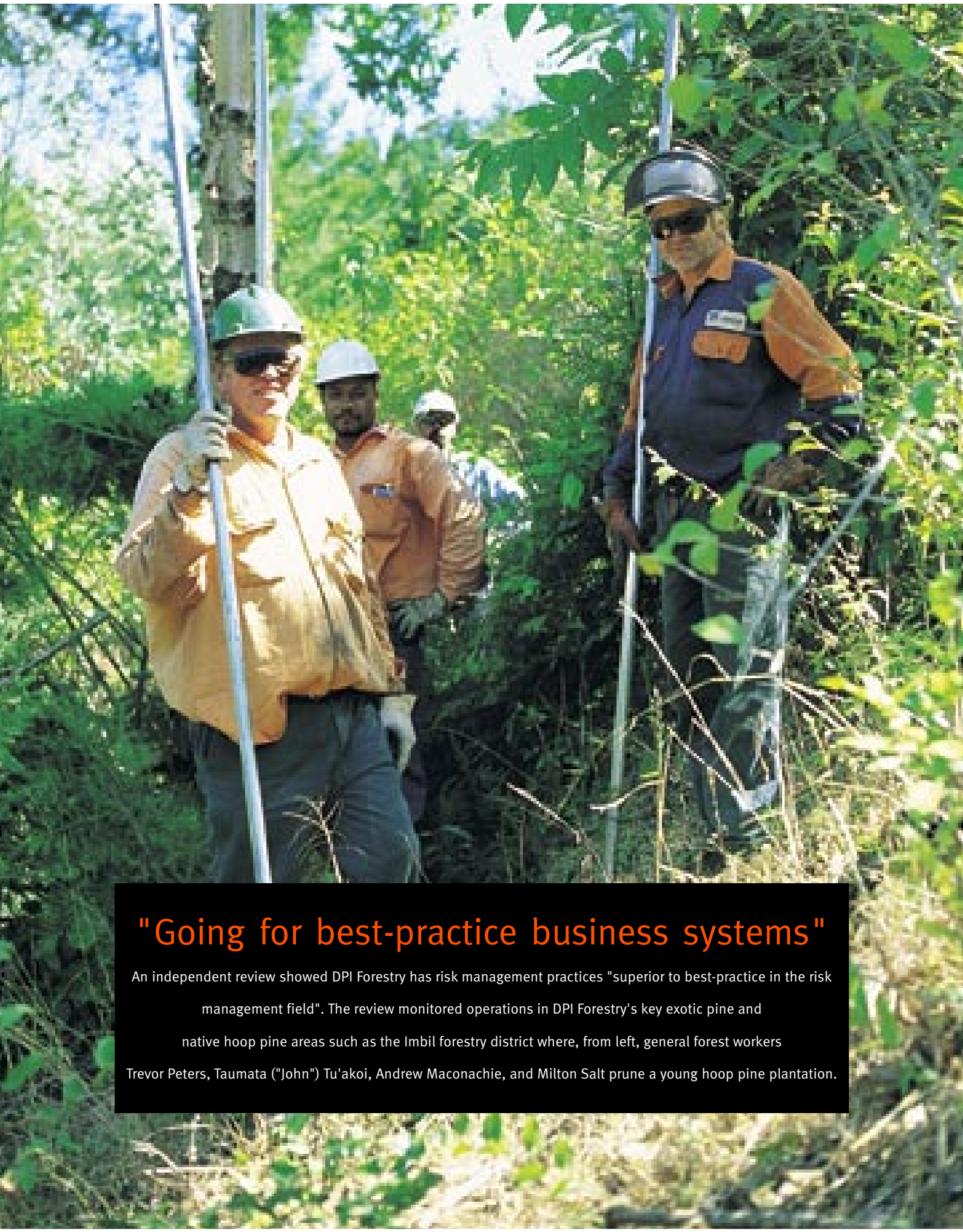
Wages employees have access to similar benefits through DPI Forestry's study assistance for wages employees program (SAWS), which was developed during 1999-2000. In this, its second year of operation, SAWS helped two wages employees with their study programs.

Staff awards

After almost 32 years as a carpenter with DPI Forestry, Ernie Rowe was recognised in January 2001 with an Australia Day Achievement Medallion. Ernie joined the then Queensland Forestry Department in 1969 and, for more than 20 years, was based in Gympie, where he was responsible for general building construction and maintenance. In 1990, he was promoted to tower carpenter and now looks after the inspection and maintenance of DPI Forestry fire towers, construction and maintenance of communication infrastructure, and general building maintenance at Gympie, Toolara, and Tuan.

DPI Forestry's executive officer, Erwin Epp, received a merit award from the Department of Primary Industries in November 2000. Presented as part of the department's annual Client Service Awards, it recognised Erwin's contribution to sustainable food and fibre industry development through his lead in bringing DPI Forestry's environmental management system to a stage at which in 1999 it received independent environmental certification to international standard AS/NZS ISO 14001.

The award also recognised the wider input and commitment of DPI Forestry staff in implementing and applying the environmental system, to improving environmental and quality management, and to providing support to industry in marketing its products as coming from environmentally sustainable forests.



"Going for best-practice business systems"

An independent review showed DPI Forestry has risk management practices "superior to best-practice in the risk management field". The review monitored operations in DPI Forestry's key exotic pine and native hoop pine areas such as the Imbil forestry district where, from left, general forest workers Trevor Peters, Taumata ("John") Tu'akoi, Andrew Maconachie, and Milton Salt prune a young hoop pine plantation.

Business systems

Goal

Develop business systems that effectively and efficiently support business goals and strategies

Key performance targets

- *Develop and implement reporting procedures in accordance with the new Australian Accounting Standard on Self-Generating and Regenerating Assets (AAS35)*
- *Enhance operations through best-practice systems and initiatives*

Results

- *AAS35 adopted from 1 July 2000*
- *Independent audit finds DPI Forestry risk management systems and processes meet best practice*

Australian Accounting Standard 35

With the introduction of Australian Accounting Standard 35 (AAS35) from 1 July 2000, DPI Forestry changed the way it determined its revenue and valued its standing timber, and, therefore, the way it reported its yearly performance. The standard was introduced in close consultation with the Queensland Audit Office and Queensland Treasury.

AAS35 deals with self-generating and regenerating assets (known as SGARAs), which include plantation and native forest timber, although for accounting purposes, DPI Forestry has recognised only plantation timber. The standard attempts to more correctly account for SGARAs by identifying the yearly growth of these assets as revenue. This is a substantial change for DPI Forestry, which previously counted timber sales as revenue and dealt with the timber valuation increment in its balance sheet.

Before 1 July 2000 DPI Forestry also accounted for its trees on a "net realisable value basis", a methodology that calculated the timber's value as if it was all harvested at 30 June in the year reported. AAS35, however, provides new valuation methodologies for SGARAs, including net present value (NPV) of future cash flows.

DPI Forestry has chosen the NPV methodology as it more correctly sees the organisation's business as an "on-going concern", providing its product – timber – over time to meet supply and demand.

Because plantation revenue now reflects the increase in the net present value of plantations over the financial year, the profit figure for 2000-2001 of $38.5 million includes substantial unrealised revenue of about $30.3 million. To allow comparison of results with previous years, this yearbook also shows financial results for the year using previous accounting protocols (see "Performance summary", page 5).

Plantation project officer Ian Grayson (left) and general forest worker (Beerburrum) Mick Gorry at the 2001 Boonooroo fire exercise.

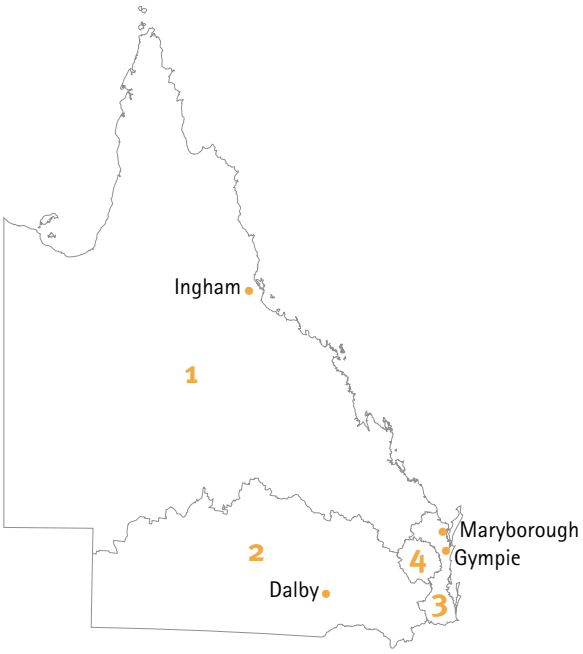
Risk management review

During 2000-2001 a major review of DPI Forestry's risk management program was conducted by external auditors Queensland Risk Management Consultants Pty Ltd. The review cited DPI Forestry as having practices "superior to best practice in the risk management field" and congratulated the organisation on having "a risk management culture at all levels".

The review was conducted to ensure DPI Forestry met all Queensland Audit Office corporate governance expectations for risk management. It also sought to determine whether DPI Forestry's risk management manual fully complied with the relevant standard, AS/NZS 4360:1999, and whether the organisation's risk management program was comparable to those in the private sector.

The review also examined opportunities for integrating DPI Forestry's environmental management program with its workplace health and safety program. As part of the review, the consultants audited operations within DPI Forestry's corporate offices in Brisbane and in its Beerburrum and Imbil regions, which are, respectively, key exotic pine and native hoop pine production centres.

DPI FORESTRY'S OPERATIONAL EFFICIENCY AND COMMERCIAL ACCOUNTABILITY ARE ENHANCED THROUGH A NEW FOUR-REGION STRUCTURE



DPI Forestry regions

1 North Region
2 South West Region
3 South East Exotic Region
4 South East Hoop Region
• Regional offices

The organisation's hardwood plantation program was reviewed as were its marketing, executive services, planning and policy, information management, human resource, and finance functions.

The consultant's report, delivered in June 2001, concluded that DPI Forestry fully complied with Queensland Audit Office expectations and met all requirements of the AS/NZS 4360:1999 standard. The consultant's audit also compared DPI Forestry's performance with nine major private sector companies and concluded that the organisation was "at least equal, and in many respects superior, to best practice in the risk management field".

They said that only "limited" opportunities existed for further integration of DPI Forestry's environmental management program with its workplace health and safety program, and recommended only minor amendments to DPI Forestry's risk management processes. The report concluded that DPI Forestry had "a high level of commitment to the risk management process" and that a "risk management culture clearly exists at all levels" in the organisation.

Change to a four region structure

DPI Forestry's commercial accountability and operational efficiency were strengthened through a new four-region structure in lieu of the former six regions. Taking effect from August 2001, the new regions and their headquarters are: South East Exotic (Maryborough, initially, then Gympie in four to six years); South East Hoop (Gympie); South West (Dalby); and North (Ingham).
The formation of the new South East Hoop Region also involved relocating the regional forestry office from Imbil to Gympie and the Amamoor forestry office to Imbil.

