

THE NATIONAL FOREST COMPANY
REPORT AND FINANCIAL STATEMENTS

31 March 2006

Registered number 2991970



CONTENTS

	Page
Company information	1
Report of the Directors	2 - 9
Statement of Directors' responsibilities	10
Statement on Internal Financial Control	11 - 13
Report of the Auditors	14 - 15
Income and Expenditure Account	16
Balance Sheet	17
Cash Flow Statement	18
Notes on the Financial Statements	19 - 27

THE NATIONAL FOREST COMPANY

COMPANY INFORMATION

Registered number 2991970

Directors	Dinah Nichols	(Chair)
	Susan Bell	(Chief Executive/Accounting Officer) retired 7 February 2006
	Sophie Churchill	(Chief Executive/Accounting Officer) appointed 1 February 2006
	Russ Canning	(non executive)
	Martin Glynn	(non executive)
	Oliver Johnson	(non executive)
	Valerie Owen	(non executive)
	John Perry	(non executive)
	Jean Tallantire	(non executive)
Fiona Tilley	(non executive)	

Secretary Mike Dewsnap

Registered office Enterprise Glade
Bath Yard
Moir
Swadlincote
Derbyshire
DE12 6BD

Auditors Bentley Jennison
Chartered Accountants
Charterhouse
Legge Street
Birmingham
B4 7EU

Bankers The Co-operative Bank
South Yorkshire Business Centre
The Fountain Precinct
Balm Green
Sheffield
S1 2JZ

THE NATIONAL FOREST COMPANY

REPORT OF THE DIRECTORS

31 March 2006

The Directors present their report and the audited financial statements for the year ended 31 March 2006.

Principal activities

The Company is a company limited by guarantee, established on 1 April 1995, as a Non-Departmental Public Body funded by the Department for Environment, Food and Rural Affairs (Defra). Its remit is to oversee the implementation of the Government approved Forest Strategy for the creation of The National Forest located in the English Midlands.

Funding

Grant in aid is paid to the Company under Section 153 of the Environmental Protection Act 1990. In 2005/06 grant in aid was set at £3.7 million with a further £0.5 million allocated to compensate for the reduction suffered in 2004/05.

Indication has been given that grant in aid for 2006/07 is to remain at £3.7 million.

Business review and future developments

As in recent years, the NFC Board agreed key objectives and associated targets for 2005/06. These were set out in the Corporate Plan approved by Defra. These built upon progress to date and were consistent with the delivery of the ten year National Forest Strategy 2004 – 2014. In addition, they helped deliver the objectives of Defra's 5 Year Strategy 'Delivering the Essentials of Life'.

Good progress was made against the six key objectives and associated targets agreed for the year as summarised below:

Key objective 1 – Forest creation

Activity included:

- securing 413ha of National Forest creation (Target range of 440 – 475ha). This brings woodland cover across the Forest to 8,444ha which represents 16.9% of the area, approximately half of the eventual one third target;
- instigating appropriate management of 125ha of nature conservation sites (Target 130ha) of which 82ha was delivered via the Tender Scheme;
- securing 6,490m of new hedgerow (Target 4,000m) and bringing 1,060m of hedgerow into management (Target 2,000);
- introducing and promoting a revised Tender Scheme incorporating an extended contract period of 30 years and clarifying requirements for parkland creation;
- consulting with the local authorities on the development of an urban strategy for each of the Forest's four main towns;
- progressing implementation of the National Forest Biodiversity Action Plan with ecological surveys underway at two Forest sites and adder research commissioned.

THE NATIONAL FOREST COMPANY

REPORT OF THE DIRECTORS (continued)

31 March 2006

Business review and future developments (continued)

The shortfall against the Forest creation target is largely attributed to the Tender Scheme and the NFC Board's determination to secure value for money from chosen schemes. The Tender Scheme is a unique woodland incentive operated by the NFC in partnership with the Forestry Commission (FC). Of the 20 schemes that went forward for judging by the Board some were recognised as good schemes but were considered to be too expensive. As a result only 14 schemes were chosen delivering 227ha towards the Forest creation target.

The level of nature conservation sites brought into management and new hedgerows planted is directly related to Forest creation achieved. The shortfall against the Forest creation target has resulted in the shortfall against the nature conservation and hedgerow targets.

As a consequence of decisions taken on the Tender Scheme, there was increased activity on land acquisitions. Utilising the land acquisition budget, funds transferred from the Tender Scheme and accumulated Company reserves enabled 118ha of land to be acquired, the highest annual achievement since the Company was established.

Key objective 2 – Maintenance of quality standards through sustainable management and market development.

Activity included:

- carrying out an audit of the amount and location of the 38% of existing woodland currently in management and bringing 29.5ha of land back into management (Target 20ha);
- assisting the establishment and/or development of 10 locally based businesses related to the Forest (woodland) economy (Target 10);
- promoting best practice woodland management and certification through means such as the Tender Scheme Club and production of guidance literature;
- working with the FC on implementation of Regional Forest Frameworks;
- assisting with the further development of the woodland economy through means such as arranging the first Wood Fair which attracted over 2,000 visitors and promoting the use of wood heat fuel systems.

Key objective 3 – Improvement of public access and encouragement of greater use of the Forest for learning and enjoyment.

