Annual Report

2016–17

Forestry Corporation

Letter of submission

31 October 2017

The Hon. Dominic Perrottet, MP
Treasurer
Parliament House
Macquarie Street
Sydney NSW 2000

The Hon. Victor Dominello, MP
Minister for Finance, Services and Property
Parliament House
Macquarie Street
Sydney NSW 2000

Dear Treasurer and Minister

We are pleased to submit the Annual Report for Forestry Corporation of NSW (Forestry Corporation) for the year ending 30 June 2017 for tabling in Parliament.

The report details the performance, operations and financial results of Forestry Corporation.

The report has been prepared in accordance with the *Annual Reports (Statutory Bodies) Act 1984*, the applicable provisions of the *Public Finance and Audit Act 1983*, the *State Owned Corporations Act 1989* and the *Forestry Act 2012*.

Once the report has been tabled in Parliament, it will be available on our website www.forestrycorporation.com.au.

Yours sincerely

James M. Millar AM
Chairman

Nick Roberts
Chief Executive Officer

Contents

Forestry Corporation Annual Report 2016–17

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CEO and Chairman overview

The largest expansion to NSW's state-owned plantation estate in decades, continuing strong financial returns and key steps forward in the development of a new, modern environmental regulatory framework for native forestry are among the highlights of another successful year for Forestry Corporation of NSW.

Financial performance exceeded expectations in the 2016-17 financial year (FY17), with earnings before interest and tax (EBIT) coming in at $67 million and both operating divisions returning solid profits. Strong housing starts, export and hardwood timber markets combined with significant business restructuring and reduction in overhead costs have seen EBIT grow each year since the year before corporatisation.

The work that has been done over the past few years to improve profitability and pay down debt has put Forestry Corporation in a strong financial position, allowing us to capitalise on an opportunity that arose during the year to invest in expanding the plantation estate. In February, Forestry Corporation purchased an 11,000-hectare private estate that included around 6,500 hectares of land planted with softwood timber and plantable land near existing State forest softwood plantations and customers near Tumbarumba and Oberon. This is the largest addition to the State-owned plantation estate in several decades and, while the purchase has slightly increased underlying debt levels in the short term, these plantations will deliver ongoing financial returns and provide additional wood for the industry in Oberon and Tumut into the future.

A significant step has also been taken towards finalising a new regulatory framework in native State forests, with the Environment Protection Authority (EPA) releasing new maps showing the presence of Threatened Ecological Communities (TECs) on the north coast and koala habitat in State forests throughout NSW. These maps, developed following rigorous scientific research, will be used to inform protection measures in the new coastal Integrated Forestry Operations Approvals (IFOA), which have been under development in consultation with a range of experts for several years. Forestry Corporation trialled the TEC maps in forestry operations during the second half of FY17, which work in seamlessly with the electronic field mapping systems already used by staff in the field and in harvesting machinery.

Good preparation and coordination again limited the impact of a potentially damaging fire season. Unprecedented weather conditions in parts of the state led to the first ever declaration of catastrophic fire danger in parts of NSW and Forestry Corporation firefighters were deployed to assist with significant fires on other public land and private property. State forests were largely unaffected and staff played a key role in saving several homes in local communities, making an important contribution to the state's coordinated firefighting effort. However, around 700 hectares of pine plantations that were damaged in a fire near Grafton were too young to be salvaged. The area will need to be replanted, which will have an immediate cost and may impact local production in 20-30 years, when the plantations were due to reach maturity.

Our continued success as a business stems from the passion, skill and commitment of our people and we continue to invest in building a dynamic and diverse workforce. This year, we welcomed a new General Manager of Human Resources who will further enhance professional development and ensure our workforce remains equipped for the future. We also welcomed two new Directors, who will bolster governance and oversight by bringing a depth of forestry experience to the Board.

Disappointingly, we again fell short of our safety targets this year. The Total Recordable Injury Frequency Rate increased during FY17 to 19.0 per million hours worked, remaining well short of our target of 9.4. This is deeply concerning and we have commenced a complete review of our safety strategy to identify why we have been unable to make progress on safety and turn these figures around. We have begun by benchmarking organisations facing similar safety challenges to learn from their successes and will be working with staff during FY18 to overhaul our safety systems and ensure safe workplaces and safe people are at the heart of everything we do.

While it has only been four years since the establishment of the Forestry Corporation of NSW in its current form, the 2016 calendar year marked 100 years since the establishment of our predecessor, the NSW Forestry Commission. This milestone brought a rare opportunity for us, our staff and customers to reflect on what has been achieved over the past 100 years and look forward to the next century. The contribution we've made to growing the railway sleepers, power poles, house frames, wharves and other infrastructure that built this state is hugely significant. The principle of sustainability has underpinned our organisation from the outset and remains our guiding principle today. Importantly, the forests that have been building NSW for a century are thriving today, still producing timber, still supporting a rich diversity of flora and fauna and still available for the community to experience and enjoy, and that's a legacy we are incredibly proud of.

We grow and supply one of the most renewable products available and we have finished the year in a strong position to continue meeting the community's timber needs from sustainably managed forests into the future.

James M. Millar AM
Chairman

Nick Roberts
Chief Executive Officer

About us

Forestry Corporation of NSW has been managing environmental sustainability, tourism and renewable timber production in NSW's State-owned commercial native and plantation State forests for more than a century.

We balance environmental conservation and community recreation with timber production and access for other primary industries such as grazing and beekeeping to ensure our forests sustainably deliver multiple benefits to the community for the long term. We permanently protect a million hectares for wildlife and conservation, welcome millions of visitors a year and harvest less than one per cent of native State forests each year to produce renewable timber for a range of purposes. We are independently certified to the Australian Standard for Sustainable Forest Management and, as a State Owned Corporation, deliver an annual financial return to the people of NSW.

Forestry Corporation produces around 14 per cent of the timber produced in Australia annually and is a major player in the Australian wood products industry, which employs 22,000 people in NSW and adds $2.4 billion a year to the economy. Our Softwood Plantations Division manages Australia's largest softwood plantation estate, responsible for more than 230,000 hectares of pine plantations in the central west, south and north of NSW. Our Hardwood Forest Division manages around 40,000 hectares of hardwood timber plantations and has stewardship of two million hectares of coastal native forests, cypress forests and red gum forests.

Our purpose is to grow sustainably, manage profitably and meet the needs of our changing world. We value innovation, integrity and the wellbeing of our people and communities, with respect for country, community, customers, suppliers and one another at the forefront of all that we do.

Sustainable business

Sustainability has always been a core principle underpinning our forest management. As a business that relies on continually producing timber and other products and services from the same land, the sustainability of the forests we manage is fundamental to our long-term success. Sustainability is built into every aspect of our business, from environmental management to community partnerships, staff wellbeing and profitability. Our sustainability framework sets out our key focus areas and we publish detailed data on our website and in our annual sustainability snapshot each year.

Forestry Corporation continues to meet the environmental, social, economic and sustainability criteria of the Australian Standard for Sustainable Forestry Management (AS4708:2013) and Environmental Management System (ISO 14001:2004).

AUSTRALIAN FORESTRY STANDARD®

AFS / 01-21-05

PEFC™

PEFC/21-23-05

bsi. ISO 14001 Environmental Management

Operational overview

Softwood Plantations Division

The Softwood Plantations Division continues to benefit from high demand and good prices, largely driven by continued strong export markets as well as a buoyant local housing construction sector and a packaging industry bolstered by the growth of online shopping. The division continued its recent trend of growing returns, with a lift in demand for the full range of softwood log products driving solid revenue, while tight control of operational costs, improved productivity and a quiet fire season in the south of the state limited fire-related expenditure. This resulted in record revenue and operating margins and an EBIT of $64 million (FY16: $59 million).

$64M EBIT

The strong balance sheet put the division in a position to invest in expanding the plantation estate to underpin future growth by purchasing privately-managed plantations around key processing hubs in Oberon and Tumbarumba. These plantations attracted interest from a number of bidders and represent a valuable addition to the plantation estate that will secure ongoing additional timber supplies for local industry over the long term. Their proximity to existing assets has allowed them to be seamlessly integrated with local operations, and as they are harvested, the plantations will be replanted with better quality seedlings to improve growth rates and timber quality.

Good prices and strong demand from China led to record sales out of Bombala and Walcha. More than 250,000 tonnes of timber have been exported out of Walcha in the past two years and timber harvesting and sales out of Walcha again increased during FY17 to keep up with high demand and prices. This is expected to continue into FY18. Export operations also continued out of Bombala for logs that are too large or outside the quality specifications of local processors. Local customers continued to receive their full contract allocations, so the exports represented significant additional output and returns out of Bombala. Also taking advantage of good prices and strong demand in Asia, hoop pine plantations around Grafton that are not suitable for local markets were harvested and exported and the plantations re-established with better species for local processors, such as southern pine.

6,500 HECTARES PLANTED AND PLANTABLE LAND ADDED TO ESTATE

The increased harvesting has been complemented by improved seedling production and survival rates that have allowed rapid restocking of harvested areas with robust, high quality seedlings. Blowering Nursery produced a record 7.2 million seedlings, the largest crop of containerised seedlings ever produced at the nursery, and seedling survival rates right across the division exceeded 90 per cent for the first time. The landbank, or the plantable area not yet re-established, has been progressively reduced in recent years and almost all harvested areas are now prepared and replanted in the next planting season.

The renewal of a significant proportion of the division's haulage contracts provided the opportunity to mandate improved safety systems such as rollover protection, telematics and dash cams in new haulage contracts. A chain of responsibility audit was also completed to identify opportunities to improve safety throughout the supply chain. Log truck roll overs are a key concern and these improvements build on ongoing initiatives, including appointing specialised investigators to review incidents, engaging a dedicated driver educator to provide additional training and working with industry on a code of practice.

With efficiency gains realised in the supply chain following the introduction of a new electronic ticketing system in FY16, the division is now investing in new software to optimise operational schedules. The scale and spread of the division's operations, and variability in everything from log size to pricing structures, make assigning the best crew to each operation and each load of timber to the most appropriate customer a complex task. A customised program is being developed to create two-year operational schedules that identify precisely which contractor should harvest timber in what location, when, and also identifies to which customer every load of timber should be delivered. By taking advantage of the gains that can be made through small improvements like reducing transport distances, the software promises to improve the delivery of timber to customers on time and in specification while enhancing efficiency and reducing costs. The software is in the final stages of testing and we expect gains to be realised from FY18.