The new regional structure has a stronger alignment with DPI Forestry's major timber products, and will enhance coordination with and responsiveness to timber industry customers while helping to streamline operational procedures and costs.

In changing to the new structure, DPI Forestry consulted extensively with key stakeholders, including staff, industry, and local communities. This communication highlighted the low-impact nature of the changes for staff and local communities. No existing forestry offices are being closed and no existing positions will be lost at any centre, although the roles and responsibilities of some positions will change.

South-east Queensland sawlog allocation policy

Within the next few years, exotic pine final crop sawlog supply in south-east Queensland should increase from about 700,000 to more than 1.16 million cubic metres a year. This expansion in supply will enable a major upgrading of Hyne & Son's sawmill at Maryborough, ensure the future of Weyerhaeuser's sawmill at Caboolture, and provide incentives for establishing significant new areas of exotic pine plantations in south-east Queensland.

This major expansion has been made possible by a new policy governing the allocation of state-owned exotic pine plantation timbers in south-east and central Queensland approved by State Cabinet in December 2000.

The policy resulted from a whole-of-government approach, involving the Department of Primary Industries, the Department of State Development, and Queensland Treasury. It was predicated on six principles: equity between customers, security of resource, use of the market to determine the value of the resource, transparency, market access for new players, and flexibility to cope with the evolving exotic sawlog market.

In line with these principles, the policy provides an option for existing DPI Forestry customers to take up new sale agreements for a similar volume as their existing entitlements for a term of up to 15 years. The first of these 15-year agreements was signed with major customer Hyne & Son on 1 July 2001.

The policy also introduces an innovative process known as "fibre substitution", which encourages pulpwood purchasers to use wood fibre, a by-product of sawmilling (along with final crop harvesting residues), as a substitute for plantation pulp log supplies. This allows DPI Forestry to supply increased volumes of final crop sawlog to other processors.

The signing of a pioneering agreement between DPI Forestry and Hyne & Son (Maryborough) and Laminex Industries (Gympie) in July 2001 represented the first of the "fibre substitution" arrangements provided for in the new sawlog allocation policy. It will see Laminex Industries reduce its entitlement to thinnings resources to produce its medium density fibreboard products. It will access, instead, sawmill waste from Hyne & Son. Meanwhile, Hyne & Son gains the security of a 15-year exotic pine allocation agreement (10 years fixed, with potential for a 5-year extension), with extra final crop resource being provided in part through thinnings relinquished by Laminex Industries.

While long-term agreements are not new to the forest industry in Australia, the concept of "fibre substitution", using sawmill waste instead of plantation thinnings to allow the sale of further sawlog, is understood to be an entirely new concept. This approach will result in a greater number of trees growing to maturity and sawmill waste being turned into high-quality reconstituted timber products.

In addition to delivering major benefits to industry and the environment, the new policy is expected to enhance DPI Forestry's business performance in the medium term through significantly increased sales of sawlog. To enable an orderly transition to the new arrangements, DPI Forestry will progressively implement the policy during 2001-2002 and beyond.

Forest harvesting safety policy

In February 2000 a new *Forest Harvesting Industry Code Of Practice* was released. It was compiled by the timber industry, the Department of Industrial Relations' Workplace Health and Safety division, DPI Forestry and other Queensland Government departments, the Forest Industries Training Advisory Body, and the Australian Workers Union. The code sets out measures to prevent injury to people engaged in all work associated with harvesting and transporting forest products, including visitors to harvesting areas.

DPI Forestry meets its commitment to national forest management principles and the Workplace Health and Safety Act through its harvesting safety policy. In response to the new *Forest Harvesting Industry Code Of Practice*, this policy was revised during 2001. The new policy will be communicated to industry for implementation statewide from 2002. The Department of Industrial Relations' Workplace Health and Safety division is planning to conduct compliance audits of timber harvesting operations throughout 2001-2002 and beyond.

A PIONEERING "FIBRE SUBSTITUTION" AGREEMENT WILL BENEFIT THE ENVIRONMENT AND ENHANCE DPI FORESTRY'S BUSINESS PERFORMANCE

Queensland Police Crime Stoppers' Sgt Marie Grant (left), general forest worker (Beerburrum) Mick Gorry (centre), and forest ranger (Beerburrum) Russell Jack erect Crime Stoppers signs in the Beerburrum State Forest.

Arson initiative

DPI Forestry's $900 million forest plantations face considerable risk each fire season, with arson being a major problem, particularly in the state's heavily-populated south-east. In this region an average of 10 arsonist-lit fires occurs each month. In January 2001 DPI Forestry joined with the Queensland Police Service's Crime Stoppers unit to target arson in forest plantations at Beerburrum and Maryborough.

To minimise losses caused by arson attacks, specially designed signs asking the public to report suspicious activities in state forests and plantations were erected in both centres; and the public was offered a $1000 reward for any information that led to an arrest.

Recent statistics from DPI Forestry's Beerburrum operations indicate that the initiative has paid dividends, with a more than 50 percent reduction in the number of fires being deliberately lit and a 50 percent reduction in the number of cars being burned in the region's state forests. By the time of printing, police had interviewed a small number of arson suspects, although no arrests had been made.

Financial risk management

As part of its financial risk management program, during 2000-2001 DPI Forestry comprehensively reviewed the potential natural risks to its softwood plantation assets.
As part of this review, opportunities to transfer risk associated with wildfire and other catastrophic events through insurance were examined.
The findings of this report are currently under discussion with Queensland Treasury, and a commercial risk management strategy for these assets is to be agreed during 2002.

Information systems

Consistent with a key thrust of DPI Forestry's *Information Strategy 2001-2003*, which was revised during the year, DPI Forestry started projects to expand and link electronic business systems and processes across the organisation. A key input to this process is an information mapping project, initiated during 2000-2001. It aims to identify all existing information systems (electronic or manual) throughout DPI Forestry so that corporate information resources can be determined and associated information management policies and system enhancements developed.

Parallel with this, DPI Forestry is undertaking a major intranet redevelopment project as a continuous improvement initiative under its enterprise agreement. DPI Forestry's existing intranet, known as FORWEB, was developed in 1997 to deliver information electronically to staff, and it has proved to be a valuable and increasingly used information resource.

Forest ranger-in-charge Kent Mapes with F1 hybrid pine seedlings for planting at Byfield. As part of its financial risk management program, DPI Forestry has reviewed the potential natural risks to its softwood plantations.

The intranet redevelopment initiative seeks to build on this by dramatically improving staff access to electronic information with dynamic delivery of content to suit individual users. Underpinning this will be a data model able to link with and synthesise information from DPI Forestry systems and databases across the state, facilitating increased electronic processing of business transactions.

Implementing core elements of the intranet redevelopment project is a key 2001-2002 priority.

At the same time, DPI Forestry began a project to re-engineer its corporate records systems to better meet business needs and to accommodate increasing electronic business communication and transactions.

BUSINESS SYSTEMS WILL CONTINUE TO BE ENHANCED THROUGH THE CONTINUOUS IMPROVEMENT PROGRAMS CONTAINED IN DPI FORESTRY'S ENTERPRISE AGREEMENT

Key tasks include identifying corporate records, establishing management policies for these records, reviewing the classification and indexing system, acquiring new software and supporting hardware, and systems implementation. Core elements of the new system will be developed and implemented during 2002.

Other business system improvements involving electronic data transfer implemented during the year included:

- automating data capture and uploading native forest plot information into the organisation's forest sales and marketing information system (FSMIS), negating the need for manual data entry
- uploading plantation data from mill scanners into FSMIS, reducing manual data entry of sales dockets by regional sales administration officers, and
- uploading weight-scale data from mill weighbridges into FSMIS, reducing manual data entry of weight-scale dockets by regional sales administration officers.

Business systems improvement will proceed in 2001-2002 through a continuous improvement program, developed in accordance with DPI Forestry's enterprise agreement. With guidance from DPI Forestry's single bargaining unit, comprising union and management representatives, five continuous improvement initiatives were developed for staff to implement. These initiatives deal with enhancement of environmental outcomes, workplace health and safety, reducing barriers to productivity, improving internal communication, and better using intranet-based information. Specific objectives, strategies, "action agendas", and performance targets were set for each initiative. All DPI Forestry staff are eligible for six monthly bonus payments of up to $150 for satisfactory performance against these targets. (More detail on EB3 is provided in "Workforce development", see pages 37-39.)

Goods and Services Tax

As with most commercial organisations, DPI Forestry had to modify its internal processes to accommodate the Australia-wide introduction of the Goods and Services Tax. This was done successfully. DPI Forestry previewed its anticipated cost savings from eliminating the wholesale sales tax (WST) from 1 July 2000, consulting with the Australian Competition and Consumer Commission on the relevant provisions of the Trade Practices Act. Cost savings associated with the removal of the WST were about 1.1 percent, and these were passed on in full to customers from 1 July 2000.