Activity included:

- providing 457ha of new or planned public access on new or existing sites (Target 420ha). 85% of newly created sites have public access;
- engaging 13,400 people in Forest related events such as Tree for All, BTCV organised activities, Children's Music Workshop and Get Active (Target 12,000);
- producing a new medium length Forest walk to celebrate the NFC's 10th Anniversary;

THE NATIONAL FOREST COMPANY

REPORT OF THE DIRECTORS (continued)

31 March 2006

Business review and future developments (continued)

- carrying out an audit of Tender Scheme site signage and offering grants to 10 schemes for replacement signs;
- progressing the LANDshapes project funded by the Heritage Lottery Fund where additional funding was secured from Arts Council England towards the creation of the 'Forest Noon' sculptures.

Key objective 4 – Stimulation of partnerships and corporate, community and individual engagement.

Activity included:

- signing, at Chairman level, a new Concordat with the FC and progressing the associated action plan;
- engaging at least 10 new public/voluntary sector organisations in Forest projects (Target 5);
- engaging 10 businesses with ongoing dialogue with 3 others via the new 'Business Benefits' campaign (Target 15);
- successfully bidding for funds for the National Forest Youth Hostel (£1.78 million) and the Woodland Economy work (£235,000);
- reviewing the NFC's donor schemes for individual giving which generated £28,000 of income during the year (Target £20,000).

Key objective 5 – Integrate the Forest into the changing policy framework.

Activity included:

- commenting upon 13 significant policy documents and strategies seeking to ensure the inclusion of Forest priorities (Target 10);
- involvement in major development strategies and M1 road widening proposals;
- liaising with developers and mineral operators to realise woodland creation opportunities. Restoration schemes totalling 43ha were achieved during the year.

Key objective 6 – Awareness-raising and winning/retaining support for The National Forest, its objectives and achievements and its role as an exemplar and contributor to sustainable development.

Activity included:

- undertaking over 40 briefings and visits (Target 20), including the new Minister and senior Defra officials;
- significant media relations activity, particularly related to the Company's 10th Anniversary, resulting in national and regional newspaper, television and radio coverage of the Forest;

THE NATIONAL FOREST COMPANY

REPORT OF THE DIRECTORS (continued)

31 March 2006

Business review and future developments (continued)

- promoting the Forest at 10 public events and making literature available at a further 7 (Target 15);
- developing carbon sequestration research and disseminating results;
- developing the NFC's Geographical Information System (GIS) landscape visualisation capabilities;
- fulfilling the Year 2 programme of activity as detailed in the Tourism Action Plan, including production of the 2006 visitor guides.

A summary of the main achievements during the last 5 years is shown on page 9.

Looking to the year ahead, once again key objectives and associated targets have been agreed which are consistent with delivering the objectives of the National Forest Strategy 2004 – 2014. These include:

- securing Forest creation, with associated public benefits, which contributes towards meeting the 4,000 – 5,000ha target set for the 10 year period. For 2006/07 a target range of 380 – 400ha has been set;
- promoting woodland management best practice, the development of local woodland economy-related businesses and rural diversification;
- further developing the Forest's access potential for a range of users; engaging the community through implementation of the Community Action Plan; and continuing to promote the Forest as an emerging visitor destination. For 2006/07 a target of providing 350ha of new or planned public access has been set. The year will also see completion of the LANDshapes project with the publication of 'The National Forest – Heritage in the Making' book and unveiling of the 'Forest Noon' sculptures;
- maintaining current partnerships and forging new ones with the public and private sectors and individuals, to include funding, engagement and joint working;
- ensuring the Forest is embedded in and accounted for in relevant policy documents and that the NFC is actively involved in major development and transport strategies for the area;
- developing and promoting the Forest's role as an exemplar of sustainable development and demonstrating how it contributes to wider Government policy;
- preparing for the Comprehensive Spending Review 2007 and reviewing the Company's effectiveness, efficiency and focus ensuring that it is best positioned to maintain its position as a high delivery organisation.

Beyond 2006/07, the NFC will continue with a similar programme of activity. In addition there will be:

- preparation for, and the undertaking of in 2008/09, a mid term review of the current ten year Forest Strategy;

THE NATIONAL FOREST COMPANY

REPORT OF THE DIRECTORS (continued)

31 March 2006

Business review and future developments (continued)

- a review, with Defra, of the Company's long term sponsorship arrangements;
- implementation of new Partnership & Funding and Marketing & Communications Strategies;
- completion of the Youth Hostel project;
- implementation of the urban forestry strategy;
- completion of the medium distance trails network.

Land Acquisition and Disposal

The Company is permitted to acquire land in accordance with its Land Acquisition Policy agreed with Defra and HM Treasury. This allows land to be acquired where it will secure significant National Forest objectives and represents good value for money. Following acquisition by the NFC, it is normal practice for the freehold ownership of sites to be transferred to partner organisations as soon as possible after purchase, subject to guarantees that the land will be developed and managed for specified Forest purposes. Where Forest Enterprise (FE) is the preferred partner an expedited procedure is followed to enable an early transfer of the freehold of the land to FE. In such cases the freehold in the land will be vested in the Secretary of State and 'placed at the disposal of the Forestry Commissioners'.

It is, in accordance with the Land Acquisition Policy, possible for the NFC to hold land. During the year the Company acquired four sites, totalling 118ha. After allowing for acquisitions and disposals completed during the year, the Company held six sites comprising 145.6ha as at 31 March 2006. Two of these sites (total area 81ha) are to be disposed of in 2006/07 leaving 64.6ha to be retained by the NFC.