SEEDLING SURVIVAL RATE EXCEEDING 90%

Since the end of the financial year, Ian Brown has resigned as General Manager of the Softwood Plantations Division and the organisation is in the process of recruiting a new leader to continue building on the division's recent successes into the future.

Softwood Plantations Division Financial year to 30 June		2013	2014	2015	2016	2017
Revenue[1]	$M	204	221	214	232	254
EBIT[1]	$M	41	55	54	59	64
Operating profit[1]	$M	34	48	48	55	60

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

Hardwood Forests Division

The Hardwood Forests Division has built on several years of growth to deliver a positive EBIT for the third consecutive year and an operating profit for the first time. The continued financial improvements follow significant efforts to increase efficiency, drive down overheads and control expenditure. In FY17, continuing solid demand for hardwood also drove up timber revenue and income from other products and services increased as well. Significant one-off items including a $2 million payment from the Roads and Maritime Service to manage biodiversity offsets associated with the Pacific Highway upgrade and close to $1 million in asset sales contributed to a record EBIT of $5.3 million (FY16: $1.2 million).

RECORD $5.3M EBIT

The strengthening of the division's financial position has allowed substantial investment back into the business, including greater expenditure on roads, inventory, fire protection, pest and weed management and community projects.

River Red Gum forests were flooded for close to half the year, providing important benefits to forest health but making access difficult and condensing harvesting operations into a shorter period. Weather also impacted operations around Eden, with severe damage to the wharf facilities of major customer Allied Natural Wood Exports following a storm in late FY16 limiting sales of some product categories at the start of the year. Despite this, all operational regions delivered full contracted timber volumes to customers in line with strong demand. However, two contractual disputes over timber supply have been raised in the cypress and north coast, which are currently in arbitration and mediation.

SUSTAINABLY MANAGED 2 MILLION HECTARES OF NATIVE FOREST

Adherence to the strict environmental regulations is a priority and compliance was excellent during the year. The commercial sustainability of our business depends on the ongoing health and productivity of our forests, so good environmental management is fundamental to strong financial performance. The FCMapApp software that Forestry Corporation has developed to provide staff and contractors with precise, real-time mapping data in the forest, including harvest plans and ecology records, has been used for several years to improve accuracy and reduce duplication in planning and operations. Enhancements to the app during the year will further improve our ability to audit and scrutinise operations into the future. The app now collects daily point data from all native forest harvesting machinery, allowing us to precisely map where each machine has been and ensure harvest plans are being strictly implemented. A module has been specifically developed for the EPA, so they can access this data for use in their regular operational audits.

Recent investments in enhancing our firefighting training, equipment and capability and record hazard reduction burning during the winter of 2016 paid dividends. The forest estate was well protected during a difficult fire season. We also deployed crews to assist on significant fires on private property and other land, where they were instrumental in saving homes and protecting communities as part of NSW's coordinated firefighting effort.

LESS THAN 1% OF ESTATE HARVESTED

Ongoing investment in improving tourism opportunities within State forests is also continuing to deliver for local communities. A partnership with the Coffs Harbour and District Local Aboriginal Land Council and Coffs Elders Group led to the development of the Gumgali Track, the first Aboriginal interpretive walk in a State forest. The Gumgali Track not only celebrates and shares the stories of the traditional owners, but it is also continuing to create opportunities for Aboriginal enterprises in the forest, including cultural walks. In addition, the contribution State forests make to regional tourism has again been recognised by tourism bodies, with local State forests winning gold at both the north coast and south coast tourism awards and Orara East State Forest winning silver at the NSW Tourism Awards and becoming the first State forest destination to receive independent ecotourism certification.

Hardwood Forests Division Financial year to 30 June		2013	2014	2015	2016	2017
Revenue[1]	$M	101	100	99	102	109
EBIT[1]	$M	(12)	(9)	2	1.2	5.3
Operating profit[1]	$M	(15)	(12)	(0.6)	(0.7)	3.8

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

Corporate services

Ongoing efforts to enhance operations through innovation and technology, improve support services, streamline corporate processes and reduce duplication and overhead costs continued in FY17. Overheads came in $1.9 million lower than budgeted, which was a four per cent reduction on FY16.

Innovative uses of technology have significantly enhanced operations in recent years, with the development of a custom mapping application and investment in collecting and interpreting LiDAR data in particular, delivering operational improvements and efficiency gains to both divisions. Building on these successes, Forestry Corporation has continued to invest in trialling the practical applications of new technologies. Twelve staff have been trained as unmanned aerial vehicle (UAV), or drone, pilots, to allow testing in a range of different environments to identify where and how they can improve operations. Immediate opportunities have been identified to use drones to make some work practices safer, such as mapping fire lines, inspecting fire and radio towers and assessing the growth of young plantations in difficult terrain. It is hoped that the trial will identify other aspects of operations that can be enhanced by the use of this technology.

Technology improvements in a range of corporate services have also helped drive efficiency across the business and support the operating divisions to achieve their targets. A number of systems were upgraded during the year, including the electronic timesheet system, and investment in a new Business Intelligence platform has provided improved business and reporting data to aid day-to-day management.

Work to improve the growing and timber properties of new plantations through trial plantings and research has also continued through our shareholding interest in the New Zealand-based Radiata Pine Breeding Company (RBPC). As the newly-appointed Chairman of the RPBC, Forestry Corporation's Company Secretary and Chief Forester will drive their reinvigorated research program in FY18. This research and Forestry Corporation's in-house research and technology trials complement our annual investment in a range of forest research under a long-running Memorandum of Understanding with the Forest Sciences Unit of the Department of Industry, which totalled $1.7 million in FY17.

Following a comprehensive review, a decision was taken to outsource management of Forestry Corporation's fleet of light and heavy vehicles and mechanical workshop services. The change has facilitated improvements an in-house service was unable to provide, such as access to the latest fleet management technology and a critical mass to support buying power. As well as streamlining management, the change has already delivered a financial return, with the new fleet managers installing technology in vehicles to assist the business in claiming $0.7 million in fuel tax rebates.

Our business is built on people and supporting ongoing learning is integral to continuously improving our operations. We rounded out the new financial year with a new Enterprise Agreement supported by an overwhelming majority of staff and with a renewed focus on professional development. Under the guidance of our new General Manager of Human Resources, enhancing the skills and leadership capability of our people will continue to be a priority in the year ahead.

$1.9M SAVING ON BUDGET

4% REDUCTION ON FY16

12 DRONE PILOTS TRAINED

Financial results

Forestry Corporation surpassed last year's record returns by 16 per cent to end the 2017 financial year with revenue of $369 million (FY16: $339 million) and an EBIT of $67 million (FY16: $57 million).

EBIT
$67M

Forestry Corporation's Board agrees on a Statement of Corporate Intent (SCI) each year with its shareholders. The SCI includes objectives and performance targets and forms the basis of our operating budgets. Both operating divisions exceeded expectations and the business finished the year well above the targets set in the SCI. The Softwood Plantations Division's EBIT increased by eight per cent to $64 million (FY16: $59 million) on the back of buoyant housing and packaging markets and significant exports from the Bombala and Walcha management areas. In the Hardwood Forests Division, ongoing efficiency gains following successful restructuring in recent years combined with a sound hardwood market delivered a positive EBIT of $5.3 million (FY16: $1.2 million) and an operating profit of $3.8 million.

Solid earnings and careful management of costs delivered record EBIT margins of 18.1 per cent (FY16: 16.9 per cent) for Forestry Corporation, demonstrating ongoing improvements to underlying performance.

Capital and shareholder return

$30M
DIVIDEND
DECLARED

Ongoing strong financial performance saw Forestry Corporation declare a record dividend of $30 million (FY16: $22 million) and return $52 million in dividend, taxes and government guarantee fees this financial year. Strong profits boosted operating cash flows to $45 million, while return on shareholder's equity was 5.4 per cent.

Balance sheet

Despite increased leverage during the year, partly to fund plantation expansion and partly to drive towards an efficient capital structure, Forestry Corporation continues to maintain a strong balance sheet.

The acquisition of new plantations combined with an uplift in the value of the existing standing timber estate increased the value of biological assets, our primary asset, by $47 million or five per cent.

The strong balance sheet is supported by key financial ratios such as Debt to Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA, at 1.5 times), Interest Cover (at 12.0 times) and Liquidity Ratio (at 1.3 times). These metrics indicate that Forestry Corporation is well positioned for further growth.

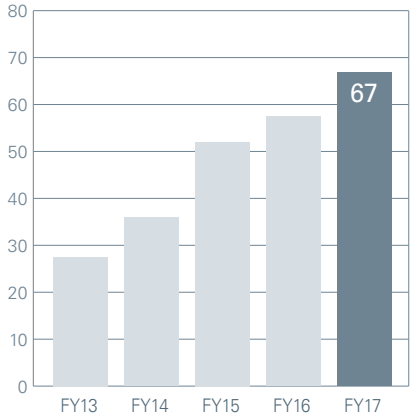
Other items

Statutory (non-operating) adjustments recorded in the financial statements had a significant impact on net profit results. These included the impact of asset revaluations and assessment on the defined benefit superannuation liabilities, which are non-cash related and do not affect the underlying EBIT. For clarity, the significant items recorded in the income statement have been reconciled as follows:

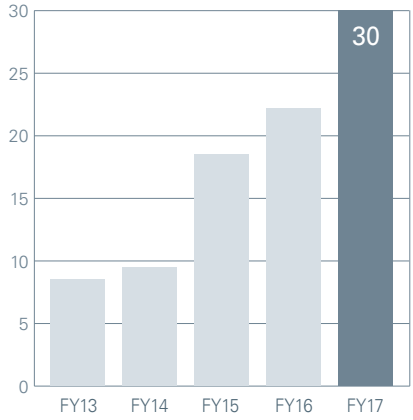
Underlying earnings to statutory result Financial year to 30 June	2016 $M	2017 $M
Underlying EBIT	57	67
Underlying profit after tax	36	43
Impact of revaluation and related impairment of property, plant and equipment (net of tax)	(95)	0
Impact of valuation of standing timber (net of tax)	61	9
Impact of actuarial assessment on the defined benefit superannuation liabilities (net of tax)	(38)	30
Total Comprehensive Income / (Loss) per the Financial Statements	(36)	82