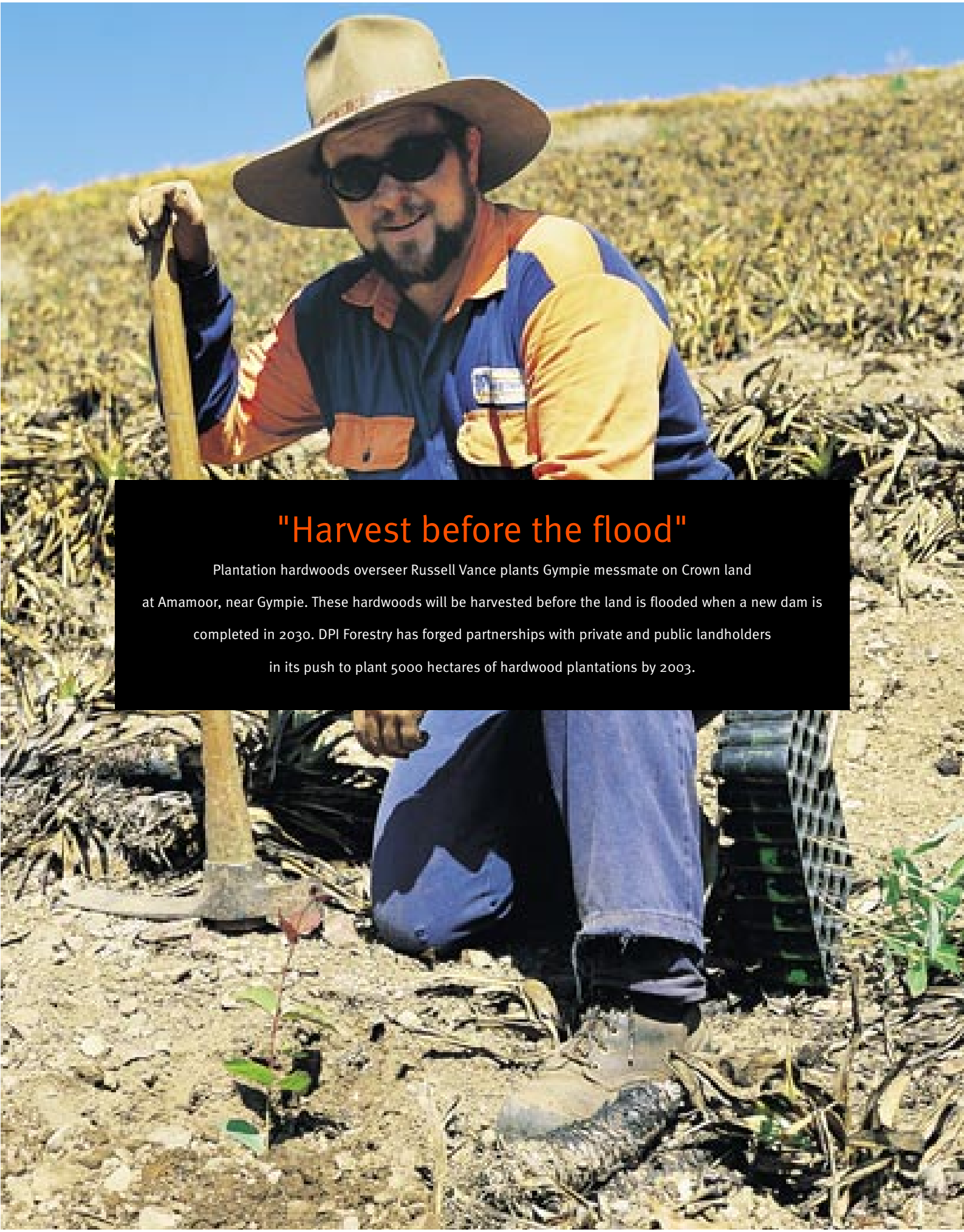
Nursery innovation

DPI Forestry staff's creativity and expertise in building a nursery buggy, for collecting and setting cuttings in open nursery beds, have received international recognition and accolades. Built at DPI Forestry's Gympie workshop, the buggy reduces the physical discomfort of manually collecting and setting cuttings: discomfort caused by employees stooping to work in all types of weather conditions.

Representatives of the Boise Cascade forestry organisation from Louisiana, USA, who are involved in a consultancy project with DPI Forestry, were impressed with the design and useability of the buggies during a visit in late 2000, and expressed interest in taking them back to the United States. Three buggies were then built and, in February 2001, shipped to Louisiana. Feedback is that Boise Cascade staff are impressed with their new equipment and have commented on "the exceptionally high quality of their construction and ease of assembly".

Through the organisation's international contacts, DPI Forestry's nursery buggies are generating further interest in other parts of the United States and in New Zealand and Europe.

Toolara nursery overseer Lyn Bradley with an early version of the nursery buggy that has created significant overseas interest.



"Harvest before the flood"

Plantation hardwoods overseer Russell Vance plants Gympie messmate on Crown land at Amamoor, near Gympie. These hardwoods will be harvested before the land is flooded when a new dam is completed in 2030. DPI Forestry has forged partnerships with private and public landholders in its push to plant 5000 hectares of hardwood plantations by 2003.

DPI Forestry financial statements

for the financial year ended 30 June 2001

Disclaimer

DPI Forestry

Statement of financial performance

for the financial year ended 30 June 2001

	* Notes	2001 $'000	2000 $'000
Revenues from ordinary activities			
Net increment in valuation of plantation timber	3 (a)(i)	88,710	-
Sale of plantation timber		-	64,394
Forest product sales - non-plantation timber	3 (b)	11,323	11,958
Specialised forest industry services		4,508	8,973
Quarry materials		2,723	2,997
External workshop charges		889	812
Other revenue	3 (c)	3,271	5,066
Total revenues from ordinary activities		**111,424**	**94,200**
Expenses from ordinary activities excluding borrowing costs expense			
Salaries, wages, and related costs		26,767	31,815
Contracted forestry, professional, technical, and other services		16,706	11,249
Depreciation and amortisation		3,807	5,278
Hire of plant and equipment		2,523	2,147
Superannuation contributions		2,714	3,478
Provision for employee entitlements		2,093	2,621
Motor vehicle expenses		3,162	2,991
Occupancy costs		1,853	2,722
Forest maintenance expenses		3,107	1,653
Materials		1,907	1,995
Travel expenses		619	989
Workers' compensation costs		501	606
Postage, printing, and stationery		531	558
Computer operating expenses		190	229
Audit fees		134	146
Doubtful debts expense		(118)	(1)
Bad debts written off		67	15
Loss on disposals of non-current assets		931	168
Grants and subsidies		12	456
Other operating expenses		700	782
Total expenses from ordinary activities excluding borrowing costs expense		**68,206**	**69,897**
Borrowing costs expense	4	4,704	4,721
Profit from ordinary activities before income tax equivalents		**38,514**	**19,582**
Income tax equivalents relating to ordinary activities	5	-	-
Profit from ordinary activities after income tax equivalents	**15 (ii)**	**38,514**	**19,582**
Valuation increment - asset revaluation reserve	15 (iii)	50	148
Valuation increment - plantation growing timber revaluation reserve	15 (v)	-	31,665
Total valuation adjustments recognised directly in equity		**50**	**31,813**
Total changes in equity other than those resulting from transactions with owners as owners	**15 (vi)**	**38,564**	**51,395**

* This statement of financial performance should be read in conjunction with the accompanying notes.

DPI Forestry

Statement of financial position

as at 30 June 2001

	* Notes	2001 $'000	2000 $'000
Current assets			
Cash	6	16,133	18,221
Receivables	7	14,654	14,658
Inventories	8	2,706	3,175
Total current assets		**33,493**	**36,054**
Non-current assets			
Receivables	7	283	329
Property, plant, and equipment	9	40,651	68,364
Intangibles	10	89	102
Total non-current assets		**41,023**	**68,795**
Self generating and regenerating assets			
Plantation growing timber	11	897,761	1,012,617
Total assets		**972,277**	**1,117,466**
Current liabilities			
Payables	12	4,955	4,552
Provisions	14	6,779	13,623
Total current liabilities		**11,734**	**18,175**
Non-current liabilities			
Interest-bearing liabilities	13	76,420	76,420
Total non-current liabilities		**76,420**	**76,420**
Total liabilities		**88,154**	**94,595**
Net assets		**884,123**	**1,022,871**
Equity			
Capital	15 (i)	844,271	935,186
Retained profits	15 (ii)	9,065	4,662
Reserves			
- asset revaluation	15 (iii)	476	1,232
- plantation growing timber unrealised revenue	15 (iv)	30,311	-
- plantation growing timber tevaluation	15 (v)	-	81,791
Total equity	**15 (vi)**	**884,123**	**1,022,871**

* This statement of financial position should be read in conjunction with the accompanying notes.

DPI Forestry

Statement of cash flows

for the financial year ended 30 June 2001

	* Notes	2001 $'000	2000 $'000
Cash flows from operating activities			
Inflows:			
Receipts from customers		80,504	89,191
Interest received		1,139	435
Grants and subsidies received		23	1,305
GST input tax credits received		3,105	-
GST collected on sales		7,123	-
Outflows:			
Payments to suppliers and employees		62,830	63,921
Borrowing costs		4,723	3,703
Sales taxation equivalents paid		258	235
Grants and subsidies paid		12	675
GST paid on purchases		3,580	-
GST remitted to ATO		6,895	-
Net cash provided by (used in) operating activities	17	13,596	22,397
Cash flows from investing activities			
Inflows:			
Proceeds from sale of property, plant, and equipment		771	449
Outflows:			
Payments for property, plant, and equipment		6,455	6,830
Net cash provided by (used in) investing activities		(5,684)	(6,381)
Cash flows from financing activities			
Outflows:			
Dividends paid		10,000	4,633
Equity returned - long service leave		-	1,377
Net cash provided by (used in) financing activities		(10,000)	(6,010)
Net increase / (decrease) in cash held		(2,088)	10,006
Cash at the beginning of the financial year		18,221	8,215
Cash at the end of the financial year	6	16,133	18,221

* This statement of cash flows should be read in conjunction with the accompanying notes.

DPI Forestry Notes to and forming part of the financial statements

for the financial year ended 30 June 2001

1 Constitution

By Cabinet decision number 4637 dated 15 May 1995, the DPI Forest Service was restructured to operate as a commercial business group (DPI Forestry) from 1 July 1995. DPI Forestry is part of the Department of Primary Industries.

2 Statement of significant accounting policies

The significant accounting policies, which have been adopted in the preparation of these financial statements, are as follows:

2.1 Basis of preparation of the accounts

The financial statements are a general purpose financial report and have been prepared in accordance with applicable Australian Accounting Standards, the Financial Management Standard 1997 issued pursuant to the *Financial Administration and Audit Act 1977*, Statements of Accounting Concepts, Urgent Issues Group Abstracts, and other mandatory professional reporting requirements.

The accounts have been prepared on an accrual basis and except where stated otherwise, in accordance with the historical cost convention.
The accounting policies adopted are generally consistent with those of the previous year except principally in respect of self-generating and regenerating assets.

Further disclosure in respect of items affected by this policy change has been provided where appropriate.

2.2 Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectable debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable.
Bad debts are written-off as incurred. Settlement on trade debtors is within 30 days from the end of the month in which the sale is invoiced, while other receivables are net 30-day terms.

2.3 Payables

Creditors are recognised at the amount to be paid for the goods and services received.

2.4 Interest-bearing liabilities

Borrowings are recognised at the face value of the principal outstanding with interest being expensed as it accrues.
Borrowings are also disclosed at their fair market value in Note 13.

2.5 Inventories

Inventories are valued at lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- raw materials – purchase cost on a weighted average basis, and
- finished goods and work-in-progress – cost of direct material and labour and a proportion of overheads.

Change in accounting policy

Prior to 1 July 2000 nursery seedlings held for resale were reported as inventories. In terms of Australian Accounting Standard 35 “Self-Generating and Regenerating Assets”, which was implemented by DPI Forestry during the current financial year, nursery seedlings are now accounted for as a self generating and regenerating asset. Refer also to Note 2.13.

2.6 Acquisition of assets

Cost is used for the initial recording of all acquisitions of assets controlled by DPI Forestry. Assets acquired at no cost or for nominal considerations are recognised at their fair value at date of acquisition. Cost is determined as the value given as consideration plus costs incidental to the acquisition, including all other costs incurred in getting the assets ready for use, including architects’ fees and engineering design fees.

2.7 Property, plant, and equipment

All items of property, plant, and equipment with a cost or other value equal to or in excess of $1000, are capitalised in the year of acquisition. Items with a lesser value are expensed.

Change in accounting policy

As from 1 July 2000 the asset recognition threshold was increased from $500 to $1000. Assets with an original cost of less than $1000 were written out of the books as of that date and their written down value of $572,940 recognised as an expense in the statement of financial performance.