Research and Development

The NFC spent £57,875 (£36,861 in 2004/05) on research during the year. The main areas of activity during 2005/06 were:

- developing the Geographical Information System (GIS) landscape visualisation capabilities;
- research associated with the LANDshapes heritage project;
- research associated with the introduction of gateways into the Forest to inform the proposed visitor infrastructure project;
- ecological surveys at two Forest sites;
- research relating to the adder, a National Forest Biodiversity Action Plan species.

Losses, special payments and gifts

The Company did not write off any losses or make any special payments or gifts during the year.

Payment of Creditors

The Company aims to pay all undisputed invoices within 30 days of the invoice date. No claims were received during the year from suppliers for late payment of invoices under The Late Payment of Commercial Debts (Interest) Act 1998.

THE NATIONAL FOREST COMPANY

REPORT OF THE DIRECTORS (continued)

31 March 2006

Freedom of Information Act 2000

The provisions of the Act came into force on 1 January 2005. The NFC has developed procedures to deal with requests for information that may be received. The Company continues to maintain its Publication Scheme which has been approved by the Information Commissioner.

Consultation with Employees

The Company's pay and grading arrangements applied throughout the year were analogous to those of its sponsor Department. No consultation was therefore required with staff as regards the annual salary review on 1 July 2005. The salary review negotiated within the sponsor Department was applied to all Company staff at grade 7 and below. The Company consults with all staff on operational matters and in the formulation of policy and targets..

Equal Opportunities

The Company is an equal opportunities employer. It is committed to a policy of non-discrimination on grounds of sex or marital status, sexual orientation, health (including pregnancy), disability, colour, race, nationality or ethnic or national origin. Staff are required to observe this policy of non-discrimination in their dealings with members of the public and colleagues at work. All new staff are appointed on the basis of ability, qualification and suitability for the post.

Results and dividends

The deficit for the year amounted to £442,207 (2005; surplus of £160,436).

Fixed Assets

The movement in the tangible fixed assets account is set out in note 10 to the financial statements.

Directors

The Directors of the Company as at 31 March 2006 are set out on page 1. Their appointment dates are set out below:

	<u>Date of appointment</u>
R Canning	1 April 2005
S Churchill	1 February 2006
M Glynn	1 April 2004
O Johnson	1 April 2004
D Nichols	1 April 2005
V Owen	1 April 2005
J Perry	1 April 2001
J Tallantire	1 April 2001
F Tilley	1 April 2004

THE NATIONAL FOREST COMPANY

REPORT OF THE DIRECTORS (continued)

31 March 2006

Auditors

Pritchard Wood were engaged to provide an internal audit service to the NFC during the 2005/06 financial year. Bentley Jennison were re-appointed as external auditors for the 2005/06 financial year.

Bentley Jennison have been engaged to provide an internal audit service during 2006/07. New external auditors are to be appointed for the 2006/07 financial year.

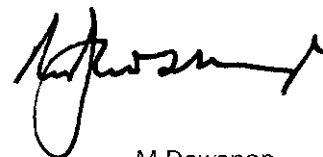
Website

The Annual Report and Accounts will be made available on the National Forest website www.nationalforest.org



S Churchill
Chief Executive/Accounting Officer

18 July 2006



M Dewsnap
Secretary

THE NATIONAL FOREST COMPANY

REPORT OF THE DIRECTORS (continued)

31 March 2006

National Forest - Summary of main achievements during the five years 2001/2002 to 2005/2006

	2001/02	2002/03	2003/04	2004/05	2005/06
New Forest creation					
Target	575ha*	500ha	450ha	350- 400ha	440- 475ha
Outturn	575ha	502ha	450ha	394ha	413ha
Mineral works and derelict land restored					
Target	40ha	30ha	25ha	30ha	30ha
Outturn	25ha	25ha	58ha	40ha	41ha
Land acquisition					
Target	80ha	80ha	70ha	15-40ha	80ha
Outturn	93ha	46ha	49ha	42ha	118ha
Public access					
New full open access sites					
Target	400ha	460ha	400ha	400ha	420ha
Outturn	463ha	505ha	498ha	448ha	457ha
Nature conservation and cultural heritage habitat created or brought into management					
Target	150ha	160ha	300ha	130ha	130ha
Outturn	164ha	340ha	344ha	130ha	125ha
New hedgerows planted					
Target	3,000m	3,000m	10,000m	10,000m	4,000m
Outturn	12,000m	13,627m	11,915m	7,680m	6,490m

* Forest creation target for 2001/02 was increased from 500ha to 575ha.

THE NATIONAL FOREST COMPANY

STATEMENT OF DIRECTORS' RESPONSIBILITIES

31 March 2006

We are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Policies.

We are required under company law to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company, and of the profit or loss of the Company for that year.

In preparing these financial statements we are required to:

- select suitable accounting policies and apply them consistently
- make reasonable and prudent judgements and estimates
- state whether applicable accounting standards have been followed, and give details of any departures
- prepare the financial statements on a going concern basis unless in our view the Company will be unable to continue in business.

We are also responsible for:

- keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable us to ensure the financial statements comply with the Companies Act 1985;
- safeguarding the Company's assets; and
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

We confirm that there is no relevant information that we know of and which we know the auditors are unaware of.