Financial highlights

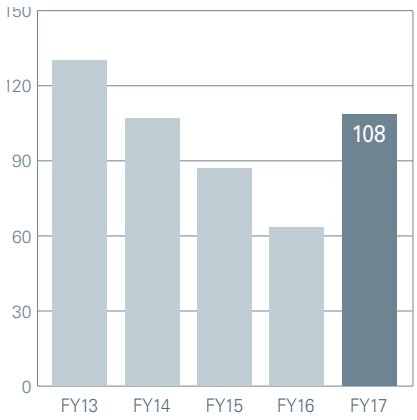
EBIT ($M)



DIVIDEND ($M)



DEBT ($M)



$369M
REVENUE
+9%
FY17

18.1%
EBIT MARGIN
UP FROM
16.9%

12.0%
INTEREST COVER
UP FROM
9.0%

Key financial data Financial year to 30 June								2017 SCI peformance		
		2012	2013	2014	2015	2016	2017	SCI	Variance	
Revenue[1]	$M	318	310	324	317	339	369	353	16	●
Operating profit[1]	$M	14	19	27	45	51	61	44	17	●
EBIT[1]	$M	23	28	36	52	57	67	51	16	●
Dividend payable	$M	5	9	10	19	22	30	22	8	●
Borrowings[2]	$M	133	131	108	89	64	108	69	(40)	●
Key ratios										
Return on equity	%	2.2	2.5	3.0	4.2	4.9	5.4	4.1	1.3	●
EBIT margin[1]	%	7.3	9.0	11.0	16.4	16.9	18.1	14.5	3.6	●
Liquidity ratio	times	1.1	1.4	1.5	1.4	1.3	1.3	1.3	0.0	●
Debt to EBITDA	times	4.2	39.8	40.6	39.8	1.0	1.5	1.2	0.3	●
Interest cover	times	2.5	2.9	4.0	7.1	9.0	12.0	7.7	4.3	●

[1] *Excludes significant items such as revaluation impact, impairments and impact on superannuation funds, before taxes.*
[2] *Borrowings increased to facilitate the purchase of 11,000 hectares of plantation.*

Corporate governance

Charter

Forestry Corporation of NSW is constituted under the *Forestry Act 2012*, and is subject to the direction of a Board of Directors.

As a public land manager, Forestry Corporation receives funding from the NSW Government to provide specific public services. However, Forestry Corporation's primary source of funds is revenue associated with the sale of timber and services provided (95 per cent).

Under the objectives set out in the Forestry Act, Forestry Corporation is required:

a. to be a successful business and, to this end:
   i. to operate at least as efficiently as any comparable businesses
   ii. to maximise the net worth of the State's investment in the corporation

b. to have regard for the interests of the community in which it operates

c. where its activities affect the environment, to conduct its operations in compliance with the principles of ecologically sustainable development contained in section 6 (2) of the *Protection of the Environment Administration Act 1991*

d. to contribute towards regional development and decentralisation

e. to be an efficient and environmentally sustainable supplier of timber from Crown-timber land and land owned by it or otherwise under its control or management.

Forestry Corporation Board

Under the *Forestry Act 2012,* the Board of Directors is appointed by the voting shareholders. Forestry Corporation has two voting shareholder Ministers, the NSW Treasurer and the Minister for Finance, Services and Property. The Board accountability to its shareholders is set out in the Forestry Corporation Board Constitution and the *State Owned Corporations Act 1989*.

The Board comprises six non-executive directors and the Chief Executive as an executive director. All non-executive director positions are skills-based and are considered independent in accordance with the NSW Treasury Guidelines for Boards of Government Businesses. As set out in the Board Charter, the Board's main purpose is to build Forestry Corporation's long-term value that will benefit the people of NSW, with strong corporate governance and strategic planning pivotal to achieving this objective.

Four independent members of the Board were re-appointed on 1 March 2016 for either two or three year terms. In addition, two new Board members, Ms Wendy Machin and Dr Lyndall Bull were appointed on 11 May 2017 for a period of three years each.

Board of Directors

- **Mr James M. Millar AM – Director and Chairman**
  BCom, FCA, FAICD
  James is the former Chief Executive Officer and Oceania Area Managing Partner of Ernst & Young and was a director on their global board. James commenced his career with Ernst & Young in their insolvency and reconstruction practice, and was involved in the reconstruction of some of Australia's largest businesses. He is an experienced corporate executive and advisor, and is a director, trustee or member of a number of public and private companies and charitable organisations.

- **Ms Sarah Kearney – Director and Chair Human Resources Committee**
  BSc (Psychology), GAICD
  Sarah is a director of Performance Insights and is a former Manager Director of global HR consulting organisation SHL Australia and New Zealand (now known as Gartner Group). She has extensive experience working with companies across a broad range of industry sectors to develop frameworks to drive cultural change. As a director of Performance Insights, Sarah continues to work with companies to design and implement people management strategies to improve skills and performance.

- **Mr Geoffrey R. Applebee – Director and Chair Audit and Risk Committee**
  BA (Accounting), FCA, FAICD
  Geoffrey is a former partner with Ernst & Young, a position he held for 22 years. He has built a long career in the accounting profession and is a director of a number of Australian companies and not-for-profit organisations. Geoff also chairs a number of audit and risk committees and is chairman of a mid-tier accounting firm. He works as an advisor to professional service firms where he also uses his experience to mentor and coach partners and senior directors.

- **Mr Noel Cornish AM – Director**
  BSc (Metallurgy), MEngSc, FAICD
  Noel has extensive business management experience both in Australia and overseas. He is the former National President of Ai Group, Chief Executive of BlueScope Steel Limited's Australia and New Zealand steel manufacturing business and President of Northstar BHP LLC in Ohio, USA. Noel is a director of a number of companies and organisations in the government, education, finance, communications and manufacturing sectors. He chairs three boards and is Deputy Chancellor of the University of Wollongong.

- **Ms Wendy Machin – Director**
  B.A. (UTS), M.Comm, GAICD
  Wendy has served on several boards over the past fifteen years in the government, not-for-profit and private sectors. She is currently chair of the Customer Owned Banking Association, the NSW Crown Holiday Parks Trust and Australasian New Car Assessment Program (ANCAP) and is also a Director of Destination NSW. She has recently retired from a twelve-year term as a Director of the NRMA, where she served six years as president. Wendy was elected to the NSW Legislative Assembly in 1985, where she served until 1996 and has a strong interest in disability and social services.

- **Dr Lyndall Bull – Director**
  BSc, B For Sc (Hons), PhD, GAICD
  Lyndall has extensive global experience in the forest sector, including in strategic management, innovation and product development, market analysis and research management. Lyndall has served on a range of boards, including the CRC for Forestry and as chair of the South Australian Forest Industry Development Board. She currently serves on the board of Sustainable Timber Tasmania and is the chair of the Reference Panel for the Western Australian Timber Industry Development Plan. Lyndall is the founder and principal of Lynea Advisory.

- **Mr Nick Roberts – CEO and Executive Director**
  BSc (Forestry) (Hons), MSc (Forestry), GAICD
  Nick has significant forestry and timber industry experience in Australia and overseas. He has been the Chief Executive Officer of NSW's largest commercial forest manager for the past ten years and was previously Managing Director of Weyerhaeuser Australia, a position he held for five years. He has been actively involved in industry associations, chairing A3P and serving as a Director for Forest and Wood Products Australia. He currently chairs the Safety Committee for the Australian Forest Products Association.

Board meetings

There were ten Board meetings held during the reporting year, three of which were conducted by teleconference. The attendance by directors at Board meetings is outlined below:

Member	Number of meetings attended
Mr James Millar AM	10
Ms Sarah Kearney	10
Mr Geoffrey R Applebee	10
Mr Noel Cornish	8
Mr Nick Roberts	10

The two new directors, Ms Wendy Machin and Dr Lyndall Bull attended a Board induction meeting on 30 June 2017.

Board committees

The Board is supported by an Audit and Risk Committee and a Human Resources Committee, which provide for more detailed analysis of the areas of finance, risk, audit, remuneration and human resources. Working groups, comprising independent directors and management representatives, support both committees.

Each committee has a charter setting out its roles, responsibilities and delegated authority from the Board and these are reviewed on an annual basis.

During the reporting period there were three meetings of the Audit and Risk Committee and one meeting of the Human Resources Committee. The Audit and Risk Working Group met on four occasions and the Human Resources Working Group met on two occasions.

Environmental regulations

Forestry Corporation's operations across NSW are subject to environmental regulations. The main legislative frameworks governing management of the State forest estate are the *Forestry Act 2012*, the *Plantation and Reafforestation Act 1999* and Regulation and the Integrated Forestry Operations Approvals (IFOAs), which incorporate licences under the Protection of the *Environment Operations Act 1997*, the *Threatened Species Conservation Act 1995* and the *Fisheries Management Act 1994*. Forestry Corporation conducts its native forestry operations in accordance with the IFOAs, which outline the terms and conditions under which forestry operations are undertaken. They set out the regulatory requirements for environmental planning, assessment and protection, and threatened species conservation.

Further instruments that govern Forestry Corporation's forestry operations include the NSW Forest Agreements and the Regional Forest Agreements.

Forestry Corporation maintains a register of legal requirements relevant to the conduct of its activities and this is reviewed and updated annually.

Organisational structure

Forestry Corporation's senior management team consists of the CEO and five divisional managers. The management team structure and responsibilities are listed on page 14.

Corporate governance *cont.*

Organisational structure

- assets and estates
- fire management, fleet and radio services
- mapping and information services
- tree and seed resources
- communications
- risk management and internal audit
- corporate governance and executive support
- legal services.

- hardwood marketing and timber sales
- native forest stewardship
- forest management planning
- timber harvesting and roading operations.

- softwood marketing and timber sales
- planted forest stewardship
- forest management planning
- timber harvesting and roading operations
- Blowering production nursery.

- corporate finance
- tax and treasury
- business analysis
- commercial finance
- shared services
- information technology
- strategic planning.

- human resources
- safety
- organisational development
- learning.

1 Since the end of the financial year, Ian Brown has resigned and a new General Manager had not yet been appointed at the time of publication. Ian contributed significantly to Forestry Corporation in his time as General Manager.

2 The General Manager Human Resources was appointed December 2016. Prior to this, these responsibilities were managed by the Chief Forester and Company Secretary.