2.8 Intangibles

All intangible assets with a cost or value greater than $50,000 are recognised as assets, while items with a lesser value are expensed.
Each intangible asset is amortised over its estimated useful life.

2.9 Depreciation of property, plant, and equipment and amortisation of intangibles

Land, being an asset with an unlimited useful life, is not depreciated.

Depreciation on property, plant, and equipment is calculated on a straight-line basis so as to write-off the value of each depreciable asset, less its estimated residual value, progressively over its estimated useful life. Work-in-progress is not depreciated until it has reached service delivery capacity.

Where "complex" assets exist, the components of these assets are classified separately and depreciated over their respective useful lives.

Any expenditure that increases the originally assessed capacity or service potential of an asset is capitalised and the carrying value of the asset is depreciated over the remaining useful life of the asset.

The depreciable amount of improvements to or on a leasehold property is allocated progressively over the estimated useful lives of the improvements or the unexpired period of the lease, whichever is shorter.

For each class of depreciable asset the following estimated useful lives were used:

Asset class:	Average estimated useful life (years)
Land improvements	18
Buildings	22
Access roads	25
Leasehold improvements	10
Plant and equipment	6

Intangibles:	Average amortisation period (years)
Software	7.5

2.10 Revaluations of non-current physical assets

All non-current physical assets are valued on the deprival basis in accordance with the Financial Management Standard and Queensland Treasury's guidelines "Recording and Valuation of Non-Current Physical Assets in the Queensland Public Sector".

Under this concept, assets are valued at an amount that represents the loss that might be expected to be incurred if the department was deprived of the future economic benefits of the assets at the reporting date. It is contrasted to the financial or propriety approach that values an entity's assets on a net worth basis from the owners' perspective.

Non-current physical assets having an estimated value greater than the revaluation threshold for the relevant class and an estimated useful life of more than three years are required to be revalued. A comprehensive revaluation of non-current physical assets is performed at five-year intervals with interim revaluations, using suitable indices, being otherwise performed on an annual basis.

DPI Forestry has adopted the departmentally established revaluation thresholds by class of assets as follows:

Asset class:	$
Land	200,000
Land improvements	700,000
Buildings	100,000
Access roads	1,000,000
Plant and equipment	1,000,000

An election has been made to continue to use deprival value as the basis of valuation until 30 June 2001. However, from 1 July 2001 some non-current physical assets will be revalued using fair value principles in accordance with AAS38 "Revaluation of Non-Current Assets".

DPI FORESTRY'S PLANTATION GROWING TIMBER RESOURCES COMPRISE MAINLY EXOTIC AND NATIVE PINE SPECIES DISTRIBUTED ALONG QUEENSLAND'S EASTERN SEABOARD

In accordance with Queensland Treasury's guidelines "Non-Current Asset Accounting Guidelines for the Queensland Public Sector", all classes of assets other than land, buildings, infrastructure and heritage, and cultural assets will be recorded on a cost basis, at the carrying amount of the asset as at 30 June 2001.

2.11 Leases

A distinction is made in the financial statements between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership, and operating leases under which the lessor retains substantially all risks and benefits.

Where a non-current physical asset is acquired by means of a finance lease, the asset is recognised at an amount equal to the present value of the minimum lease payments. The liability is recognised at the same amount. Lease payments are allocated between the principal component and the interest expense.

Operating lease payments are representative of the pattern of benefits derived from the leased assets and, accordingly, are charged to the statement of financial performance in the periods in which they are incurred.

2.12 Library assets

Purchases of library materials are expensed as incurred.

2.13 Self-generating and regenerating assets

Self-generating and regenerating assets (SGARAs) are defined as "non-human living assets" and DPI Forestry assets falling into this category consist mainly of plantation and native forest timber resources.

Change in accounting policy

With the adoption of Australian Accounting Standard (AAS) 35 "Self-Generating and Regenerating Assets" from 1 July 2000, DPI Forestry has adopted net market value (NMV) for the valuation of its assets under this category. NMV is the amount that could be expected to be received from the disposal of an asset in an active and liquid market after deducting the costs expected to be incurred in realising the proceeds of such a disposal. Previously plantation growing timber was valued at net realisable value and the change in methodology has resulted in a write-down at 1 July 2000 of $145,166,635 which has been adjusted against capital. Refer also Note 15(i).

As there is no observable active and liquid market for DPI Forestry's forest assets, DPI Forestry has, in accordance with the provisions of AAS35, adopted the net present value (NPV) methodology as the most appropriate alternative for estimating the net market value of its SGARAs.

A significant effect of using the NPV methodology is that certain costs previously capitalised and recognised as assets are now accounted for as cash outflows in determining the SGARA value and hence are now included as expenses in the statement of financial performance in the period incurred. The most significant of these items is minor roads which, immediately prior to the adoption of AAS35, had a written down value of $21,928,222. This amount was eliminated through an adjustment to capital. Refer notes 9 and 15(i).

Plantation growing timber

DPI Forestry's plantation growing timber resources are comprised principally of exotic and native pine species distributed along the eastern seaboard of Queensland with the majority located in south-east Queensland.

All current stands of plantation growing timber have been included in the valuation with the exception of:

- plantings of minor species that previous marketing experience suggests are likely to be unmerchantable or have a value which is considered to be unreliable
- areas subject to experimental treatments that previous marketing experience suggests are likely to be unmerchantable or have a value which is considered to be unreliable
- small, fragmented plantation areas likely to be unmerchantable or have a value that is considered to be unreliable, and
- hardwood plantations of merchantable and unmerchantable age that are immaterial to the valuation.

Native forests

DPI Forestry's asset in state-owned native forests is its right to harvest forest products from certain forest areas on a sustained yield basis in accordance with section 33(1) of the *Forestry Act 1959*. Current cash flows associated with these native forest products have been examined and on the basis of this information the net value of DPI Forestry's access rights are considered to be immaterial at this point in time.

Accordingly, the value of access rights to native forest products has not been recognised in the statement of financial position. This position will be re-assessed annually but is not expected to change.

Restrictions on native forest operations

As a consequence of the signing of the South East Queensland Forest Agreement (SEQFA), DPI Forestry has secure access to a defined quantity of wood from native forests in south-east Queensland (SEQ) for a period of 25 years expiring on 31/12/2024. All harvesting of native forests in SEQ will cease after this date.

Reliability of volumes and prices for cypress forest resources extends only for five years. Uncertainty in relation to future harvesting guidelines and limited resource information would restrict the reliability of any asset valuation undertaken.

A review process is currently proceeding to assess "Other Native Hardwood" resources in areas of south, central, and western Queensland to identify volume and supply issues associated with these resources and their locations.

Other self-generating and regenerating assets

The SGARA assets represented by tree seed orchards, tree hedges, and nursery seedlings have been assessed and, on the basis that these assets are not material in the context of financial reporting by DPI Forestry, they have not been recognised. This position will be re-assessed annually but is not expected to change.

Valuation of SGARAs

The NPV methodology.

NPV is calculated as the net of the future cash inflows and outflows associated with forest production activities discounted back to current values at the specified weighted average cost of capital.

Under the NPV methodology, valuation changes arise mainly from:

- changes in timber volume associated with growth and also changes to the overall estate as a result of annual planting and harvesting activity
- changes in timber prices
- changes in forest production costs, and
- changes in the discount rate used in the discounted cash flow calculation.

Assumptions underpinning the NPV calculation are:

- Forest valuations are based on the expected volumes of merchantable timber that will be realised from existing stands, given current management strategies and stand recovery rates.
- Only the current crop is valued. The cash flow analysis is based on the anticipated timing of the harvest of existing stands, which has been derived from harvest plans developed for the entire estate. These harvest plans incorporate estimated sale quantities by product (sawlog and pulp log) recognising potential and roll-over sale opportunities.
- The estimated cost of growing the existing stand until maturity is taken to account in determining the net cash flows.
- Prices used in the NPV calculation are based on current selling prices at balance date unless market intelligence indicates that such prices are not indicative of future trends. These prices are generally determined via a market-based "closed tender" process. In this regard the demand for log timber is derived from the demand for sawn timber. Factors that influence the prices paid for log timber over time include:
  - sawn timber prices, competitive product prices, and international timber prices

INDEPENDENT ANALYSIS FINDS DPI FORESTRY'S GROWTH AND YIELD MODELLING COMPONENTS TO BE "ROBUST, COMPLETE, COHERENT AND CONSISTENT, AND IN LINE WITH BEST PRACTICE"

- dwelling approvals, additions, and alterations
- housing loan interest rates, and
- average weekly earnings.

As the impact of these and other factors upon log prices in the future cannot be reliably determined, current prices have been used as the best estimation of future prices.

- Volume increments are determined both by periodic re-measurement of samples of plantations and by modelling growth from the date of the most recent measurement to the valuation date.
- Costs used in the NPV analysis are three-year rolling average actual costs for individual plantation operations, inflation adjusted to the current period. Three-year averages are used for costs to eliminate significant annual variations that arise as a consequence of:
  - changes in plantation topography, weed spectrums, and weather conditions, and
  - changes in the scale of various operations each year including pruning, tending, and thinning.

  Future movements in costs are influenced by a range of factors including efficiency improvements in DPI Forestry operations, changes in management regimes linked to market factors, and changes in wages and other input costs linked to general economic conditions.

  The impact of these factors cannot be reliably determined and hence it is assumed that current (three-year rolling average) costs are the best indicator of future costs.
- Notional costs, particularly imputed land usage charges relating to state-owned plantation land that DPI Forestry currently accesses at no charge (refer Note 2.15), have not been included in the calculation.
- All costs incurred in developing and managing the trees in forests are recognised as an expense when incurred except for the construction and upgrade of permanent multi-functional roads that are capitalised and reported separately from the SGARA.
- All prices and costs are expressed in current (constant dollar) terms. Real discount rates (net of inflation) are also employed in the analysis in conjunction with these constant dollar prices and costs. Such an approach effectively assumes that both prices and costs will rise over time in line with inflation.
- The discount rate used is based on the weighted average cost of capital formula in conjunction with the capital asset pricing model. The discount rate is expressed in real terms, before income tax, and has been set with reference to benchmarked forestry industry risk margins relative to overall market risk margins.

Source of valuation of SGARAs

The net market valuation (based on net present value) of the plantation growing timber has been prepared by appropriately qualified staff employed by DPI Forestry using advanced modelling techniques and methods. The net present value calculations utilised for the forest valuation are underpinned by a computerised plantation decision support system. The centrepiece of this decision support system is a linear programming model used by DPI Forestry to predict and control the level of wood removals and sales to industry. The functionality of the model has been progressively extended and refined over time via the addition of price and cost data to allow a range of economic and financial analyses to be conducted. This includes the calculation of the forest value using the net present value or discounted future cash flow concept.