By order of the Board



M. Dewsnap

Secretary

18 July 2006

THE NATIONAL FOREST COMPANY

STATEMENT ON INTERNAL CONTROL

Scope of Responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of Company policies, aims and objectives, whilst safeguarding the public funds and Company assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting and my letter of appointment.

Company Mission

The Company's mission is to oversee the creation of The National Forest, a 200 square mile multi-purpose forest in the Heart of England. This is being achieved primarily through partnership working and by utilising the funds provided by Defra, the Company's sponsor Department.

The Risk and Control Framework

Corporate Governance

I am the Company's only executive director, joined on the Board by the Chair and seven non-executive Directors who are appointed by the Company subject to the approval of Defra. The Board meets five times a year with agendas covering strategic and operational business. A key function of the Board is to annually judge Tender Scheme applications, selecting those that best contribute to the range of Forest creation targets whilst meeting value for money criteria. Directors are expected to comply with a 'Code of Conduct for Directors of the National Forest Company'. Information on the agreed role and responsibilities of the Board is available on the National Forest website, together with declarations of directors' interests.

A sub-group of the Board is the Audit Committee which comprises three non-executive directors. As Accounting Officer, I regularly attend meetings of the Committee. The Chairman of the Audit Committee gives an annual report to the Board concerning internal control and in addition regular reports are provided by managers on action taken to manage risks in their areas of responsibility including progress reports on key projects. The Committee met four times during the year ended 31 March 2006.

There are currently three other committees of the Board, two of which, Land Acquisition and Corporate Affairs, are chaired by non-executive Directors. The other, Marketing, is chaired by me. These committees meet regularly, usually averaging around six meetings a year. In addition there are four themed working groups, Access & Recreation, Tourism, Planning and Woodland Economy which are chaired by non-executive directors and where membership comprises representatives from partner organisations. These groups usually meet twice a year. Minutes of all meetings are copied to all Directors for information.

Strategy and Planning

The NFC's aim is to implement the ten year National Forest Strategy 2004 – 2014. Its production involved consultation with the general public and partner organisations. The Strategy has been approved by Defra. It is proposed that there should be a mid term review of the Strategy in 2008/09.

On an annual basis, the NFC produces its Corporate Plan setting out objectives and targets for the following three years which are consistent with implementing the ten year Strategy. The Corporate Plan is agreed by the NFC Board and is subsequently approved by Defra usually following an annual meeting with the Minister. Directors receive regular update reports on progress against Corporate Plan objectives and targets which highlight where aims are expected to be achieved and draw attention to potential shortfalls. Such reports are also provided twice a year to Defra.

Performance management

In recent years the NFC Board has agreed a limited number of key objectives and targets for the coming year. These are wide ranging, covering the diverse range of activity needed to secure the continuation of Forest creation. Each year a headline target relates to new Forest creation to be secured. The NFC has an excellent record of achievement against demanding targets set and agreed with Defra. A proactive approach is adopted to ensure that targets are achieved wherever possible. Where necessary contingency plans are implemented.

THE NATIONAL FOREST COMPANY

STATEMENT ON INTERNAL CONTROL (continued)

All NFC staff understand their role and how they contribute to the achievement of corporate objectives and targets. All staff have job plans into which Corporate Plan targets cascade. Individual performance is assessed through the Staff Review System which includes consideration of staff training and development needs.

The National Forest is being created for public benefit and therefore the engagement and views of the general public are welcomed. The Company has in place complaint handling procedures and arrangements for dealing with requests made under the Freedom of Information Act. During the year ended 31 March 2006, sixteen complaints were received and responded to within the specified timescale. Most of these related to Forest sites which are not owned by the NFC but where there were issues in relation to maintenance. In such cases issues raised are brought to the attention of the landowner who is responsible for addressing the matter.

Change management

An organisation the size of the NFC relies heavily upon key personnel and is potentially vulnerable should any of these staff leave. This is reflected in the Risk Register and efforts are made to minimise the disruption that staff turnover causes. During the last year my predecessor, Susan Bell, retired. A recruitment campaign was planned and successfully conducted resulting in continuity of a Chief Executive being in post. Throughout the recruitment process there was communication with the staff team to keep them abreast of developments and counter any adverse impact that such a significant change in the organisation structure may have, particularly when Susan had been Chief Executive since 1995 and was held in such high regard.

The culture of the NFC is that wherever possible and appropriate there is open dialogue with staff. There is a shared commitment to the achievement of corporate goals. There are fortnightly meetings of the full team at which everyone is encouraged to contribute. This open style is fundamental in securing commitment to change.

Risk strategy and risk management

The NFC's Risk Management Policy was first approved by the Company's Board in May 2003. The Policy was updated in July 2004 and is reviewed annually by the NFC Board. When reviewed in September 2005 the Board agreed that the Policy remained appropriate and did not require amendment. In accordance with the Policy:

- the NFC Board has responsibility for overseeing risk management within the Company;
- the Audit Committee has responsibility for reviewing the systems of internal control;
- the Chief Executive, as Accounting Officer, has responsibility for ensuring that effective systems of control are maintained and operated; and
- the executive supports, advises and implements policies approved by the Board and are committed to adopting good risk management practice.

The updated Risk Register was reviewed by the NFC Board in September 2005. Particular attention was paid to the top risks identified and the proposed action plans to be implemented to address them. Many of the top risks remained unchanged from those detailed in the previous register. These centred around Forest creation and the availability of land, surety of funding and reliance on partners. New to the top risks identified was the potential impact upon the NFC of the Natural England and Rural Communities (NERC) Bill whilst the potential impact on the organisation of a change in Chief Executive also featured prominently.