Financial statements

Audited financial statements for the year ended 30 June 2017

Statement of profit or loss and other comprehensive income

For the year ended 30 June 2017

	Note	30 June 2017 $'000	30 June 2016 $'000
Revenue	4	351,173	322,360
Other income	5	17,861	16,223
Change in fair value of biological assets	15	13,182	87,037
Expenses			
Operating expenses	6	(230,329)	(206,869)
Employee benefits expense		(68,886)	(70,406)
Depreciation and amortisation expense		(6,467)	(7,684)
Impairment of assets		(60)	(4,792)
Finance costs	7	(5,548)	(6,351)
Profit before income tax expense		70,926	129,518
Income tax expense	8	(21,488)	(39,246)
Profit after income tax expense for the year attributable to the owners of Forestry Corporation of New South Wales		49,438	90,272
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Changes to revaluation surplus, net of tax		–	(91,082)
Actuarial gain/(loss) on defined benefit plans, net of tax		33,054	(35,660)
Other comprehensive loss for the year, net of tax		33,054	(126,742)
Total comprehensive income/(loss) for the year attributable to the owners of Forestry Corporation of New South Wales		82,492	(36,470)

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Statement of financial position

For the year ended 30 June 2017

	Note	30 June 2017 $'000	30 June 2016 $'000
Assets			
Current assets			
Cash and cash equivalents	9	33,438	20,896
Trade and other receivables	11	48,986	43,643
Inventories	12	3,042	3,148
Biological assets	13	78,698	68,189
Total current assets		164,164	135,876
Non-current assets			
Property, plant and equipment	14	989,276	973,472
Biological assets	15	913,655	876,992
Investment properties	16	6,658	6,821
Total non-current assets		1,909,589	1,857,285
Total assets		2,073,753	1,993,161
Liabilities			
Current liabilities			
Trade and other payables	17	49,475	42,319
Borrowings	18	13,535	–
Dividend provided	19	29,543	22,229
Provisions	20	28,297	31,096
Income tax		2,625	5,065
Total current liabilities		123,475	100,709
Non-current liabilities			
Borrowings	21	94,833	63,521
Provisions	22	4,358	4,968
Retirement benefit obligations	33	120,162	163,925
Deferred tax	23	498,476	481,690
Total non-current liabilities		717,829	714,104
Total liabilities		841,304	814,813
Net assets		1,232,449	1,178,348
Equity			
Contributed equity	24	421,706	421,706
Reserves	25	641,698	644,387
Retained profits		169,045	112,255
Total equity		1,232,449	1,178,348

The above statement of financial position should be read in conjunction with the accompanying notes

Statement of changes in equity

For the year ended 30 June 2017

	Contributed equity $'000	Reserve for deferred tax asset $'000	Asset revaluation reserve $'000	Retained profits $'000	Total equity $'000
Balance at 1 July 2015	421,706	50,092	686,315	78,532	1,236,645
Profit after income tax expense for the year	-	-	-	90,272	90,272
Other comprehensive loss for the year, net of tax	-	-	(91,082)	(35,660)	(126,742)
Total comprehensive income/(loss) for the year	-	-	(91,082)	54,612	(36,470)
Transactions with owners in their capacity as owners:					
Transfer of asset revaluation reserves to retained profits	-	-	(1,340)	1,340	-
Reversal of deferred tax liability on disposal of assets	-	-	402	-	402
Dividend	-	-	-	(22,229)	(22,229)
Balance at 30 June 2016	421,706	50,092	594,295	112,255	1,178,348

	Contributed equity $'000	Reserve for deferred tax asset $'000	Asset revaluation reserve $'000	Retained profits $'000	Total equity $'000
Balance at 1 July 2016	421,706	50,092	594,295	112,255	1,178,348
Profit after income tax expense for the year	-	-	-	49,438	49,438
Other comprehensive income for the year, net of tax	-	-	-	33,054	33,054
Total comprehensive income for the year	-	-	-	82,492	82,492
Transactions with owners in their capacity as owners:					
Transfer of asset revaluation reserves to retained profits	-	-	(3,841)	3,841	-
Reversal of deferred tax liability on disposal of assets	-	-	1,152	-	1,152
Dividend	-	-	-	(29,543)	(29,543)
Balance at 30 June 2017	421,706	50,092	591,606	169,045	1,232,449

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

Statement of cash flows

For the year ended 30 June 2017

	Note	30 June 2017 $'000	30 June 2016 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		395,277	372,089
Payments to suppliers and employees (inclusive of GST)		(325,819)	(303,611)
Interest received		597	857
Interest and other finance costs paid		(5,119)	(7,038)
Income taxes paid		(20,154)	(19,208)
Net cash from operating activities	10	44,782	43,089
Cash flows from investing activities			
Payments for property, plant and equipment	14	(26,232)	(4,695)
Payments for purchase of standing timber	15	(33,989)	-
Proceeds from disposal of property, plant and equipment		5,704	1,487
Net cash used in investing activities		(54,517)	(3,208)
Cash flows from financing activities			
Proceeds from borrowings		44,506	-
Dividends paid		(22,229)	(19,190)
Repayment of borrowings		-	(25,225)
Net cash from/(used in) financing activities		22,277	(44,415)
Net increase/(decrease) in cash and cash equivalents		12,542	(4,534)
Cash and cash equivalents at the beginning of the financial year		20,896	25,430
Cash and cash equivalents at the end of the financial year	9	33,438	20,896

The above statement of cash flows should be read in conjunction with the accompanying notes

Notes to the financial statements

30 June 2017

Note 1. General information

The financial statements of Forestry Corporation of New South Wales (the Corporation) are presented in Australian dollars, which is the Corporation's functional and presentation currency.

The Corporation is a New South Wales (NSW) state owned corporation, incorporated and domiciled in Australia. Its registered office and principal place of business are:

121–131 Oratava Avenue,
West Pennant Hills, NSW, 2125.

The Corporation's principal activities involve planting and regeneration operations, planning and managing harvest operations and marketing and delivering timber products.

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 4 September 2017.

Note 2. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

This general purpose financial report has been prepared in accordance with the *State Owned Corporations Act 1989*, Australian Accounting Standards (which include Australian Accounting Interpretations), NSW Treasury Circulars, and the requirements of the *Public Finance and Audit Act 1983* and Public Finance and Audit Regulation 2015. The Corporation is a for-profit entity and its financial statements are consolidated as part of the NSW Total State Sector Accounts.

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of certain forest, non-forest assets, land, investment properties, onerous contract provision and employee benefits provisions which are accounted at fair value.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Corporation's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

Revenue recognition

Revenue is recognised when it is probable that the economic benefit will flow to the Corporation and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Sale of timber and related activities

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

Forest management services

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

Interest

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Rent income

Rent revenue from investment properties is recognised on a straight-line basis over the lease term. Contingent rentals are recognised as income in the period when earned.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

Grants

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

Income tax

The Corporation operates in accordance with the National Tax Equivalent Regime (NTER), under which 'equivalent' taxes are payable to the NSW Government through the Office of State Revenue. The NTER closely mirrors the Commonwealth Income Tax Assessment Acts of 1936 and 1997 (as amended) and is administered by the Australian Taxation Office (ATO).

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate, adjusted for changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the Corporation's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in a normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

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

Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement on 7, 14 or 30 days settlement terms.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the Corporation will not be able to collect all amounts due according to the original terms of the receivables.

Other receivables are recognised at amortised cost, less any provision for impairment.

Inventories

Inventories including work in progress (WIP) are stated at the lower of cost and net realisable value. In the case of materials and parts, cost comprises purchase price and incidental expenses. The valuation of WIP and finished goods is based on direct costs and an appropriate proportion of production overheads. Seeds harvested from biological assets are measured at fair value less estimated point of sale costs at the time of harvest. If market determined prices are not available, seeds are measured at value in use.

Notes to the financial statements *cont.*

Investment properties

Investment properties principally comprise freehold land and buildings held for long-term rental and capital appreciation that are not occupied by the Corporation. The Corporation does not actively trade or engage in the investment property market. Offices and building sites that are surplus to the Corporation's requirements are leased out to generate rental income.

Investment properties are initially recognised at cost, including transaction costs, and are subsequently measured at fair value. Movements in fair value are recognised directly in the statement of profit or loss. Investment properties are derecognised when disposed of or when there is no future economic benefit expected.

Transfers between the classification of investment properties to property, plant and equipment are determined by a change in use of owner-occupation. The fair value on the date of change of use from investment properties to property, plant and equipment are used as deemed cost for the subsequent accounting. The existing carrying amount of property, plant and equipment is used for the subsequent accounting cost of investment properties on the date of change of use.

Property, plant and equipment

The Corporation's property, plant and equipment is governed by NSW Treasury's accounting policy TPP06-6 for capitalisation.

Items of property, plant and equipment are initially measured at their cost, and are subsequently measured at their fair value in accordance with NSW Treasury's accounting policy TPP14-01 'Valuation of Physical Non-Current Assets at Fair Value'. This policy adopts fair value in accordance with AASB 13 'Fair Value Measurement' and AASB 116 'Property, Plant and Equipment'. The last comprehensive valuation was carried out by an independent valuer in the 2016 financial year. A fair value assessment of Property, Plant and Equipment has been carried out in accordance with TPP14-01 and the next comprehensive valuation will be carried out in the 2019 financial year.

Revaluation increments for each class of asset are credited to the asset revaluation reserve within the statement of other comprehensive income. Revaluation decrements are initially recognised in the statement of other comprehensive income to the extent of a previous revaluation surplus of the same asset. Thereafter the decrements are recognised in the statement of profit or loss.

Physical non-current assets or parts of an asset costing more than $5,000 individually are capitalised. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and any costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of the equipment. Borrowing costs related to the acquisition, construction or production of qualifying assets are capitalised.

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

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

Buildings	10 to 50 years
Plant and equipment	3-50 years
Roads and bridges - earthwork	50 years
Roads and bridges - paving	15-30 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Corporation. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss. Any revaluation surplus reserve relating to the item disposed of is transferred directly to retained profits.

Biological assets

Biological assets are measured at their fair value less estimated point of sale costs in accordance with AASB 13 Fair Value Measurement and AASB 141 Agriculture, using a net present value (NPV) technique under the income approach to discount the future cash flows, as there is no active and liquid market for the Corporation's forest assets. The fair value of the biological assets has been determined by appropriately qualified staff employed by the Corporation using advanced modelling techniques/methods.