The growth and yield modelling capability of the system has been reviewed by an independent expert [Dr. Gerry Leach, Dip. For., M.Sc., Ph.D. (1997)] who found the valuation system including the growth and yield modelling components to be "robust, complete, coherent and consistent, and in line with best practice". Results derived from the system are extensively tested on an on-going basis by appropriately qualified DPI Forestry personnel.

2.14 Reserving policy for unrealised revenue

DPI Forestry revalues its plantation growing timber annually and recognises the change in net present value as revenue or an expense in the statement of financial performance in accordance with the treatment required in AAS35 "Self-Generating and Regenerating Assets". A reserve account has been created to isolate unrealised revenue within the equity account. Unrealised revenue is transferred to the plantation growing timber unrealised revenue reserve until the revenue is realised (through timber sales) and becomes available for distribution. The reserve is adjusted annually for the net movement in unrealised revenue and the realisation of prior periods' revenue through current year sales.

2.15 Land

DPI Forestry carries out its forestry establishment, management, and marketing operations principally on Crown land allocated for forest production purposes by the Department of Natural Resources and Mines (NR&M). While NR&M retains control over this land, DPI Forestry is granted access free of charge to carry out its operations in accordance with the *Forestry Act 1959*.

Only land controlled by DPI Forestry has been recognised as an asset in the statement of financial position. This land includes specified freehold and Crown land parcels held for operational purposes.

2.16 Quarries

DPI Forestry obtains royalties from quarry operators for the extraction of quarry materials located on Crown land and identified freehold land. Revenues are brought to account when received and any expenditure when incurred. The extent of quarry resources has not been quantified and accordingly a value for these assets has not been included in the accounts.

2.17 Employee entitlements

Wages, salaries, annual leave, and sick leave

Liabilities for wages, salaries, and annual leave are recognised in the statement of financial position and are measured as the amount unpaid at reporting date in respect of all employees' services, and include on-costs.

Sick leave is non-vesting and is expensed when incurred.

Long service leave

In 1999-2000 a new centralised long service leave scheme administered by the Government Superannuation Office became operative whereby a levy is made on DPI Forestry to cover this expense and amounts paid to employees for long service leave are claimed from the scheme as a reimbursement. Accordingly, a provision for long service leave is no longer recognised.

Superannuation

Employer contributions for superannuation expenses are determined by the State Actuary. No liability is recognised for accruing superannuation benefits as the liability is held on a whole-of-government basis and reported in the whole-of-government financial statements prepared in terms of AAS31 "Financial Reporting by Governments".

2.18 Research and development

Research and development costs are expensed as incurred. Research and development costs will only be deferred to the extent that future benefits are expected, beyond any reasonable doubt, to equal or exceed those costs, any previously deferred costs, and any future costs necessary to give rise to the future benefits.

2.19 Taxation

DPI Forestry as a commercialised business unit is subject to the payment of income tax equivalents in accordance with the requirements of the Queensland tax equivalents regime.

Pursuant to Australian Accounting Standard AAS3 "Income Taxes", income tax equivalent expense is calculated on the operating profit in the statement of financial performance after adjusting for permanent differences.

DPI FORESTRY HAS A FINANCIAL INTEREST IN A NUMBER OF JOINT-VENTURES INVOLVING THE PRODUCTION OF SELF-GENERATING AND REGENERATING ASSETS

The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward as a future tax equivalent benefit or a provision for deferred tax equivalent.

Future tax equivalent benefits are not brought to account unless realisation of the benefit is virtually certain.

No liability has been brought to account as a provision for deferred tax equivalents. Such liabilities are currently wholly offset by an excess of future tax equivalents benefits.

Details of DPI Forestry's tax position are disclosed at Note 5.

2.20 Insurance

In accordance with government policy operative throughout the reporting period, DPI Forestry's assets are not insured. Workers' compensation premiums are paid to Workcover Queensland.

2.21 Financial reporting by segments

DPI Forestry operates principally in the forestry industry within Queensland.

2.22 Interests in joint-ventures

DPI Forestry currently has a financial interest in a number of joint-ventures involving the production of self-generating and regenerating assets (SGARAs).

Contributions by DPI Forestry towards the SGARAs are expensed as incurred in line with DPI Forestry's SGARA asset accounting policy (refer Note 2.13). The assets embodied in DPI Forestry's share of the joint-venture outputs have been assessed and, on the basis that these assets are not material, have not been recognised in the statement of financial position. This position will be re-assessed annually.

Details of DPI Forestry's interests are disclosed at Note 19.

2.23 Non-reciprocal transfers of assets and liabilities

Change in accounting policy

Non-reciprocal transfers of assets and liabilities between wholly-owned Queensland public sector entities are accounted for as adjustments to capital in accordance with UIG Abstract 38 "Contributions by Owners Made to Wholly Owned Public Sector Entities". Such transfers were accounted for as items of revenue and expenses in prior reporting periods.

As the foregoing represents a change in accounting policy arising from the initial adoption of an urgent issues group consensus view, the cumulative financial effect of the change as if the new accounting policy had always been applied, has not been calculated.

2.24 Deposits held in trust

Security, tender, and other deposits administered by DPI Forestry in a trust capacity are not recognised in the financial statements but are disclosed for information purposes in Note 22.

2.25 Comparative figures

Where necessary and practicable, comparative figures have been restated in order to comply with the current year's presentation of the accounts.

2.26 Rounding

Amounts included in the financial statements have been rounded to the nearest one thousand dollars unless specifically stated otherwise.

3 Revenue

		2001 $'000	2000 $'000
3(a)(i) Net increment in net market value of plantation timber recognised as revenue.			
Plantation timber	- native pine	26,435	
	- exotic pine	62,275	not
Net increment in valuation of plantation timber (1)		**88,710**	applicable
3(a)(ii) Proceeds from the disposal of plantation timber during the financial year at net market value.			for
Plantation timber	- native pine	21,379	1999-2000
	- exotic pine	37,020	
Total proceeds from disposal of plantation timber		**58,399**	
3(a)(iii) Unrealised revenue / (expense) transferred to the plantation growing timber unrealised revenue reserve		**30,311**	
3(b) Forest product sales - non-plantation timber			
Native forest timber	- cypress	3,990	3,558
	- hardwood	6,172	6,012
	- sandalwood	162	148
Other hardwood timber sales		125	183
Seeds and seedlings		1,090	1,149
Freehold selection timber		(216)	908
Total forest product sales - non-plantation timber		**11,323**	**11,958**
3(c) Other Revenue			
Fees and permits		163	171
Interest		1,229	621
External plant hire		414	329
Grants & subsidies		2	1,305
Fitout Forestry House (provided below fair value)		-	1,137
Other sundry revenue		1,463	1,503
Total other revenue		**3,271**	**5,066**

(1) The valuation increment for 1999-2000 was recognised directly in the Plantation Growing Timber Revaluation Reserve. Details regarding the physical quantities of plantation timber appears at Note 25.

4 Borrowing costs

	2001 $'000	2000 $'000
Borrowing costs comprised:		
Interest expense - QTC loan	4,322	4,339
Loan guarantee fee - QTC loan	382	382
Total borrowing costs	**4,704**	**4,721**

5 Income tax equivalents

	2001 $'000	2000 $'000
Operating profit	38,514	19,582
Prima facie tax equivalent expense - calculated at 34% (1999-2000, 36%) of operating profit	13,094	7,051
Tax effect of permanent differences:		
Acquired timber felled - Queensland income tax equivalents ruling 95/4	(13,664)	(12,912)
Revaluation of growing timber	(10,306)	-
Research and development concession	-	-
Entertainment - non-deductible	9	9
Depreciation - non-deductible	(5)	51
Capital gains tax	-	-
Other	2	50
Total tax equivalent benefit	**(10,870)**	**(5,751)**
Total income tax equivalent benefit comprises movements in:		
Net tax equivalent benefit	(11,472)	(6,589)
Provision for deferred tax equivalent	279	389
Future tax equivalent benefit	323	449
Total tax equivalent benefit	**(10,870)**	**(5,751)**

A future tax equivalent benefit related to carry forward losses has not been brought to account an asset of DPI Forestry, as realisation of the benefit cannot be regarded as being virtually certain.

These carry forward losses encompass the effect of the above permanent and timing differences. Accumulated future tax benefits attributable to tax losses carried forward as at 30 June 2001 are $51,564,171 (at 30%.)

These benefits will only be obtained if:

a) DPI Forestry derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised

b) DPI Forestry continues to comply with the conditions for deductibility imposed by the law, and

c) No changes in tax legislation adversely affect DPI Forestry in realising the benefit from the deductions for the losses.

6 Cash

	2001 $'000	2000 $'000
Cash on hand	29	34
Cash at bank	16,104	18,187
Total cash	**16,133**	**18,221**

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2001

7 Receivables

	2001 $'000	2000 $'000
Current		
Trade debtors	12,708	13,671
Freehold selection debtors (1)	196	167
	12,904	13,838
Less - provision for doubtful debts (1)	(5)	(123)
	12,899	13,715
Interest receivable	276	186
GST receivable	480	5
Other debtors	999	752
	14,654	14,658
Non-current		
Freehold selection debtors (1)	283	329
Total receivables	**14,937**	**14,987**

1) Freehold selection debtors arise where Crown land under lease is converted to freehold. Debtors represent the value of unpaid instalments due on the timber component of the property sold. Included in the total doubtful debt provision is an amount of $3,349 ($3,449, 1999-2000) for freehold selection debtors. The Department of Natural Resources and Mines manages the freehold selection debtors.

8 Inventories

Finished goods:		
Seeds and seedlings (1)	1,429	1,641
Work in progress		
Seedlings (1)	-	113
Raw materials and stores:		
Saleable publications	-	171
Miscellaneous	1,277	1,250
	1,277	1,421
Total inventories	**2,706**	**3,175**

1) Upon the adoption of new accounting standard AAS35, nursery seedlings are now treated as SGARAs and are no longer accounted for as inventories. This resulted in a write-down of inventories to the value of $146,478 at 1 July 2000. In 1999-2000 a nursery seedlings amount of $145,997 was included in the finished goods and work in progress inventory accounts. See Note 2.5.

9 Property, plant, and equipment

	001 $'000	2000 $'000
Land		
At cost	2,717	660
At valuation (2)	4,048	4,220
	6,765	**4,880**
Buildings		
At cost	1,667	1,496
At valuation (2)	14,693	21,014
Accumulated depreciation	(5,195)	(6,137)
	11,165	**16,373**
Land improvements		
At cost	1,751	1,477
At valuation (2)	1,990	2,063
Accumulated depreciation	(1,236)	(1,141)
	2,505	**2,399**
Leasehold improvements		
At cost	644	644
Accumulated amortisation	(74)	(9)
	570	**635**
Access roads		
At cost	269	1,156
At valuation (2)	7,695	32,365
Accumulated depreciation	(1,486)	(5,947)
	6,478	**27,574**
Plant and equipment (1)		
At cost	20,741	22,842
At valuation	5,629	7,511
Accumulated depreciation	(13,771)	(15,769)
	12,599	**14,584**
Capital works in progress		
At cost	569	1,919
Total property, plant, and equipment		
At cost	28,358	30,194
At valuation	34,055	67,173
Accumulated depreciation	(21,762)	(29,003)
Total property, plant, and equipment – net book value	**40,651**	**68,364**

The adoption of AAS35 has resulted in minor access roads no longer being reported under property, plant, and equipment (See Note 2.13 and Note 15(i)). This resulted in a net reduction in the value of access roads of $21,928,222.

