

Our Competitive Advantage

Advisory Service

CO2 greatly increased its advisory and consulting business during the year, with a strategic acquisition of Ecofund which is now a wholly owned subsidiary of CO2 Australia.

Since completion in March 2013 the operations of Ecofund have been successfully integrated into the Group and key client relationships have been secured. Operating performance continues to exceed our expectations and provides a strong platform for further growth in this emerging market.

Our core competencies include the delivery of environmental offsets projects. With over 50 offsets engagements already delivered in connection with some of Australia's largest infrastructure developments, CO2 Australia is one of the leading providers of environmental offset services in Australia.

Leveraging from the extended base of expertise within the Group, the range of services offered by Ecofund will also be expanded. In particular, strong synergies have been identified with CO2 Group's experience in transacting land access arrangements and managing vegetation and land assets.

CO2 Australia offers an end to end environmental offsets service combining advisory and on ground management. Strengths in Geographic Information System (GIS) and spatial analytical services, land and forest management, on ground delivery of biodiversity and environmental management projects, environmental offsets services, fauna and flora surveys, carbon accounting consulting services, and advisory projects around carbon trading strategy, present a unique and powerful offering to the market. CO2 also holds an Australian Financial Service License (AFSL) and this allows the Group to deal in derivatives across Australia's carbon trading markets, and to provide financial and trading carbon trading services to companies.

Through CO2 Group's national reach, our environmental offsets services are now being offered throughout Australia, with some strong early engagements already secured in Western Australia.

Research and Development

The development and deployment of unique tree species and forest types continues to be an area of activity, particularly as the Carbon Farming Initiative (CFI) has the potential to open up a broader range of landscapes and forest types for commercialisation as carbon forest projects.

Key focuses for the Research and Development program included evaluating the performance traits of several novel tree species and combinations of species that were planted into mixed species - highly bio-diverse plantings. The results continue to inform the selection of tree species for particular regions and the silvicultural management of these species.

We continue to manage our genetically improved seed orchards, with seven orchards now established spanning three species and capturing high performing genetic varieties. Seed production from these orchards is progressing rapidly, with large seed loads noted during the year. Now that they are in full production mode, these seed orchards allow for unique genetic breeding lines to be routinely planted across the group's carbon estate. Having been selected for high sequestration potential, it is anticipated that the use of this improved seed will increase the rate of sequestration, at least during the early years of forest growth. This 'genetic gain' is being tested through a series of in-field provenance trials that were established during the year.

The Community

CO2 Group has been committed to strengthening local communities from the beginning. We have developed deep and lasting relationships within the rural community by regularly communicating with our farming neighbours and related groups in rural Australia. We believe that this is vital to building successful relationships and encourage all of our staff to participate in a range of local community forums.

As our customers' businesses grow and our operations expand, rural partnerships with farming families continue to develop - in fact, over 300 farming families across rural Australia are now involved in a range of programs with CO2 Group. These partnerships continue to provide employment opportunities for local communities and contract service providers as part of the site preparation, planting and maintenance phases of our carbon planting programs.

These programs also provide a direct financial injection into individual farms - landholders are paid for the land that is planted with trees. This strong focus on integration is aimed at implementing long-term measures in rural landscapes to address a range of natural resource management issues. It will also have a direct influence on the resilience of rural landscapes at paddock, property and catchment scale.

By integrating CO2 Group's environmental plantings into existing farming and grazing systems, we continue to maintain our strong social licence to operate and have a positive influence on the long-term sustainability of our partnering landholders and community. An estimated \$5 million has been invested in rural economies during the 2013 year.

To complement our business partnerships, CO2 Group has also sponsored a range of conferences and community-based programs such as the Condobolin Picnic Races. The company also actively supports local rural bush fire brigades, providing sponsorship for fire equipment and other resources within the areas we operate. We have actively partnered within the Lachlan Catchment Management Authority and the Parkes and District Landcare Association to highlight the benefits of the carbon planting program and the potential for landholders to participate in the upcoming Carbon Farming Initiative. CO2 Group has also been working closely with the Trundle Tree Change project and 'rent a farmhouse'. These projects provided low cost farmhouse accommodation to attract new families to the district, strengthening the community and saving local schools. CO2 has rented two houses under this initiative.

CO2 Group has a three-year sponsorship of Nuffield Australia, an organisation that awards scholarships to farmers in Australia. The objective is to increase practical farming knowledge and management skills. These scholarships give Australian citizens the opportunity to study farming practices in New Zealand, Europe, Asia, the Americas and other markets.

CO2 Group continues to facilitate understanding and awareness of the ongoing carbon debate at state and federal political level. In order to inform politicians of the benefits of carbon plantings within the landscape.

Biodiversity

CO2 Group was successful in securing \$3.8 million of funding through the Commonwealth Government's Biodiversity Fund for two biodiversity enhancement projects. The projects consist of four properties located in the central region of New South Wales and four properties located in the south coast region of Western Australia. All of which are located within Australia's highly fragmented wheat-sheep belt, the projects directly address key objectives of the Biodiversity Fund.

These projects are designed to further leverage biodiversity and other ecological outcomes from the pre-existing benefits provided by the carbon sink forests. Large scale demonstrations of commercial carbon sink integration with biodiversity outcomes also provide a unique example for delivery of environmental services via a partnership between a commercial entity and government.

During 2013 the research, mapping and flora survey phases were completed culminating in detailed planting designs for each of the eight properties involved. Seed and seedling procurement options are being assessed in preparation for delivery of on ground operations during 2014.

Health and Safety

The health and safety of our people is CO2 Group's top priority. Some of our people and contractors work in remote conditions, presenting unique challenges. Their continued safety is of paramount importance to the company. We are pleased to note that we recorded a zero rate of lost time incidents for all employees and contractors for the 2013 year.

Health and safety workplace awareness continues to be promoted across the Group with the goal of providing as safe a workplace as practically possible. CO2 Group's Health and Safety Management System is central to attainment of this goal and as a result, the Health and Safety Management System continues to be reviewed, refined and reinforced with all parties engaged with CO2 Group activities.

Employees, contractors, suppliers and partners must all demonstrate a duty of care in workplace health, safety and welfare. During 2013, CO2 Group engaged with more than 150 individual contract service providers who were involved in the establishment and management of CO2 Group plantings. The application of a duty of care by individuals within a risk managed work environment has contributed directly to the zero rate of lost time incidents during the 2013 year.