The Corporation's biological assets consist of plantation timber (softwood and hardwood) and native forest timber. Native Forests (including hardwood timber) are a separate cash-generating unit (CGU), however as the net cash flows from the CGU are negative, related assets apart from land are fully impaired.

Plantation Timber

The Corporation manages approximately 251,000 (2016: 240,000) hectares of softwood plantations and 30,000 (2016: 30,000) hectares of hardwood plantations.

Native Forest Timber

The Corporation manages approximately 1.8 million (2016: 1.8 million) hectares of native forests.

Valuation of Biological Assets

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 appropriate discount rate.

Assumptions underpinning the NPV calculation are:

- Forest valuations are based on the expected volumes of merchantable timber that will be realised from existing stands, given current management strategies and timber recovery rates;
- Only the current crop (standing timber) is valued. The cash flow analysis is based on the anticipated timing of the harvest of existing stands, which has been developed in the context of sustained yield management;
- Volume increments/decrements are determined both by periodic re-measurement of forest samples and by modelling growth from the date of the most recent measurement to date of harvest;
- Prices used in the NPV calculation are based on the CPI adjusted average prices achieved over the previous year, current year, and next year's budget. The use of prior year averages reduces the impact of significant annual pricing variations;
- Ancillary income earned from activities such as the leasing of land for grazing and other occupancy rights is added to the net harvest revenues;
- Costs used in the NPV calculation are based on the CPI adjusted average costs of the previous year, current year's, and next year's budget. These costs are unadjusted for any increases in operational efficiency which might occur in the future;

The discount rate applied in the calculation is 7.50% (2016: 7.50%) real, pre-tax, and reflects the specific risk profile of the Corporation. The risk is derived using the weighted average cost of capital (WACC) and benchmarked against industry data.

The net increment or decrement of the movement in value of the plantation estate has been recognised in the statement of profit or loss.

Impairment of non-financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The Corporation carries an impairment provision for its substantial Hardwood assets relating to property, plant and equipment, excluding land.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Trade and other payables

These amounts represent liabilities for goods and services provided to the company prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

Guarantee fee

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

Notes to the financial statements *cont.*

Finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred, including:

- interest on short-term and long-term borrowings
- amortisation of discounts or premiums relating to borrowings and
- government guarantee fees

Provisions

Provisions are recognised when the company has a present (legal or constructive) obligation as a result of a past event, it is probable the company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

Employee benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled within 12 months of the reporting date are recognised in current liabilities for employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Sick leave is non-vesting and is expensed as incurred.

Other long-term employee benefits

The liability for long service leave not expected to be settled within 12 months of the reporting date is recognised in non-current liabilities, provided there is an unconditional right to defer settlement of the liability. The liability is measured as the present value of expected future payments to be made for services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Defined contribution superannuation schemes

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

Defined benefit superannuation schemes

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

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

The Corporation's net obligation for defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; this benefit is discounted to determine its present value. Any unrecognised past service costs and the fair value of any plan assets are deducted. Expected future payments are discounted using market yields at reporting date on national government bonds. Terms to maturity and currency match as closely to the estimated future cash outflows.

Calculations are performed by the Pooled Fund's actuary. When the calculation results in a benefit to the Corporation, the recognised asset is limited to the total of any unrecognised past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Corporation. An economic benefit is available to the Corporation if it is realisable during the life of the plan, or on settlement of the plan liabilities. When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in the calculation of profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the calculation of profit or loss.

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

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

Termination benefits

Termination benefits are recognised as an expense when the Corporation is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Corporation has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received on the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Contributed equity

Contributed equity represents the NSW Government's investment in the Corporation.

Dividends

The dividends are calculated on adjusted net profit after tax in accordance with NSW Treasury's accounting policy TPP14-4 Financial Distribution Policy for Government Businesses and recognised as a payable only when the shareholding ministers accept the dividends recommended by the Board of Directors.

Goods and Services Tax (GST) and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

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

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

Rounding of amounts

All values in the financial statements are rounded to the nearest thousand dollars unless otherwise stated.

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been applied in preparing these financial statements. The Corporation does not plan to adopt these standards early and the extent of their impact is not known or reasonably estimable. These standards are outlined as follows:

- AASB 9 Financial Instruments and its consequential amendments
- AASB 15 Revenue from Contracts with Customers
- AASB 16 Leases

Notes to the financial statements *cont.*

Note 3. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Provision for impairment of receivables

The provision for impairment of receivables assessment requires a degree of estimation and judgement. The level of provision is assessed by taking into account the recent sales experience, the ageing of receivables, historical collection rates and specific knowledge of the individual debtor's financial position.

Fair value measurement hierarchy

The Corporation is required to classify all assets and liabilities, measured at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being: Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date; Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3: Unobservable inputs for the asset or liability. Considerable judgement is required to determine what is significant to fair value and therefore which category the asset or liability is placed in can be subjective.

The fair value of assets and liabilities classified as level 3 is determined by the use of valuation models. These include discounted cash flow analysis or the use of observable inputs that require significant adjustments based on unobservable inputs. The fair values are sensitive to various assumptions (refer to note 27).

Estimation of useful lives of assets

The Corporation determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Impairment of property, plant and equipment

The Corporation assesses impairment of property, plant and equipment at each reporting date by evaluating conditions specific to the Corporation and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Employee benefits provision

As discussed in note 2, the liability for employee benefits expected to be settled more than 12 months from the reporting date are recognised and measured at the present value of the estimated future cash flows to be made for all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

Superannuation deferred benefit liability

As discussed in note 2, the liability for the defined benefit superannuation plans is measured at the present value of the defined benefit obligation at the reporting date less the fair value of the superannuation fund's assets at that date and any unrecognised past service cost as determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. The actuarial valuations are sensitive to these assumptions (refer to note 33).

Note 4. Revenue

	30 June 2017 $'000	30 June 2016 $'000
Sales revenue		
Forests sales revenue	330,484	305,481
Other revenue		
Other services rendered	15,964	11,367
Interest	597	857
Rent income from investment properties	278	252
Other rental	3,850	4,403
	20,689	16,879
Revenue	351,173	322,360

Note 5. Other income

	30 June 2017 $'000	30 June 2016 $'000
Grants revenue - community service obligations	15,673	15,995
Grants revenue - other state government grants	548	295
Net gain/(loss) on disposal of non-current assets	1,640	(67)
Other income	17,861	16,223

Community Service Obligations (CSO)

The Corporation incurred $15.67 million (2016: $15.99 million) costs for services which included provision of recreation facilities, education and advisory services, government liaison and regulatory services, community fire protection and research. Any unspent CSO grants are carried forward to the next financial year for on-going projects. The costs are included in operating expenditure in Note 6.

Note 6. Operating expenses

	30 June 2017 $'000	30 June 2016 $'000
Contract harvest and haulage	150,071	133,684
External contractor costs	44,729	39,006
Other operating expenses	11,795	7,637
Materials	13,737	17,153
Occupancy costs	2,218	2,303
Forest management and licence costs	1,046	1,250
Travel and accommodation	2,312	2,053
Communication and computer costs	2,894	2,629
Insurance and state taxes	1,527	1,154
	230,329	206,869

Notes to the financial statements *cont.*

Note 7. Expenses

	30 June 2017 $'000	30 June 2016 $'000
Profit before income tax includes the following specific expenses:		
Finance costs		
Government guarantee fee	1,511	1,406
Interest expenses	4,037	4,945
Finance costs expensed	5,548	6,351
Superannuation expense		
Defined contribution superannuation expense	3,636	3,600
Defined benefit superannuation expense	1,526	1,596
Total superannuation expense	5,162	5,196

Refer to note 33 for Defined benefit superannuation expense.

Note 8. Income tax expense

	30 June 2017 $'000	30 June 2016 $'000
Income tax expense		
Current tax	17,715	15,720
Deferred tax - origination and reversal of temporary differences	3,773	23,526
Aggregate income tax expense	21,488	39,246
Deferred tax included in income tax expense comprises:		
Increase in deferred tax liabilities (note 23)	3,773	23,526
Numerical reconciliation of income tax expense and tax at the statutory rate		
Profit before income tax expense	70,926	129,518
Tax at the statutory tax rate of 30%	21,278	38,855
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Non-taxable expenses	246	733
Sundry items	(36)	(342)
Income tax expense	21,488	39,246

	30 June 2017 $'000	30 June 2016 $'000
Amounts charged/(credited) directly to equity		
Deferred tax liabilities (note 23)	14,165	(54,317)

Note 9. Current assets – cash and cash equivalents

	30 June 2017 $'000	30 June 2016 $'000
Cash on hand	17	19
Cash at bank	9,375	13,895
NSW Treasury Corporation TCorpIM Cash Fund	24,046	6,982
	33,438	20,896

The NSW Treasury Corporation TCorpIM Cash Fund has been subject to floating interest rates between 2.37% and 2.53% (2016: 2.49% and 2.70%).

Note 10. Reconciliation of profit after income tax to net cash from operating activities

	30 June 2017 $'000	30 June 2016 $'000
Profit after income tax expense for the year	49,438	90,272
Adjustments for:		
Depreciation and amortisation	6,467	7,684
Net (gain)/loss on disposal of property, plant and equipment	(1,640)	67
Net fair value gain on biological assets	(13,182)	(87,037)
Other non-cash items	47,620	(46,149)
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	(5,344)	2,935
Decrease/(Increase) in inventories	106	(53)
Increase/(decrease) in trade and other payables	7,156	(427)
Decrease in provision for income tax	(2,440)	(3,487)
Increase in deferred tax liabilities	3,773	23,526
Increase/(decrease) in other provisions	(47,172)	55,758
Net cash from operating activities	44,782	43,089

Note 11. Current assets - trade and other receivables

	30 June 2017 $'000	30 June 2016 $'000
Trade receivables	44,107	39,490
Less: Provision for impairment of receivables	(31)	(540)
	44,076	38,950
Other debtors	2,157	2,540
Prepayments	2,753	2,153
	48,986	43,643

Impairment of receivables

The ageing of the impaired receivables provided for above are as follows:

	30 June 2017 $'000	30 June 2016 $'000
0 to 3 months overdue	-	537
Over 3 months overdue	31	3
	31	540

Notes to the financial statements *cont.*

Movements in the provision for impairment of receivables are as follows:

	30 June 2017 $'000	30 June 2016 $'000
Opening balance	540	51
Additional provisions recognised	31	537
Receivables written off during the year as uncollectable	-	(33)
Unused amounts reversed	(540)	(15)
Closing balance	31	540

Past due but not impaired

Customers with balances past due but without provision for impairment of receivables amount to $15,007,000 as at 30 June 2017 ($10,640,000 as at 30 June 2016).