Valuation of property, plant, and equipment

All property, plant, and equipment has been valued at deprival value in accordance with the Queensland Treasurer's guidelines entitled "Recording and Valuation of Non-Current Physical Assets in the Queensland Public Sector".

1) The following independent expert valuer revalued plant and equipment with an historical cost or current replacement cost over $50,000 as at 30 June 1997. Edward Rushton Australia Pty. Ltd.

2) Land, land improvements, access roads, and buildings with a historical cost or replacement value above the relevant revaluation threshold were revalued as at 30 June 2000 by the following independent expert valuers: Australian Valuation Office, R N Mullins, FAPI LLB.

Interim revaluations (by indexation) of assets above the established revaluation thresholds and with an estimated useful life of three years or more (refer notes 2.9 & 2.10) are considered annually based on the materiality of price movements in the reporting period.

	Notes	2001 $'000	2000 $'000
10 Intangibles			
Internal use software			
At management valuation		339	339
Accumulated amortisation		(250)	(237)
Total intangibles		**89**	**102**
11 Plantation growing timber			
Balance at the beginning of the financial year		1,012,617	980,952
Adjustment at 1 July 2000 upon adoption of new accounting standard AAS35 "Self-Generating and Regenerating Assets"	15(i)	(145,167)	-
Valuation increment / (decrement) net of plantation timber sales		30,311	31,665
Balance at the end of the financial year		**897,761**	**1,012,617**

On 1 July 2000, AAS35 "Self Generating and Regenerating Assets" was adopted by DPI Forestry for the first time and required the implementation of a new valuation methodology (net present value of cash flows). Details of this change in accounting policy including the key assumptions used in the asset valuation are outlined in Note 2.13.

12 Payables			
Current			
Trade creditors		420	724
Accrued interest, loan guarantee fee, and other costs of finance		1,460	1,463
Long service leave levy payable		93	113
Accrued staff related expenses		214	115
Tax payable	- payroll	114	166
	- sales	-	228
	- GST	808	2
Accrued expenses		595	645
Prepaid royalties, grants, and other revenue received in advance		202	775
Miscellaneous		1,049	321
Total payables		**4,955**	**4,552**

	Notes	2001 $'000	2000 $'000
13 Interest-bearing liabilities			
Non-current			
Queensland Treasury Corporation loan (1) - [market value as at 30 June $82.01m]		76,420	76,420
Total borrowings		**76,420**	**76,420**

1) No part of this loan has been reported as "current" as the loan is "interest only". After approval from the Treasurer the "interest only" terms have been extended a further year until 30 June 2002. The period of the loan has also been extended a year. Queensland Treasury Corporation provides the loan. The interest rate is 5.5%. The market value represents the value of the debt if DPI Forestry repaid the debt at 30 June 2001.

As DPI Forestry intends to hold the loan for its term, no provision has been made in these accounts for the margin between book and market value. Refer Note 4 for information relating to borrowing costs associated with this loan.

	Notes	2001 $'000	2000 $'000
14 Provisions			
Current			
Provision for dividend	16	3,814	10,000
Recreation leave		2,965	3,623
Total provisions		**6,779**	**13,623**

Aggregate employee entitlements for 2000-2001 amounted to $3,272,000 ($3,853,000, 1999-2000) being leave provisions at Note 14, accrued long service leave levies, and staff related expenses at Note 12.

15 Changes in equity

	Notes	2001 $'000	2000 $'000
(i) Capital			
Balance at the beginning of the financial year		935,186	927,571
Adjustment at 1 July 2000 upon adoption of new accounting standard AAS35 - "Self-Generating and Regenerating Assets" (5)			
- Decrement in the value of the plantation growing timber	11	(145,167)	-
- Elimination of C & D class access roads	9	(21,928)	-
- Reclassification of nursery seedling inventory	8	(146)	-
- Transfers from reserves	15(iii),(v)	82,583	-
- Elimination of opening balance of provision for long service leave (1)		-	7,500
(Prior period) adjustment to non-current assets (2)		-	115
Non-reciprocal transfer of assets and liabilities (3)		(6,257)	-
Balance at the end of the financial year		**844,271**	**935,186**
(ii) Retained profits			
Balance at the beginning of the financial year		4,662	(5,639)
Net profit for the period (4)		38,514	19,582
Dividend provided for	14,16	(3,814)	(10,000)
Transfer from asset revaluation reserve		14	719
Unrealised revenue transferred to plantation growing timber Unrealised revenue reserve (4)	3(a)(iii)	(30,311)	-
Balance at the end of the financial year		**9,065**	**4,662**
(iii) Asset revaluation reserve			
Balance at the beginning of the financial year		1,232	1,803
Increment / (decrement) on revaluation			
- Land, land improvements, and buildings		50	228
- Plant and equipment		-	(80)
Transfer to capital upon adoption of new accounting standard AAS35 - "Self-Generating and Regenerating Assets" for access roads		(792)	-
Transfer to retained profits		(14)	(719)
Balance at the end of the financial year		**476**	**1,232**
(iv) Plantation growing timber unrealised revenue reserve			
Balance at the beginning of the financial year		-	-
Unrealised revenue transferred from retained profits (4)	3(a)(iii)	30,311	-
Balance at the end of the financial year		**30,311**	**-**
(v) Plantation growing timber revaluation reserve			
Balance at the beginning of the financial year		81,791	50,126
Transfer to capital upon adoption of new accounting standard AAS35 - "Self-Generating and Regenerating Assets"		(81,791)	-
Increment / (decrement) on revaluation of plantation growing timber		-	31,665
Balance at the end of the financial year		**-**	**81,791**

15 Changes in equity (continued)

	Notes	2001 $'000	2000 $'000
(vi) Total equity			
Balance at the beginning of the financial year		1,022,871	973,861
Changes in equity recognised in the statement of financial performance		38,564	51,395
Transactions with owners as owners			
- Adjustment on adoption of AAS35 (5)		(167,241)	-
- Non-reciprocal transfer of assets and liabilities (3)		(6,257)	-
- Dividends		(3,814)	(10,000)
- Elimination of opening balance of provision for long service leave (1)		-	7,500
- (Prior period) adjustment to non-current assets (2)		-	115
Balance at the end of the financial year		**884,123**	**1,022,871**

(1) Refer Note 2.17.

(2) Represents adjustments processed to correct asset balances taken up as at 1 July 1995 when DPI Forestry commenced operations as a commercial business group.

(3) On 1 July 2000 DPI Forestry undertook the non-reciprocal transfer of certain Queensland Forestry Research Institute assets and liabilities to the Agency for Food and Fibre Sciences (AFFS) within DPI. The net amount of this non-reciprocal transfer was $6,253,330. The remainder of the non-reciprocal amount represents annual leave balances transferred between government entities. Refer Note 2.23.

(4) The profit figure for the period contains the net increment in the value of standing timber in DPI Forestry's plantations. Under accounting standard AAS35, DPI Forestry must bring to account as revenue the increment in the value of its plantations regardless of whether the plantation timbers have been sold or not.

This treatment has given rise to the creation and use of the plantation growing timber unrealised revenue reserve, which sets aside the unrealised portion of the increment in plantation growing timber (refer Note 2.14). This unrealised revenue is not available for distribution. Calculation details of the unrealised revenue amount can be found at Note 3(a)(iii).

(5) Upon the adoption of AAS35 "Self-Generating and Regenerating Assets" on 1 July 2000 write-downs totalling $167.241 million were made to the asset valuations for plantation growing timber, nursery seedling inventories, and access roads.

Also, plantation growing timber valuation increments amounting to $81.791 million, previously accumulated in the plantation growing timber revaluation reserve, were cleared from the reserve. These valuation adjustments were made directly against capital rather than retained profits as required by AAS35. When DPI Forestry became a commercial business group on 1 July 1995 the value of its net assets was recorded as capital.

DPI Forestry management believes that it is more appropriate to adjust the revaluation decrement, arising from the adoption of AAS35, against capital as it effectively represents a capital reduction in the equity interest held by the State Government as owner of the forest estate.

	Notes	2001 $'000	2000 $'000
16 Dividend			
The dividend provided for is payable to the Queensland Government.	24(a)(ii)	3,814	10,000
17 Reconciliation of net cash provided by operating activities to profit after income tax equivalents			
Profit from ordinary activities after income tax equivalents		38,514	19,582
Non-cash items:			
Unrealised plantation growing timber revenue	3(a)(iii)	(30,311)	-
Depreciation and amortisation		3,807	5,278
Goods received below fair value		-	(1,078)
Liabilities transferred/(assumed)		-	(57)
(Gain)/loss on disposal of non-current assets		942	168
Changes in assets and liabilities:			
(Increase)/decrease in inventories		114	(459)
(Increase)/decrease in net receivables		8,187	(1,920)
(Increase)/decrease in GST input tax credits receivable		3,105	(5)
(Increase)/decrease in prepayments & other assets		38	99
Increase/(decrease) in employee provisions		51	(1,237)
Increase/(decrease) in unearned revenue		(573)	(198)
Increase/(decrease) in GST payable		(6,895)	2
Increase/(decrease) in creditors		(3,383)	2,222
Net cash provided by operating activities		**13,596**	**22,397**

Reconciliation of cash

For the purpose of the statement of cash flows, cash includes cash on hand and deposits at call that are readily convertible to cash and that are used in the day-to-day cash management function of DPI Forestry. Cash at the end of the reporting period as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as detailed in Note 6.

18 Financing facilities			
Standby arrangements to provide funds and support facilities			
Credit facility		3,000	3,000
Amount utilised		-	-
Unused credit facility		**3,000**	**3,000**

At 30 June 2001 a credit facility with the Queensland Treasury Corporation was in place with a limit of $3,000,000. This facility remained fully undrawn at balance date and is available for use in the next reporting period.

WOLLEMI AUSTRALIA PTY LTD WAS ESTABLISHED ON 28 MAY 2001

TO MANAGE THE PROPAGATION AND WORLDWIDE MARKETING OF THE WOLLEMI PINE

19 Interests in joint-ventures

DPI Forestry holds an interest in a number of joint-ventures (Refer Note 2.22). These currently fall into three categories, namely:

1. **Private forestry plantations ventures**

   Designed to establish commercially viable timber plantations on private and Crown lands. Contributions to these joint-ventures for 2000-2001 totalled $992,268 ($790,055, 1999-2000).