Responsibility for the day-to-day administration of the risk management process is delegated to the Chief Officer Corporate Services who is the nominated Principal Finance Officer. A programme of planned maintenance is in place. This involves regular reviews by the senior executive of the Risk Register and the associated Action Plan aimed at addressing risks identified. The key risks and the action plans to be implemented to address them are reviewed by the NFC's Corporate Affairs Group comprising the Company's Chair, Chief Executive and Chief Officers.

To provide an assurance to the Department's Principal Accounting Officer that this Statement on Internal Control (SIC) can be relied upon when completing Defra's SIC, Defra's Internal Audit Division has reviewed the NFC's risk, control and governance arrangements. Their conclusion was that 'Corporate Governance and Risk Management in the NFC are effectively managed and that Internal Control is therefore satisfactory'.

THE NATIONAL FOREST COMPANY

STATEMENT ON INTERNAL CONTROL (continued)

Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Company policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Company for the year ended 31 March 2006 and up to the date of approval of the Annual Report and Accounts and accords with Treasury guidance.

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the appointed internal auditors and the executive managers within the Company who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board, the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system in place.

The Company's internal auditors operate in accordance with Government Internal Audit Standards. They submit regular reports which include the Head of Internal Audit's independent opinion on the adequacy and effectiveness of the Company's system of internal control together with recommendations for improvement. The opinion stated in the Annual Internal Audit Report for 2005/06 was that the NFC:

- has good and effective control processes;
- has good and effective risk management processes; and
- has good and effective governance processes.

No significant internal control problems were identified during the year.



Sophie Churchill
Chief Executive/Accounting Officer



Dinah Nichols
Chair

THE NATIONAL FOREST COMPANY

AUDITORS' REPORT

Independent Auditors' Report to the Houses of Parliament and the Members of the National Forest Company

We have audited the financial statements of the National Forest Company for the year ended 31 March 2006 which comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared in accordance with the accounting policies set out therein.

This report is made solely to the Company's members and the Houses of Parliament, as bodies, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members and the Houses of Parliament those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, the Company's members as a body and the Houses of Parliament as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

As described in the statement of Directors' responsibilities, the Company's Directors are responsible for the preparation of financial statements in accordance with applicable law and United Kingdom Accounting Standards and Treasury directions made thereunder and for ensuring the regularity of financial transactions. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 and Treasury directions made thereunder, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. We also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Company is not disclosed.

We review whether the Statement on Internal Control reflects the Company's compliance with Treasury's guidance "Corporate governance: statement on the system of internal financial control". We report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements.

We report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error and that, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

THE NATIONAL FOREST COMPANY

AUDITORS' REPORT (continued)

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the National Forest Company as at 31 March 2006 and the deficit and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985.
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.
- the information given in the Directors' Report is consistent with the financial statements.


Bentley Jennison

Registered Auditors

Chartered Accountants

Birmingham

18 July 2006

THE NATIONAL FOREST COMPANY

INCOME AND EXPENDITURE ACCOUNT

for the year ended 31 March 2006

	Note	2006 £	2005 £
Income			
- Grant in aid	2	3,535,488	3,175,828
- Other	3	383,775	305,219
Administrative expenses		(1,294,738)	(1,141,507)
Programme expenditure		(1,934,869)	(1,952,935)
Expenditure from donations and contributions received		(616,841)	(235,057)
Expenditure from reserves		(554,500)	(20,925)
Notional cost of capital	4	(32,673)	(33,344)
		<hr/>	<hr/>
Operating (deficit)/surplus - continuing operations	5	(514,358)	97,279
Interest receivable and similar income	6	48,660	35,984
		<hr/>	<hr/>
(Deficit)/surplus on ordinary activities before taxation		(465,698)	133,263
Tax on interest receivable	9	(9,182)	(6,171)
		<hr/>	<hr/>
(Deficit)/surplus on ordinary activities after taxation		(474,880)	127,092
Notional cost of capital	4	32,673	33,344
		<hr/>	<hr/>
Retained (deficit)/surplus for the year	14	(442,207)	160,436
Revenue reserve brought forward		693,778	533,342
		<hr/>	<hr/>
Revenue reserve carried forward	14	251,571	693,778
		<hr/>	<hr/>

All of the Company's activities are classed as continuing.

There were no recognised gains or losses in the year other than those included in the Income and Expenditure Account.

THE NATIONAL FOREST COMPANY

BALANCE SHEET

at 31 March 2006

	Note	2006		2005	
		£	£	£	£
Fixed assets					
Tangible assets	10		782,460		503,336
Current assets					
Debtors	11		137,684		132,164
Cash at bank and in hand			<u>179,968</u>		<u>595,796</u>
			317,652		727,960
Creditors: amounts falling due within one year	12		<u>(369,736)</u>		<u>(58,510)</u>
Net current (liabilities)/assets			(52,084)		669,450
Total assets less current liabilities			730,376		1,172,786
Creditors: amounts falling due after more than one year	13		<u>(19,365)</u>		<u>(16,758)</u>
Net assets			<u>711,011</u>		<u>1,156,028</u>
Capital					
Revenue Reserve	14		251,571		693,778
Capital Reserve	14		459,440		462,250
			<u>711,011</u>		<u>1,156,028</u>

The financial statements were approved
by the Board on 18 July 2006 and signed on its behalf by

Dinah Nichols - Chair

Dinah Nichols.