The Corporation did not consider a credit risk on the aggregate balances after reviewing the credit terms of customers based on recent collection practices.

The ageing of the past due but not impaired receivables are as follows:

	30 June 2017 $'000	30 June 2016 $'000
31 to 60 days	13,582	9,296
61 to 90 days	815	626
Over 91	610	718
	15,007	10,640

Note 12. Current assets – inventories

	30 June 2017 $'000	30 June 2016 $'000
Work in progress and finished goods	3,042	3,148

Note 13. Current assets – biological assets

	30 June 2017 $'000	30 June 2016 $'000
Biological assets at fair value	78,698	68,189

The valuation of biological assets ("standing timber") is an accounting valuation carried out under AASB 141 Agriculture, and requires management to make certain judgements and estimates about its carrying value as outlined in note 2.

Refer to note 15 for reconciliation of movements in the current biological assets.

Refer to note 27 for further information on fair value measurement.

Note 14. Non-current assets – property, plant and equipment

	30 June 2017 $'000	30 June 2016 $'000
Land	887,790	873,542
Buildings	24,261	24,329
Less: Accumulated depreciation	(9,830)	(9,960)
	14,431	14,369
Plant and equipment	21,233	18,292
Less: Accumulated depreciation	(7,681)	(6,834)
	13,552	11,458
Roads and bridges	141,180	138,685
Less: Accumulated depreciation	(67,741)	(65,122)
	73,439	73,563
Property work in progress - at cost	64	540
	989,276	973,472

Reconciliations

Movements in the written down values of previous and current financial years are set out below:

	Land $'000	Buildings $'000	Plant and equipment $'000	Roads and bridges $'000	Capital work in progress $'000	Total $'000
Balance at 1 July 2015	1,029,284	12,390	9,185	60,295	52	1,111,206
Additions	159	6	3,963	-	567	4,695
Disposals	(1,039)	(164)	(350)	-	-	(1,553)
Reversal of impairment loss	-	1,271	-	3	-	1,274
Revaluation increments/ (decrements)	(154,814)	1,694	2,058	16,811	-	(134,251)
Transfer from work in progress	-	33	46	-	(79)	-
Impairment of assets	-	(6)	-	-	-	(6)
Transfers in/(out) investment property	(48)	(161)	-	-	-	(209)
Depreciation expense	-	(694)	(3,444)	(3,546)	-	(7,684)
Balance at 30 June 2016	873,542	14,369	11,458	73,563	540	973,472
Additions	16,946	1,298	5,429	2,495	64	26,232
Disposals	(2,698)	(613)	(590)	-	-	(3,901)
Transfer from work in progress	-	130	410	-	(540)	-
Impairment of assets	-	(60)	-	-	-	(60)
Depreciation expense	-	(693)	(3,155)	(2,619)	-	(6,467)
Balance at 30 June 2017	887,790	14,431	13,552	73,439	64	989,276

Refer to note 27 for further information on fair value measurement.

Notes to the financial statements *cont.*

Note 15. Non-current assets – biological assets

	30 June 2017 $'000	30 June 2016 $'000
Biological assets at fair value	913,655	876,992

Reconciliation of biological assets (current and non-current):

	Biological assets $'000
Balance at 1 July 2015	858,144
Harvested timber	(28,202)
Change in fair value less estimated point of sale costs - due to:	
Change in discount rate	45,853
Changes in volumes, prices and markets	69,386
Balance at 30 June 2016	945,181
Harvested timber	(37,645)
Purchase of standing timber	33,989
Change in fair value less estimated point of sale costs - due to:	
Change in discount rate	-
Change in volumes, prices and markets	50,828
Balance at 30 June 2017	992,353

The valuation of biological assets ("standing timber") is an accounting valuation carried out under AASB 141 Agriculture, and requires management to make certain judgements and estimates about its carrying value as outlined in note 2.

Refer to note 27 for further information on fair value measurement and reconciliations of biological assets.

Note 16. Non-current assets - investment properties

	30 June 2017 $'000	30 June 2016 $'000
Investment properties	6,658	6,821
Reconciliation		
Reconciliation of the fair values at the beginning and end of the current and previous financial year are set out below:		
Opening fair value	6,821	8,540
Transfer from/(to) property, plant and equipment	-	209
Disposals	(163)	-
Revaluation decrements	-	(1,928)
Closing fair value	6,658	6,821

Valuations of investment properties

The basis of the valuation of investment properties is fair value, being the amounts for which the properties could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition, subject to similar leases and takes into consideration occupancy rates and returns on investment. For 2016 financial year, the comprehensive valuation of investment properties is conducted by an independent valuer in accordance with NSW Treasury's accounting policy TPP14-01 'valuation of physical non-current assets at fair value', AASB 13 'Fair Value Measurement' and AASB 140 'Investment properties'.

Refer to note 27 for further information on fair value measurement.

Lessor commitments

	30 June 2017 $'000	30 June 2016 $'000
Minimum lease commitments receivable but not recognised in the financial statements:		
Within one year	338	711
One to five years	984	1,186
More than 5 years	1,433	1,433
	2,755	3,330

Note 17. Current liabilities – trade and other payables

	30 June 2017 $'000	30 June 2016 $'000
Trade creditors	32,589	26,034
Revenue received in advance	16,886	16,285
	49,475	42,319

Refer to note 26 for further information on financial instruments.

Note 18. Current liabilities - borrowings

	30 June 2017 $'000	30 June 2016 $'000
NSW Treasury Corporation loans	13,535	-

Refer to note 26 for further information on financial instruments.

Note 19. Current liabilities - Dividend provided

	30 June 2017 $'000	30 June 2016 $'000
Dividend provided	29,543	22,229

Note 20. Current liabilities – provisions

	30 June 2017 $'000	30 June 2016 $'000
Employee benefits	27,520	30,314
Workers compensation	777	782
	28,297	31,096

Employee benefits

The provision for employee benefits comprises annual leave, long service leave and other employee benefits

Workers compensation

The provision represents the estimated costs of workers compensation liability in accordance with Work Cover legislation.

Movements in provisions

Movements in each class of provision during the current financial year, other than employee benefits, are set out below:

	Workers compensation $'000
Balance at 1 July 2016	782
Additional provisions recognised	145
Amounts transferred from non-current	450
Unused amounts reversed	(600)
Balance at 30 June 2017	777

Notes to the financial statements *cont.*

Amounts not expected to be settled within the next 12 months

The current provision for employee benefits includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount is presented as current, since the Corporation does not have an unconditional right to defer settlement. However, based on past experience, the Corporation does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months. Employee benefits obligation expected to be settled within the next 12 month is $4,773,000 (2016: $6,388,000).

Note 21. Non-current liabilities - borrowings

	30 June 2017 $'000	30 June 2016 $'000
NSW Treasury Corporation loans	94,833	63,521

Refer to note 26 for further information on financial instruments.

Note 22. Non-current liabilities – provisions

	30 June 2017 $'000	30 June 2016 $'000
Employee benefits	720	730
Onerous contracts	2,368	2,518
Workers compensation	1,270	1,720
	4,358	4,968

Employee benefits

The provision for employee benefits is the Corporation's liability for long service leave.

Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Corporation from a contract are lower than the unavoidable cost of meeting its obligations under the contract. Onerous contracts provision is the present value estimation of the net future income/(expenses) expected to be generated from existing contracts.

Workers compensation

The provision represents the estimated costs of workers compensation liability in accordance with WorkCover legislation.

Movements in provisions

Movements in each class of provision during the current financial year, other than employee benefits, are set out below:

	Onerous contracts $'000	Workers compensation $'000
Balance at 1 July 2016	2,518	1,720
Amounts transferred to current	-	(450)
Reversal during the year	(150)	-
Balance at 30 June 2017	2,368	1,270

Note 23. Non-current liabilities - deferred tax

	30 June 2017 $'000	30 June 2016 $'000
Deferred tax liability comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Biological assets	287,509	283,554
Provisions	(9,068)	(9,603)
Revenue in advance	(5,066)	(4,885)
Others	-	(38)
	273,375	269,028
Amounts recognised in equity:		
Revaluation of property, plant and equipment	261,150	261,840
Retirement benefit obligations	(36,049)	(49,178)
	225,101	212,662
Deferred tax liability	498,476	481,690
Movements:		
Opening balance	481,690	512,883
Charged to profit or loss (note 8)	3,773	23,526
Charged/(credited) to equity (note 8)	14,165	(54,317)
Recognised directly in equity	(1,152)	(402)
Closing balance	498,476	481,690

Note 24. Equity - Contributed equity

	30 June 2017 $'000	30 June 2016 $'000
Capital contribution	421,706	421,706

Ordinary shares

The Corporation's capital comprises two (2) fully paid $1.00 ordinary shares issued to:

- The Minister for Finance and Services; and
- The Treasurer.

Each shareholder holds their share non-beneficially on behalf of the NSW Government. The shares entitle the NSW Government to a dividend from the Corporation, the amount of which is determined as part of the annual process of negotiating and agreeing the Corporation's Statement of Corporate Intent with the shareholders.

Capital contributions

Contributed equity represents the NSW Government's investment in the Corporation.

Capital management policy

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

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

Notes to the financial statements *cont.*

Note 25. Equity - reserves

	30 June 2017 $'000	30 June 2016 $'000
Asset revaluation reserve	591,606	594,295
Reserve for deferred tax assets	50,092	50,092
	641,698	644,387

Asset revaluation reserve

The reserve is used to recognise increments and decrements in the fair value of property, plant and equipment, excluding investment properties. Refer to the Statement of Changes in Equity for movements in the asset revaluation reserve during the year.

Reserve for deferred tax assets

A specific reserve was created in 2013 for the initial recognition of deferred tax asset for employee benefits.

Note 26. Financial instruments

Financial risk management objectives

The Corporation's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The Corporation's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Corporation.