2. **Seed orchard venture**

   Designed to produce and sell improved tree seed from an orchard established for the purpose. Contributions to this joint-venture for 2000-2001 totalled $30,535 ($72,244, 1999-2000).

3. **Commercialisation of Wollemi pine**

   A joint-venture company (Wollemi Australia Pty Ltd) was established on 28 May 2001 to manage the propagation and worldwide marketing of the Wollemi pine under licence from the Royal Botanic Gardens in Sydney. The State of Queensland has a 50% interest in this company (1 share at $1) which will conduct its business primarily via sub-licensing arrangements. This company has not yet commenced trading.

- No output was derived from the joint-venture operations during 2000-2001 (nil, 1999-2000).
- Total contributions to joint-venture operations at 30 June 2001 were $3,298,842 ($2,298,825, 1999-2000). Of this amount $2,314,622 ($1,408,189, 1999-2000) has been provided from state funding external to DPI Forestry.

20 Contingent liabilities

DPI Forestry was self-insured for workers' compensation prior to 1 July 1995. There are no outstanding damages actions relating to this period. There remains one outstanding costs matter. Claims made by employees for injuries sustained on or after 1 July 1995 in the course of carrying out their employment duties are fully covered by insurance through Workcover Queensland.

There are two other matters relating to personal injury claims to non-employees and two breach of contract claims currently outstanding, to which DPI Forestry is a party.

The incidents giving rise to the above matters occurred prior to the end of the financial year.
The jurisdiction of all contingent liability matters is as follows:

Supreme Court	1
District Court	2
Other jurisdictions including anticipated matters	2

DPI Forestry's legal advisers and management believe that it would be misleading to estimate the final amounts payable, if any, in respect of the litigation filed in the courts.

21 Commitments for expenditure

Capital expenditure - plant and equipment payable within 1 year: $420,006 ($401,003, 1999-2000).

Grants and subsidies expenditure – milestone payments payable within 1 year: $nil ($45,000, 1999-2000).

22 Deposits held in trust

Security, tender, and other deposits are held by DPI Forestry in trust primarily as guarantees for performance under timber sales agreements and contracts. Deposits held as at 30 June 2001 amounted to $712,304 ($710,556, 30 June 2000).

These deposits are not recognised in the financial statements but are reported for information purposes. Transactions and balances relating to these deposits are subject to audit by the Auditor-General.

23 Number of employees

The number of employees at reporting date was 659. (807, 1999-2000).

This includes both full-time employees and part-time employees measured on a full-time equivalent basis.

24 Financial Instruments

24 (a) Terms, conditions, and accounting policies.

DPI Forestry's accounting policies including terms and conditions of each class of financial asset and financial liability are as follows:

(i) Financial assets

Recognised financial instruments	Statement of financial position notes	Accounting policies	Terms and conditions
Cash	6	Cash includes cash on hand, cash at bank, and deposits at call. Interest is included in other revenue.	Cash deposited with the Queensland Treasury Department earns interest at 5% calculated on daily balances. Overdraft balances attract a 9% penalty interest charge.
Receivables (trade debtors)	2.2 & 7	Trade debtors are carried at nominal amounts due less any provision for doubtful debts. A provision for doubtful debts is recognised when collection of the full nominal amount is no longer probable.	Trade sales require payment within 30 days from end of month in which a sale is invoiced. All trade debtors are secured by cash deposit or other financial guarantee.
Receivables (other than trade debtors)	2.2 & 7	Amounts (other than trade debtors) are carried at nominal amounts.	All other receivables are net 30 day terms except freeholding debtors which are generally of a longer term nature.

(ii) Financial liabilities

Recognised financial instruments	Statement of financial position notes	Accounting policies	Terms and conditions
Payables	2.3 & 12	Recognition – upon receipt of goods or services irrespective of whether an invoice has been received. Measurement – based on agreed purchase / contract price.	Trade liabilities are normally settled on 7-, 14-, or 30-day terms.
Interest-bearing liabilities	2.4 & 13	Loans are carried at book value. Interest is charged as an expense as it accrues.	Subsequent to Treasury approval the loan has been temporarily converted to an "interest-only" loan.
Dividend payable	14 & 16	Dividend payable is recognised when declared by DPI Forestry.	Dividends payable are declared at a negotiated percentage (currently 50%) of profit from ordinary activities after income tax equivalents and after adjustment for plantation timber valuation increments (net of sales.) [Note 3(a)(iii)]. Adjustment for a QFleet dividend allowance is also made. The dividend is payable to the Queensland Government.

24 (b) Interest rate risk.

Financial instruments	Floating rate		Fixed rate maturing in: 1 year or less		1 to 5 years		Greater than 5 years		Non-interest bearing		Total		Average rate: Fixed		Floating	
	2001 $'000	2000 $'000	2001 $'000	2000 $'000	2001 $'000	2000 $'000	2001 $'000	2000 $'000	2001 $'000	2000 $'000	2001 $'000	2000 $'000	2001 %	2000 %	2001 %	2000 %
Financial assets																
Cash	16,104	18,187	-	-	-	-	-	-	29	34	16,133	18,221	-	-	5.00	4.00
Receivables - trade debtors	-	-	-	-	-	-	-	-	12,706	13,551	12,706	13,551	-	-	-	-
Receivables (other than trade debtors)	-	-	-	-	-	-	-	-	2,231	1,436	2,231	1,436	-	-	-	-
Total financial assets	**16,104**	**18,187**	**-**	**-**	**-**	**-**	**-**	**-**	**14,966**	**15,021**	**31,070**	**33,208**	**-**	**-**	**-**	**-**
Financial liabilities																
Payables	-	-	-	-	-	-	-	-	4,955	4,552	4,955	4,552	-	-	-	-
Interest-bearing liabilities	-	-	-	-	29,524	20,563	46,896	55,857	-	-	76,420	76,420	5.52 *	5.52	-	-
Dividend payable	-	-	-	-	-	-	-	-	3,814	10,000	3,814	10,000	-	-	-	-
Total financial liabilities	**-**	**-**	**-**	**-**	**29,524**	**20,563**	**46,896**	**55,857**	**8,769**	**14,552**	**85,189**	**90,972**	**-**	**-**	**-**	**-**

* This rate represents the book rate applicable to an interest only borrowing.
The loan reverts to principal and interest on 1/7/2002, where an approximate book rate of 7.72% will apply.

24 (c) Net fair values.

Financial instruments	Total carrying amount as per the statement of financial position		Net fair value	
	2001 - $'000	2000 - $'000	2001 - $'000	2000 - $'000
Financial assets				
Cash	16,133	18,221	16,133	18,221
Receivables -trade debtors	12,706	13,551	12,706	13,551
Receivables (other than trade debtors)	2,231	1,436	2,231	1,436
Total financial assets	**31,070**	**33,208**	**31,070**	**33,208**
Financial liabilities				
Payables	4,955	4,552	4,955	4,552
QTC borrowings	76,420	76,420	82,010	78,314
Dividend payable	3,814	10,000	3,814	10,000
Total financial liabilities	**85,189**	**90,972**	**90,779**	**92,866**

The fair value of borrowings is the market value as advised by Queensland Treasury Corporation.

24 (d) Credit risk exposure.

DPI Forestry's maximum exposure to credit risk at balance date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the statement of financial position.
Credit risk in respect of trade debtors is managed in the following ways:

- payment within 30 days from end of month in which a sale is invoiced, and
- all trade debtors are secured by cash deposit or other financial guarantee.

25 Indicative physical quantities of plantation timber and net valuation increment recognised as revenue

	2001 ' 000 hectares	2001 ' 000 volume m^3	2001 $'000 net change in NMV	2000 ' 000 hectares	2000 ' 000 volume m^3	2000 $'000 net change in NMV
Plantation timber - native pine	43	22,957	26,435	43	22,185	na
- exotic pine	127	48,328	62,275	125	47,620	na
Total	**170**	**71,285**	**88,710**	**168**	**69,805**	**-**

Certificate of DPI Forestry

The foregoing financial statements have been prepared pursuant to the provisions of the *Financial Administration and Audit Act 1977* and other prescribed requirements. We certify that in our opinion:

(i) the prescribed requirements for the establishment and keeping of the accounts have been complied with in all material respects, and

(ii) the statements have been drawn up to present a true and fair view, in accordance with prescribed accounting standards, of the transactions of DPI Forestry for the financial year ended 30 June 2001 and of the financial position as at the end of that year.

13th September 2001

DR W A HOEY

Director-General

R BECK

Executive Director
(DPI Forestry)

Independent audit report

DPI Forestry

Scope

I have audited the general purpose financial statements of DPI Forestry for the year ended 30 June 2001 in terms of the provisions of the *Financial Administration and Audit Act 1977*. The financial statements comprise the statement of financial performance, statement of financial position, statement of cash flows, notes to and forming part of the financial statements, and certificates given by the Director-General and Executive Director (DPI Forestry).

DPI Forestry is responsible for the preparation and the form of presentation of the financial statements and the information they contain. I have audited the financial statements in order to express an opinion on them.

The audit has been conducted in accordance with QAO auditing standards, which incorporate Australian auditing standards to provide reasonable assurance as to whether the financial statements are free of material misstatement. Audit procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements and the evaluation of significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial statements are presented fairly in accordance with the prescribed requirements and prescribed accounting standards.

The audit opinion expressed in this report has been formed on the above basis.

Audit opinion

In accordance with the provisions of the Financial Administration and Audit Act I certify that:

(a) I have received all the information and explanations which I have required, and

(b) in my opinion:

(i) the prescribed requirements in respect of the establishment and keeping of accounts have been complied with in all material respects, and

(ii) the Statements have been drawn up so as to present a true and fair view, in accordance with the prescribed accounting standards, of the transactions of DPI Forestry for the financial year 1 July 2000 to 30 June 2001 and of the financial position as at the end of that year.

P G SHIPPERLEY

Assistant Auditor-General
(Delegate of the Auditor-General)

Queensland Audit Office
Brisbane

"Skyline snigging for sustainability"

The hilly terrain that supports DPI Forestry's productive native hoop pine plantations also brings innovation to the fore, with aerial or "skyline" snigging used to ensure minimal effects to the surrounding environment when hoop pine logs are removed. This skyline operation was being conducted in the Imbil forestry district, harvesting hoop pine bound for Hyne & Son's Imbil mill.