Sophie Churchill - Chief Executive/Accounting Officer

Sophie Churchill

THE NATIONAL FOREST COMPANY

CASH FLOW STATEMENT

for the year ended 31 March 2006

	Note	2006 £	2005 £
Net cash inflow from operating activities	16	745,505	106,219
Returns on investment and servicing of finance			
Interest received		48,660	35,984
Taxation			
Corporation Tax paid		(6,171)	(5,873)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(1,219,012)	(17,847)
Proceeds from sale of tangible fixed assets		18,000	-
Movement on capital reserve		(2,810)	-
		<hr/>	<hr/>
Increase in cash	17	(415,828)	118,483
		<hr/>	<hr/>

THE NATIONAL FOREST COMPANY

NOTES ON FINANCIAL STATEMENTS

31 March 2006

1 Accounting policies

Basis of accounting

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention.

Income

Income consists primarily of Grant in Aid from the Department for Environment, Food and Rural Affairs (Defra).

Tangible fixed assets and depreciation

Depreciation is provided evenly on the cost of tangible fixed assets, to write them down to their estimated residual values over their expected useful lives. The principal annual rates used for fixtures, fittings and computer equipment is based upon expected useful lives of between 3 and 9 years.

In accordance with the Land Acquisition Policy agreed with Defra, the NFC is permitted to own land. It should, however, at the time of acquisition or shortly thereafter, agree the means of disposal and should only in exceptional circumstances own any land for more than 10 years. When the exit strategy and eventual proceeds are agreed, the difference between the cost of the land and the eventual disposal consideration, where lower, is charged to depreciation over the period for which the land is to be held. Where land is acquired and as a result of a proposed change of use there is a devaluation in the value of the land, the loss on revaluation is charged to the Income and Expenditure Account in the year of the revaluation. Where land is acquired which is retained but not depreciated, the cost of the land is credited to a Capital Reserve.

Modified historical cost accounting

The tangible fixed assets held by the Company comprise land, fixtures and fittings and computer equipment. The effect of revaluing these assets on a modified historical cost basis, as specified in Treasury guidance, is not considered material. No adjustment has therefore been made. The Company reviews, on an annual basis, the effect of applying the principles of modified historical cost accounting.

Leased assets

Rentals payable under operating leases are charged to the Income and Expenditure Account as incurred.

Research

Research expenditure is charged wholly against revenue in the year in which the expenditure was incurred.

THE NATIONAL FOREST COMPANY

NOTES ON FINANCIAL STATEMENTS (continued)

31 March 2006

1 Accounting Policies (continued)

Government grants

Government grants used for capital expenditure (and other similar receipts) are credited to deferred income and released to the Income and Expenditure Account over the expected useful lives of the relevant assets.

Grants used for revenue expenditure are credited to the Income and Expenditure Account in the same period as the expenditure to which they contribute.

Defined benefit pension scheme

The Company operates a defined benefit pension scheme as an admitted body under the Principal Civil Service Pension Scheme (PCSPS). This is an unfunded multi-employer defined benefit scheme but the NFC is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk). For 2005/06, employer's contributions of £106,718 were payable to the PCSPS (2004/05 £79,057) at one of four increased rates in the range 17.1% to 25.5% of pensionable pay, based on salary bands. From 2006/07, the salary bands will be revised and the rates will be in a range between 16.2% and 24.6%. The contribution rates reflect benefits as they accrue, not the costs as they are actually incurred, and reflect past experience of the Scheme.

From 1 October 2002, Scheme members may be in one of three statutory based "final salary" defined benefit schemes (**classic**, **premium** and **classic plus**). The Schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium and classic plus are increased annually in line with changes in the Retail Price Index. New entrants after 1 October 2002 may choose between membership of **premium** or joining a good quality "money purchase" stakeholder arrangement with a significant employer contribution (**partnership pension account**).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium and classic plus. Benefits in classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum but members may commute some of their pension to provide a lump sum. Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per classic.

The partnership pension account is a stakeholder pension arrangement. Employer contributions are age-related and range from 3% and 12.5% of pensionable pay. In addition, employer contributions of 0.8% of pensionable pay is payable to the PCSPS to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement). The NFC has not, to date, made any contributions to a partnership pension account.

Related party transactions

Defra is regarded as a related party. During the year, the NFC received grant in aid from the Department as disclosed in note 2.

During the year, none of the Directors, staff or other related parties has undertaken any material transactions with the NFC, other than those disclosed in Note 18 to the Financial Statements.