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

The Board of Directors of the Corporation has overall responsibility for the establishment and oversight of risk management. The Audit and Risk Committee (sub-committee of the Board) endorses the policies for managing each of these risks. Risk management policies are established to identify and analyse the risks faced by the Corporation, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Compliance with policies is reviewed and audited on a continuous basis.

Market risk

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

Interest rate risk

Exposure to interest rate risk arises primarily through the Corporation's interest bearing liabilities. This risk is minimised by undertaking mainly fixed rate borrowings, primarily with The NSW Treasury Corporation (NSW TCorp.). The Corporation does not account for any fixed rate financial instruments at fair value through the Statement of Comprehensive Income or as available for sale. Therefore for these financial instruments, a change in interest rates would not affect the Statement of Comprehensive Income or equity. The agency exposure to interest rate risk is set out below.

The Corporation only holds units in the TCorpIM Funds trust. This trust only invests in Cash and money market instruments that have an investment horizon up to 3 years (2016: 3 years).

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

Investment in the TCorpIM Cash Fund limits the Corporation's exposure to risk, as it allows diversification across a pool of funds, with different investment horizons and a mix of investments.

NSW TCorp. provides sensitivity analysis information for each of the facilities, using historically based volatility information. The NSW TCorp. TCorpIM Cash Fund is designated at fair value and therefore any change in unit price impacts directly on profit (rather than equity).

Interest rate sensitivity

The NSW TCorp. TCorpIM Cash Fund has been subject to floating interest rates between 2.37% and 2.53% (2016: 2.57% and 2.89%). An official increase/decrease in interest rate of 0.3% (2016: 0.5%) would have an adverse/favourable effect on profit after tax of $228,000 (2016: $222,000).

Credit risk

Credit risk arises when there is the possibility of the Corporation's debtors defaulting on their contractual obligations, resulting in a financial loss to the Corporation. The maximum exposure to credit risk is generally represented by the carrying amount of the financial assets (net of any allowance for impairment), as disclosed in the statement of financial position and notes to the financial statements.

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

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

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

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

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

A substantial majority of our trade receivables are derived from sales to timber sawmills. Our 10 largest customers accounted for 78% of forests sales revenue for 2017 (2016: 80%). Additionally, these customers accounted for 78% of our accounts receivable as of 30 June 2017 (2016: 79%). The Corporation has various contractual measures as well as frequent credit control checks to ensure the credit risk exposure is managed.

Liquidity risk

Vigilant liquidity risk management requires the Corporation to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

Liquidity risk is the risk that the Corporation will be unable to meet its payment obligations when they fall due. The Corporation continuously manages this risk through monitoring future cash flows and maturities planning to ensure adequate holding of high quality liquid assets. The objective is to maintain a balance between continuity of funding and flexibility through the use of overdrafts, loans and other advances.

The Corporation manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

During the current and prior years, there were no defaults or breaches on any loans payable. No assets have been pledged as collateral.

Remaining contractual maturities

The following table details the Corporation's remaining contractual maturity for its financial instrument liabilities. The tables show the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

Notes to the financial statements *cont.*

30 June 2017	Weighted average interest rate %	1 year or less $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Non-derivatives						
Non-interest bearing						
Trade creditors	-	49,475	-	-	-	49,475
Interest-bearing - fixed rate						
NSW TCorp. loans	4.17%	18,247	25,719	70,372	8,585	122,923
Total non-derivatives		67,722	25,719	70,372	8,585	172,398

30 June 2016	Weighted average interest rate %	1 year or less $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Non-derivatives						
Non-interest bearing						
Trade creditors	-	42,319	-	-	-	42,319
Interest-bearing - fixed rate						
NSW TCorp. loans	5.43%	3,577	9,060	51,800	12,880	77,317
Total non-derivatives		45,896	9,060	51,800	12,880	119,636

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

Fair value of financial instruments

The carrying values of cash and short-term deposits, trade receivables, trade payables and other current liabilities are equal to the fair value due to the short-term maturities of these instruments except for loans and borrowings.

The fair value measurements for interest bearing loan and borrowings of $114,888,000 (2016: $72,348,000) are determined by NSW TCorp. and have been categorised as Level 2 fair values using the observable curves combined with margins derived from appropriate benchmarks/comparators.

The fair values of financial assets and liabilities, together with their carrying amounts in the statement of financial position, for the Corporation are as follows:

	30 June 2017		30 June 2016	
	Carrying amount $'000	Fair value $'000	Carrying amount $'000	Fair value $'000
Liabilities				
Borrowings	108,368	114,888	63,521	72,348
	108,368	114,888	63,521	72,348

Note 27. Fair value measurement

Fair value hierarchy

The following tables detail the Corporation's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3: Unobservable inputs for the asset or liability

30 June 2017	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Land (including Crown and Freehold land)	-	887,790	-	887,790
Building	-	-	14,431	14,431
Plant and equipment	-	11,941	1,611	13,552
Roads and bridges	-	-	73,439	73,439
Investment property	-	6,658	-	6,658
Biological assets	-	-	992,353	992,353
Total assets	-	906,389	1,081,834	1,988,223
Liabilities				
Onerous contracts provision	-	-	2,368	2,368
Total liabilities	-	-	2,368	2,368

30 June 2016	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Land (including Crown and Freehold land)	-	873,542	-	873,542
Building	-	-	14,369	14,369
Plant and equipment	-	10,375	1,083	11,458
Roads and bridges	-	-	73,563	73,563
Investment property	-	6,821	-	6,821
Biological assets	-	-	945,181	945,181
Total assets	-	890,738	1,034,196	1,924,934
Liabilities				
Onerous contracts provision	-	-	2,518	2,518
Total liabilities	-	-	2,518	2,518

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature.

The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial liabilities.

Valuation techniques for fair value measurements categorised within level 2 and level 3

As detailed in note 2, a comprehensive valuation for non-current assets was conducted by an independent valuer, covering land, roads, and non-forests installations. The valuation techniques, inputs and relationship of unobservable inputs in the fair value are provided below:

Land (includes Crown and Freehold Land), Investment property and Plant and equipment (Level 2)

In determining the most appropriate measure of fair value for land and investment properties, the valuer considers a number of factors such as the principal (or most advantageous) market in which an orderly transaction would take place for the asset, the highest and best use of the asset and whether the asset is used in combination with other assets or on a stand-alone basis, and the assumptions that a market participant would use when pricing the asset.

Notes to the financial statements *cont.*

The valuer has taken into consideration all the restrictions, impediments and constraints, as well as the special attributes of the land. In the case of the Corporation, there is little to no potential for development other than that permitted by legislation. Thus the value is limited to the existing use which represents the highest and best use.

Plant and equipment, including heavy plant and vehicles, an independent valuer adopted market approach where fair value is determined using prices and other relevant information generated by market transactions involving identical or comparable assets or group of assets.

Buildings, Roads and bridges and other plant and equipment (Level 3)

For 2017 financial year, a fair value assessment was performed where depreciated replacement cost (DRC) is used for building, roads and bridges assets. Key inputs for DRC are:

- Estimated construction cost for each type of structure.
- Estimated useful life for each type of structure.

The fair value would increase/(decrease) if construction cost and useful life for buildings, roads and bridges increase/(decrease).

Other plant and equipment including computer equipment are recognised at the cost of acquisition including handling and installation. These assets are assessed by management and it is considered that their depreciated net carrying amount closely approximates their market value less costs to sell.

Biological assets: Current standing timber (Level 3)

Discounted cash flows: The valuation model considers the present value of the net cash flows expected to be generated by the plantation. The cash flow projections include current crop (standing timber) from a single rotation. The expected net cash flows are discounted using appropriate discount rate.

The key inputs used:

- Estimated three years average timber market prices per tonne or square metre.
- Estimated yield per hectare or estimated timber projections.
- Estimated three years average direct and indirect costs.
- Discount rate of 7.50%

The estimated fair value would increase/(decrease) if:

- the estimated three years average timber market price was higher/(lower).
- the estimated yield per hectare or estimated timber projections were higher/(lower).
- the estimated three years average direct and indirect costs were lower/(higher).
- the discount rate was lower/(higher).

Onerous contracts provision (Level 3)

Discounted net future income/(expenses): Onerous contracts provision is the present value estimation of the net future income/(expenses) expected to be generated from existing contracts. The projections include the remaining period of the contract for one rotation of the plantation. The expected net future income/(expenses) are discounted using appropriate discount rate.

The key inputs used:

- Estimated three years average direct and indirect costs.
- CPI adjusted opening balance of advance amount from the contract.
- CPI adjusted income rate mentioned in the contract.
- Discount rate of 7.50%

The estimated fair value would increase/(decrease) if the discount rate is lower/(higher). The estimated fair value would increase/(decrease) if the estimated three years average direct and indirect cost were higher/(lower).

Level 3 assets and liabilities

Movements in level 3 assets and liabilities during the current and previous financial year are set out below:

	Buildings $'000	Plant and equipment $'000	Roads and bridges $'000	Total $'000
Balance at 1 July 2015	12,390	9,185	60,295	81,870
Transfers out level 3	(161)	(10,375)	-	(10,536)
Additions	6	3,963	-	3,969
Disposals	(164)	(350)	-	(514)
Impairment of assets and reversal of impairment loss	1,265	-	3	1,268
Revaluation increments/(decrements)	1,694	2,058	16,811	20,563
Depreciation	(694)	(3,444)	(3,546)	(7,684)
Transfer from work in progress	33	46	-	79
Balance at 30 June 2016	14,369	1,083	73,563	89,015
Additions	1,298	722	2,495	4,515
Disposals	(613)	(22)	-	(635)
Impairment of assets and reversal of impairment loss	(60)	-	-	(60)
Depreciation	(693)	(452)	(2,619)	(3,764)
Transfer from work in progress	130	280	-	410
Balance at 30 June 2017	14,431	1,611	73,439	89,481

Movements in level 3 assets for Onerous contracts provision are provided in note 22.

Movements in level 3 assets for Biological assets are provided in note 15.