DPI Forestry statistical appendices

for the financial year ended 30 June 2001

DPI Forestry

Plantation timber removals

2000-2001 - cubic metres

District / Product	Atherton	Beerburrum	Dalby	Imbil	Ingham	Maryborough	Monto	Rockhampton	Yarraman	Total 2000-2001	Total 1999-2000
Sawlog											
Native pine	2,498	2,068	58	200,754	13,691		1,314	27,309	79,165	326,857	354,663
Exotic pine	3,536	137,631	18,442	1,545	1,317	432,051		35,205		629,727	734,070
Non-conifers	529			129						657	1,090
Total sawlog	**6,562**	**139,699**	**18,500**	**202,428**	**15,008**	**432,051**	**1,314**	**62,514**	**79,165**	**957,241**	**1,089,823**
Pulpwood	29	12,427	1,311	14,583		537,039	7,837	51,453	6,580	631,258	467,734
Miscellaneous											
Roundwood		614				85,525				86,139	78,152
Poles											119
Totals											
2000 - 2001	**6,591**	**152,739**	**19,811**	**217,010**	**15,008**	**1,054,615**	**9,151**	**113,967**	**85,745**	**1,674,637**	
1999 - 2000	26,480	237,918	31,381	212,330	3,658	884,834	27,778	104,465	106,984		1,635,828

DPI Forestry

Native forest timber removals

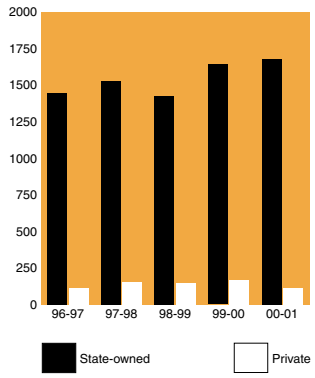
2000-2001 - cubic metres

District / Product	Atherton	Beerburrum	Dalby	Imbil	Ingham	Maryborough	Monto	Rockhampton	Roma	Yarraman	Total 2000-2001	Total 1999-2000
Sawlog												
Hardwoods	4,597	13,355	5,345	2,031	4,688	31,474	41,674	34,869	2,492	2,186	142,711	166,028
Cypress		108	53,064					2,944	89,915		146,031	129,767
Other pine		11									11	36
Total sawlog	**4,597**	**13,475**	**58,409**	**2,031**	**4,688**	**31,474**	**41,674**	**37,813**	**92,408**	**2,186**	**288,753**	**295,831**
Pulpwood			955								955	
Miscellaneous												
Railway sleepers and like timber					1,379						1,379	1,675
Landscaping and fencing timber	534	838	1,745	826	139	6,817	4,841	12,756	679	164	29,337	24,446
Mining timber								314			314	3
Girders, corbels, piles, and sills	617	157	306		47	2,178	392	1,327	98		5,121	7,155
Hardwood poles		1,069	21	290		6,018	604				8,003	7,618
Other hardwood round timber	524	52	1,218	34	104	707	17	6,303	49	12	9,020	12,018
Sandalwood					279						279	256
Totals												
2000 - 2001	**6,271**	**15,590**	**62,656**	**3,182**	**6,634**	**47,195**	**47,529**	**58,512**	**93,233**	**2,362**	**343,162**	
1999 - 2000	7,415	29,307	65,060	13,998	6,101	49,297	34,165	52,237	82,166	9,256		349,002

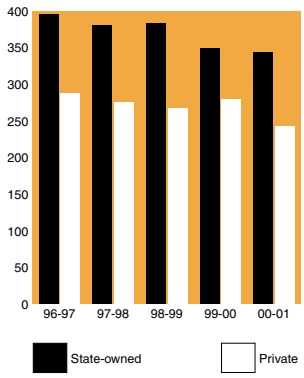
Queensland private forests
Timber removals

2000-2001 - cubic metres

Queensland plantation timber removals
('000s cubic metres)



Queensland native forest timber removals
('000s cubic metres)



District / Product	Atherton	Beerburrum	Dalby	Imbil	Ingham	Maryborough	Monto	Rockhampton	Roma	Yarraman	Total 2000-2001	Total 1999-2000
Native forests												
Hardwoods and scrubwoods	3,843	61,045	23,832	6,125	1,605	34,122	32,827	22,310	649	17,624	203,982	236,619
Cypress		12	25,004				300	190	12,559		38,065	50,520
Other pine		23	12			85	455			613	1,188	5,819
Total 2000-2001	**3,843**	**61,080**	**48,848**	**6,125**	**1,605**	**34,206**	**33,583**	**22,500**	**13,208**	**18,237**	**243,236**	
Total 1999-2000*	5,716	61,815	55,345	6,406	3,957	42,846	42,501	33,928	20,836	19,607		292,957
Plantations												
Native pine		1,294		359				21			1,674	7,873
Exotic pine	26	104,137	5,585	130	1,378	2,029		95			113,380	158,423
Broadleaf								4			4	44
Total 2000-2001	**26**	**105,431**	**5,585**	**489**	**1,378**	**2,029**		**119**			**115,058**	
Total 1999-2000*	35	142,057	10,430	22	1,215	5,743		76		6,761		166,340

Note: This appendix shows removals from privately owned forests by other forest growers.

See appendices 1 and 2 for DPI Forestry's removals.

*Revised figures.

DPI Forestry Quarry materials & minor forest products removals

2000-2001

District / Product	Atherton	Beerburrum	Dalby	Imbil	Ingham	Maryborough	Monto	Rockhampton	Roma	Yarraman	Total 2000-2001	Total 1999-2000
Quarry materials* (cubic metres)	164,267	700,819	67,323	1,687	581,218	26,667	32,041	661,998	6,670		2,242,690	2,025,752
Minor forest products												
($)												
Native forest	24,454	128,075	6,911	1,457	1,540	1,309	144	13,253	2,573	541	180,258	
Plantation		4,261		1,176	106	53,156		16,143		3,793	78,635	
Total minor forest products	24,454	132,336	6,911	2,634	1,646	54,465	144	29,395	2,573	4,334	258,893	252,903

* Includes sand, gravel, fill, hard rock, and like material.

** Includes seed, wildflowers and foliage, epiphytes, small trees, and miscellaneous wood.

DPI Forestry Area of state-owned plantation established

2000-2001 - hectares

District / Product	Atherton	Beerburrum	Dalby	Imbil	Ingham	Maryborough	Monto	Rockhampton	Yarraman	Total 2000-2001	Total 1999-2000
Native pine											
First rotation											
Second rotation	23			339			56		158	576	512
Subtotal	**23**			**339**			**56**		**158**	**576**	**512**
Exotic pine											
First rotation					16			284		300	11
Second rotation		1,440	108		6	2,692		202		4,448	2,564
Subtotal		**1,440**	**108**		**22**	**2,692**		**485**		**4,748**	**2,575**
Hardwoods											
First rotation		221		40					195	456	
Second rotation		77	50	7		7			8	149	
Subtotal		**298**	**50**	**47**		**7**			**203**	**605**	**255**
Miscellaneous											
First rotation								7		7	
Second rotation			51							51	
Subtotal			**51**					**7**		**57**	**2**
Total											
2000 - 2001	**23**	**1,738**	**209**	**386**	**22**	**2,699**	**56**	**492**	**361**	**5,986**	
1999 - 2000	32	1,110	8	376	25	1,371	77	156	189		3,343

Note: Plantation established during the year comprises new planted areas (first rotation) and replanting (second rotation) of harvested plantation areas.

DPI Forestry

Area of state-owned plantation

at 30 June 2001 - hectares

Product / District	Atherton	Beerburrum	Dalby	Imbil	Ingham	Maryborough	Monto	Rockhampton	Yarraman	Total 2000-2001	Total 1999-2000
Native pine											
Hoop pine	965	1,588	1	20,769	4	918	4,055	248	15,892	44,440	44,359
Other native pine	104	7		299	1	24	5	1	62	503	507
Total native pine	**1,069**	**1,595**	**1**	**21,068**	**5**	**942**	**4,060**	**249**	**15,954**	**44,943**	**44,866**
Exotic pine											
Slash pine	1	5,130	498	2		35,471	11	267	2	41,382	43,662
Caribbean pine	2,286	3,001	398	105	10,002	31,815	3	6,645	1	54,256	54,268
Pinus hybrids		11,661	82	1	52	20,876		731		33,403	28,784
Other exotic pine	38	233	3,334	201	90	157	9	33	32	4,127	4,175
Total exotic pine	**2,325**	**20,025**	**4,312**	**309**	**10,144**	**88,319**	**23**	**7,676**	**35**	**133,168**	**130,889**
Hardwoods	189	527	83	313	22	836	66	5	314	2,355	1,921
Miscellaneous	13	20	57	9	29	92	2	12	17	251	201
Total											
2000 - 2001	**3,595**	**22,166**	**4,452**	**21,699**	**10,200**	**90,189**	**4,151**	**7,942**	**16,320**	**180,717**	
1999 - 2000	3,620	20,872	4,269	21,648	10,192	89,430	4,164	7,682	16,000		177,877

STATISTICAL APPENDIX 7A

DPI Forestry Plantation established in joint-ventures with other landowners

2000-2001 - hectares

District / Product	Atherton	Beerburrum	Dalby	Imbil	Ingham	Maryborough	Monto	Rockhampton	Yarraman	Total 2000-2001	Total 1999-2000
Hardwoods		194	34	8			150		127	514	118
Miscellaneous		3								3	3
Total 2000 - 2001		**197**	**34**	**8**			**150**		**127**	**517**	
Total 1999 - 2000		28	9			43			41		121

STATISTICAL APPENDIX 7B

DPI Forestry Area of joint-venture plantation

at 30 June 2001 - hectares

District / Product	Atherton	Beerburrum	Dalby	Imbil	Ingham	Maryborough	Monto	Rockhampton	Yarraman	Total 2000-2001	Total 1999-2000
Hoop pine	69	71	10	8			29		134	321	299
Hardwoods	90	441	73	41		202	156		177	1,180	706
Miscellaneous		3								3	3
Total 2000 - 2001	**159**	**515**	**83**	**49**		**202**	**185**		**311**	**1,504**	
Total 1999 - 2000	159	360	30	41		202	35		181		1,008

DPI Forestry

Operational statistics

as at 30 June 2001

Operation		Total 2000–2001	Total 1999–2000
Plantation weed control (ha)			
Native pine	- establishment	3,453	2,879
	- maintenance	4,732	3,790
Exotic pine	- establishment	10,104	7,324
	- maintenance	9,444	11,625
Hardwoods	- establishment	490	485
	- maintenance	438	582
Plantation fertilising (ha)			
Native pine	- establishment	4	1
	- maintenance	53	4
Exotic pine	- establishment	3,277	2,256
	- maintenance	478	1,874
Hardwoods	- establishment	130	200
	- maintenance	228	108
Plantation pruning (ha)			
Native pine		1,480	1,435
Exotic pine		1,094	2,314
Hardwoods		10	93
Native forest treated (ha)			
Eucalypt			160
Cypress			192
Wildfires on state forests (ha burnt)			
Native forest		24,448	24,489
Plantation		1,009	257
Prescribed burning (ha)			
Native forest	- eucalypt	72,833	29,024
Native forest	- cypress	61,115	43,403
Plantation	- exotic pine	2,716	8,547

Statistics for wildfires and prescribed burning relate only to DPI Forestry activity on state forests.
The Department of Natural Resources and Mines may have separately recorded wildfires or conducted prescribed burning.
See Appendix 5 for plantation establishment figures.