THE NATIONAL FOREST COMPANY

NOTES ON FINANCIAL STATEMENTS (continued)

31 March 2006

2	Grant in Aid	2006	2005
		£	£
	Received in the year	4,200,000	3,424,000
	Expenditure on fixed assets	<u>(664,512)</u>	<u>(248,172)</u>
		<u>3,535,488</u>	<u>3,175,828</u>
3	Other operating income		
	Donations	88,139	70,038
	Heritage Lottery Fund	123,976	75,247
	Sundry income	126,660	129,934
	Grants received	<u>45,000</u>	<u>30,000</u>
		<u>383,775</u>	<u>305,219</u>
4	Notional cost of capital		
	Treasury guidance requires that as part of operating costs, to the extent that there is no real charge for it, the notional cost of capital be calculated. To this end the notional cost of capital has been calculated at 3.5% of the average of total assets less total liabilities. An entry reversing this amount has also been made in accordance with the guidance.		
5	Operating (deficit)/surplus	2006	2005
	The operating (deficit)/surplus is arrived at after charging/(crediting)	£	£
	Auditors' remuneration	6,392	6,222
	Depreciation of tangible fixed assets		
	- normal depreciation	24,328	27,510
	- exceptional depreciation	897,560	-
	Government grants – capital		
	- normal	(24,328)	(27,510)
	- exceptional	(897,560)	-
	Operating leases	<u>33,938</u>	<u>36,200</u>

In accordance with the Accounting Policies set out on page 16, when land is acquired, the difference between the cost of the land and the eventual sale proceeds is charged to depreciation over the period for which the land is to be held. Six sites acquired between 2000/01 and 2005/06 have either been disposed of during 2005/06 or are to be disposed of in 2006/07 for known sale proceeds. The difference between the purchase price and proceeds received or receivable of £897,560 was charged/credited as exceptional depreciation and amortisation in the year.

THE NATIONAL FOREST COMPANY

NOTES ON FINANCIAL STATEMENTS (continued)

31 March 2006

6	Interest receivable and similar income	2006 £	2005 £
	Bank interest receivable	<u>48,660</u>	<u>35,984</u>

7	Employees	Number	Number
	Average monthly number of employees, including Directors		
	Directors (including Chief Executive)	9	9
	Staff	<u>17</u>	<u>17</u>
		26	26
		==	==
	Staff costs, including Directors	£	£
	Salaries	646,672	618,777
	Social security costs	56,792	49,070
	Other pension costs	<u>106,718</u>	<u>79,057</u>
		810,182	746,904
		=====	=====
	Directors' emoluments are disclosed in note 8.		

8	Directors	2006 £	2005 £
	Emoluments (including benefits in kind) of the Company's Directors	<u>141,721</u>	<u>125,350</u>

Emoluments of Chairman:

(The Chairman is remunerated on the basis of working an average of one day per week.)

		2006 £		2005 £	
<u>Name</u>	<u>Contract Expiry Date</u>	<u>Taxable Benefits</u>	<u>Remuneration</u>	<u>Taxable Benefits</u>	<u>Remuneration</u>
Viv Astling	31 March 2005			<u>1,144</u>	<u>15,311*</u>
Dinah Nichols	31 March 2008	<u>1,548</u>	<u>15,694</u>		

* The Chairman directed £10,000 of this remuneration to support the 'Noon columns' sculpture project forming part of the LANDshapes project.

THE NATIONAL FOREST COMPANY

NOTES ON FINANCIAL STATEMENTS (continued)

31 March 2006

Emoluments of non-executive Directors:

(Non-executive Directors are remunerated on the basis of working an average of one day per month.)

<u>Name</u>	<u>Contract Expiry Date</u>	2006	<u>Remuneration</u>	2005	<u>Remuneration</u>
		£		£	
		<u>Taxable Benefits</u>		<u>Taxable Benefits</u>	
Russ Canning	31 March 2008	406	2,877	-	-
Martin Glynn	31 March 2007	1,184	2,877	654	2,807
Christine Hemming	31 March 2005	-	-	-	2,807
Oliver Johnson	31 March 2007	1,267	2,877	770	2,807
Valerie Owen	31 March 2008	919	2,877	-	-
John Perry	31 March 2007	437	2,877	531	2,807
Patricia Richards	31 March 2005	-	-	265	2,807
Jean Tallantire	31 March 2007	1,279	2,877	1,719	2,807
Fiona Tilley	31 March 2007	594	2,877	341	2,807

Emoluments of the Chief Executive, the highest paid Director:

<u>Name</u>	<u>Age</u>	<u>Contract Expiry Date</u>	2006	2005
			£	£
Susan Bell	*	7 February 2006		
	Salary		58,047	66,300
	Non-consolidated bonuses		13,086	6,400
	Pension scheme contributions made by employer		<u>14,280</u>	<u>12,266</u>
			85,413	84,966
* consent to disclosure withheld				

<u>Name</u>	<u>Age</u>	<u>Contract Start Date</u>	2006	2005
			£	£
Sophie Churchill	42	1 February 2006		
		<u>Contract Expiry Date</u> 31 January 2011		
	Salary		10,500	-
	Non-consolidated bonuses		-	-
	Pension scheme contributions made by employer		<u>2,341</u>	-
			12,841	-

THE NATIONAL FOREST COMPANY

NOTES ON FINANCIAL STATEMENTS (continued)

31 March 2006

8 Directors (continued)

The only Director qualifying for benefits under the pension scheme is the highest paid Director. Details are:

	2006 £	2006 £
	Susan Bell	Sophie Churchill
Salary, including performance pay (within the range)	£70,000 - 75,000	£10,000 - 15,000
Real increase in pension at age 60 (within the range)	0 - 2,500	0 - 2,500
Real increase in related lump sum at age 60 (within the range)	0 - 2,500	-
Total accrued pension at age 60 at 31/3/06 (within range)	10,000 - 15,000	0 - 5,000
Total accrued related lump sum at age 60 at 31/3/06 (within range)	35,000 - 40,000	-
Cash equivalent transfer value (CETV) at 31/3/05 (nearest £'000)	257,000	0
Cash equivalent transfer value (CETV) at 7/02/06 (nearest £'000) for Susan Bell.	309,000	2,000
Cash equivalent transfer value (CETV) at 31/03/06 (nearest £'000) for Sophie Churchill.		
Real increase in CETV after adjustment for inflation and market investment factors (nearest £'000).	17,000	2,000

The Chief Executive is a member of the Principal Civil Service Pension Scheme. The benefits provided are summarised in Note 1 on the Financial Statements on page 17.

9	Taxation	2006	2005
	Corporation Tax	<u>9,182</u>	<u>6,171</u>

Grant income and donations received by the Company are not subject to Corporation Tax. Interest received is however taxable, resulting in the above tax charge.

THE NATIONAL FOREST COMPANY

NOTES ON FINANCIAL STATEMENTS (continued)

31 March 2006

10	Tangible assets	Freehold Land £	Fixtures and fittings £	Computer equipment £	Total £
	Cost or valuation				
	At 1 April 2005	462,250	158,553	68,505	689,308
	Purchased during the year	1,199,500	-	19,512	1,219,012
	Disposals during the year	<u>(273,077)</u>	<u>(6,460)</u>	<u>(20,192)</u>	<u>(299,729)</u>
	At 31 March 2006	<u>1,388,673</u>	<u>152,093</u>	<u>67,825</u>	<u>1,608,591</u>
	Depreciation				
	At 1 April 2005	-	150,691	35,281	185,972
	Charges in the period	897,560	6,268	18,060	921,888
	Depreciation charged on disposals	<u>(255,077)</u>	<u>(6,460)</u>	<u>(20,192)</u>	<u>(281,729)</u>
	At 31 March 2006	<u>642,483</u>	<u>150,499</u>	<u>33,149</u>	<u>826,131</u>
	Net Book Value 31 March 2006	<u>746,190</u>	<u>1,594</u>	<u>34,676</u>	<u>782,460</u>
	Net Book Value 31 March 2005	<u>462,250</u>	<u>7,862</u>	<u>33,224</u>	<u>503,336</u>
11	Debtors			2006 £	2005 £
	Prepayments and accrued income			83,441	108,551
	Other taxation and social security			9,638	-
	Other			<u>44,605</u>	<u>23,613</u>
				<u>137,684</u>	<u>132,164</u>
12	Creditors: amounts falling due within one year			£	£
	Corporation Tax payable			9,182	6,171
	Other taxation and social security			-	2,051
	Deferred income				
	- government grants (capital)			303,655	24,328
	Accruals and other deferred income			<u>56,899</u>	<u>25,960</u>
				<u>369,736</u>	<u>58,510</u>

THE NATIONAL FOREST COMPANY

NOTES ON FINANCIAL STATEMENTS (continued)

31 March 2006

13	Creditors: amounts falling due after more than one year	£	£
	Deferred income – government grants (capital) - between two to five years	19,365	16,758
		<u> </u>	<u> </u>
14	Reserves		
		Capital reserve	Revenue reserve
		£	£
	At 1 April 2005	462,250	693,778
	Additions during the year	265,190	-
	Disposals during the year	(268,000)	-
	Deficit for the year	<u>-</u>	<u>(442,207)</u>
	At 31 March 2006	<u>459,440</u>	<u>251,571</u>
		<u> </u>	<u> </u>
15	Financial commitments		
	Operating lease commitments		
	The payments which the Company is committed to make in the next year under operating leases are as follows		
		2006	2005
		£	£
	Land and buildings, leases expiring within one year	33,938	33,938
		<u> </u>	<u> </u>
	Other financial commitments		
	The Company is committed to make payments under the National Forest Tender Scheme as follows:		
		2006	2005
		£	£
	Within one year	379,492	661,037
	Two to five years	1,847,431	1,786,390
	Over five years	<u>200</u>	<u>54,872</u>
		<u>2,227,123</u>	<u>2,502,299</u>
		<u> </u>	<u> </u>

The Company is funded by Defra and the Directors expect funding to continue at levels that will cover these commitments.

THE NATIONAL FOREST COMPANY

NOTES ON FINANCIAL STATEMENTS (continued)

31 March 2006

16	Reconciliation of operating (deficit)/surplus to net cash inflow from operating activities	£	£
	Operating (deficit)/surplus	(514,358)	97,279
	Notional cost of capital	32,673	33,344
	Depreciation of tangible assets	921,888	27,510
	(Increase) in debtors	(5,520)	(24,133)
	Increase/(decrease) in creditors	<u>310,822</u>	<u>(27,781)</u>
	Net cash inflow from operating activities	<u>745,505</u>	<u>106,219</u>

17	Analysis of changes in net funds	At first day of year £	Cash flows £	At last day of year £
	Cash in hand and at bank	<u>595,796</u>	<u>(415,828)</u>	<u>179,968</u>

18 Transactions with Directors

During the year ended 31 March 2004, a loan was made to Susan Bell, Chief Executive and a Director, under the terms of the scheme for car loans to employees. As at 1 April 2005, the amount of loan outstanding amounted to £3,500 which was repaid by January 2006.

During the year ended 31 March 2006, a loan was made to Sophie Churchill, Chief Executive and a Director, under the terms of the scheme for car loans to employees. As at 31 March 2006, the amount of loan outstanding amounted to £7,650.