The level 3 assets and liabilities unobservable inputs and sensitivity are as follows:

Description	Unobservable inputs	Range (weighted average)	Sensitivity ($000)
2017			
a. Biological assets	(i) Discount rate	+1%	1% increase would decrease fair value by $88,562
		-1%	1% decrease would increase fair value by $105,002
	(ii) Expected future sales values	+/- 5%	5% change would increase/(decrease) the fair value by $136,996
	(iii) Expected future costs	+/- 5%	5% change would increase/(decrease) the fair value by $87,379
	(iv) Expected future changes in volume	+/- 5%	5% change would increase/(decrease) the fair value by $70,871
b. Onerous contracts provision	(i) Discount rate	+1%	1% increase would increase fair value by $23
		-1%	1% decrease would decrease fair value by $51
	(ii) Expected 3 years direct/indirect costs	+/- 5%	5% change would increase/(decrease) the fair value by $456
2016			
a. Biological assets	(i) Discount rate%	+1%	1% increase would decrease fair value by $87,954
		-1%	1% decrease would increase fair value by $104,770
	(ii) Expected future sales values	+/- 5%	5% change would increase/(decrease) the fair value by $130,805
	(iii) Expected future costs	+/- 5%	5% change would increase/(decrease) the fair value by $83,546
	(iv) Expected future changes in volume	+/- 5%	5% change would increase/(decrease) the fair value by $66,668
b. Onerous contracts provision	(i) Discount rate	+1%	1% increase would decrease fair value by $2
		-1%	1% decrease would increase fair value by $30
	(ii) Expected 3 years direct/indirect costs	+/- 5%	5% change would increase/(decrease) the fair value by $448

Notes to the financial statements *cont.*

Note 28. Key management personnel disclosures

Directors

The following persons were Directors of Forestry Corporation of New South Wales during the financial year:

- James M. Millar AM — Chairman - Board Member (Non-Executive)
- Noel Cornish AM — Board Member (Non-Executive)
- Geoffrey Applebee — Board Member (Non-Executive)
- Sarah Kearney — Board Member (Non-Executive)
- Dr Lyndall Bull (appointed 11 May 2017) — Board Member (Non-Executive)
- Wendy Machin (appointed 11 May 2017) — Board Member (Non-Executive)
- Nick Roberts — Chief Executive Officer

Other key management personnel

The following persons also had the authority and responsibility for planning, directing and controlling the major activities of the Corporation, directly or indirectly, during the financial year:

- Anshul Chaudhary — Chief Financial Officer
- Dean Anderson — General Manager Hardwood Forests Division
- Ian Brown — General Manager Softwood Plantations Division
- Ross Dickson — Chief Forester and Company Secretary
- Bernadette Cavanagh — General Manager Human Resources

In accordance with the Treasury Circular TC16-12, the Portfolio and Shareholder Ministers of the Corporation are also regarded as key management personnel. The Corporation has not provided any monetary or non-monetary compensation to the Ministers during the financial year.

Compensation

The aggregate compensation paid or due to Directors and other members of key management personnel of the Corporation is set out below:

	30 June 2017	30 June 2016
Short-term employee benefits	2,197,473	2,046,742
Post-employment benefits	126,267	115,106
Long-term benefits	104,633	75,111
	2,428,373	2,236,959

Note 29. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by The Audit Office of New South Wales, the auditor of the Corporation:

	30 June 2017	30 June 2016
Audit services - The Audit Office of New South Wales		
Audit of the financial statements (excluding GST)	274,000	289,050

Note 30. Commitments

	30 June 2017 $'000	30 June 2016 $'000
Capital commitments		
Committed at the reporting date but not recognised as liabilities, payable:		
Property, plant and equipment	3,161	177
Lease commitments - operating		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	822	1,137
One to five years	1,202	1,450
More than five years	6,031	6,285
	8,055	8,872

Note 31. Contingent Liabilities\Assets

At 30 June 2017, 638,641 hectares (2016: 672,020 hectares) of operational timber reserves were subject to claims under the Native Title Act. The impact of these claims cannot be quantified at this time.

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

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

At 30 June 2017, the Corporation has no contingent assets.

Note 32. Events after the reporting period

No matter or circumstance has arisen since 30 June 2017 that has significantly affected, or may significantly affect the Corporation's operations, the results of those operations, or the Corporation's state of affairs in future financial years.

Note 33. Non-current liabilities - retirement benefit obligations

Statement of financial position amounts

The amounts recognised in the statement of financial position are determined as follows:

	30 June 2017 $'000	30 June 2016 $'000
Present value of the defined benefit obligation	329,291	370,125
Fair value of defined benefit plan assets	(209,129)	(206,200)
Net liability in the statement of financial position	120,162	163,925

The information disclosed in this note has been provided by Mercer Administration Services (Australia) Pty Ltd in accordance with AASB 119.

Nature of the benefits provided by the fund

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

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

These schemes are all defined benefit schemes – at least a component of the final benefit is derived from a multiple of member salary and years of membership. Members receive lump sum or pension benefits on retirement, death, disablement and withdrawal. All the schemes are closed to new members.

Notes to the financial statements *cont.*

Description of the regulatory framework

The schemes in the Pooled Fund are established and governed by the following NSW legislation: *Superannuation Act 1916, State Authorities Superannuation Act 1987, State Authorities Non-Contributory Superannuation Act 1987*, and their associated regulations.

The schemes in the Pooled Fund are exempt public sector superannuation schemes under the *Commonwealth Superannuation Industry (Supervision) Act 1993* (SIS). The SIS Legislation treats exempt public sector superannuation funds as complying funds for concessional taxation and superannuation guarantee purposes.

Under a Heads of Government agreement, the New South Wales Government undertakes to ensure that the Pooled Fund will conform with the principles of the Commonwealth's retirement incomes policy relating to preservation, vesting and reporting to members and that members' benefits are adequately protected.

The New South Wales Government prudentially monitors and audits the Pooled Fund and the Trustee Board activities in a manner consistent with the prudential controls of the SIS legislation. These provisions are in addition to other legislative obligations on the Trustee Board and internal processes that monitor the Trustee Board's adherence to the principles of the Commonwealth's retirement incomes policy.

An actuarial investigation of the Pooled Fund is performed every three years. The last actuarial investigation was performed as at 30 June 2015. The next actuarial investigation will be performed at 30 June 2018

Description of other entities' responsibilities for the governance of the fund

The Fund's Trustee is responsible for the governance of the Fund. The Trustee has a legal obligation to act solely in the best interests of fund beneficiaries. The Trustee has the following roles:

- Administration of the fund and payment to the beneficiaries from fund assets when required in accordance with the fund rules;
- Management and investment of the fund assets; and
- Compliance with other applicable regulations.

Description of risks

There are a number of risks to which the Fund exposes the Employer. The more significant risks relating to the defined benefits are:

- Investment risk – The risk that investment returns will be lower than assumed and the Employer will need to increase contributions to offset this shortfall.
- Longevity risk – The risk that pensioners live longer than assumed, increasing future pensions.
- Pension indexation risk – The risk that pensions will increase at a rate greater than assumed, increasing future pensions.
- Salary growth risk – The risk that wages or salaries (on which future benefit amounts for active members will be based) will rise more rapidly than assumed, increasing defined benefit amounts and thereby requiring additional employer contributions.
- Legislative risk – The risk is that legislative changes could be made which increase the cost of providing the defined benefits.

The defined benefit fund assets are invested with independent fund managers and have a diversified asset mix. The Fund has no significant concentration of investment risk or liquidity risk.

Description of significant events

There were no fund amendments, curtailments or settlements during the year.

Reconciliation of the Net Defined Benefit Liability/(Asset)

Financial Year to 30 June	SASS		SANCS		SSS		Total	
	2017 $000	2016 $000	2017 $000	2016 $000	2017 $000	2016 $000	2017 $000	2016 $000
Net Defined Benefit Liability/(Asset) at start of year	21,197	10,843	191	(516)	142,537	99,378	163,925	109,705
Current service cost	1,140	1,146	301	296	294	132	1,735	1,574
Net Interest on the net defined benefit liability/(asset)	411	311	1	(20)	2,835	3,009	3,247	3,300
Actual return on Fund assets less Interest income	(4,261)	(121)	(512)	(13)	(9,640)	(157)	(14,413)	(291)
Actuarial (gains)/losses arising from changes in demographic assumptions	(18)	357	(11)	(27)	15	10,227	(14)	10,557
Actuarial (gains)/losses arising from changes in financial assumptions	(4,721)	7,452	(314)	586	(22,998)	32,019	(28,033)	40,057
Actuarial (gains)/losses arising from liability experience	(733)	2,377	(240)	141	(3,785)	(1,898)	(4,758)	620
Employer contributions	(1,097)	(1,168)	(238)	(256)	(192)	(173)	(1,527)	(1,597)
Net Defined Benefit Liability/(Asset) at end of year	11,918	21,197	(822)	191	109,066	142,537	120,162	163,925

Reconciliation of the Fair Value of Fund Assets

Financial Year to 30 June	SASS		SANCS		SSS		Total	
	2017 $000	2016 $000	2017 $000	2016 $000	2017 $000	2016 $000	2017 $000	2016 $000
Fair value of Fund assets at beginning of the year	61,707	62,003	7,498	7,536	136,995	143,407	206,200	212,946
Interest income	1,184	1,817	142	223	2,661	4,167	3,987	6,207
Actual return on Fund assets less Interest income	4,261	121	512	13	9,640	157	14,413	291
Employer contributions	1,097	1,168	238	256	192	173	1,527	1,597
Contributions by participants	588	568	0	0	100	99	688	667
Benefits paid	(6,665)	(3,589)	(839)	(464)	(11,999)	(11,602)	(19,503)	(15,655)
Taxes, premiums & expenses paid	178	(381)	(4)	(66)	1,643	594	1,817	147
Fair value of Fund assets at end of the year	62,350	61,707	7,547	7,498	139,232	136,995	209,129	206,200

Reconciliation of the Defined Benefit Obligation

Financial Year to 30 June	SASS		SANCS		SSS		Total	
	2017 $000	2016 $000	2017 $000	2016 $000	2017 $000	2016 $000	2017 $000	2016 $000
Present value of defined benefit obligations at beginning of the year	82,904	72,846	7,690	7,021	279,531	242,784	370,125	322,651
Current service cost	1,140	1,146	300	296	294	132	1,734	1,574
Interest cost	1,595	2,128	144	203	5,496	7,176	7,235	9,507
Contributions by participants	588	568	0	0	100	99	688	667
Actuarial (gains)/losses arising from changes in demographic assumptions	(18)	357	(11)	(27)	15	10,227	(14)	10,557
Actuarial (gains)/losses arising from changes in financial assumptions	(4,721)	7,452	(314)	586	(22,998)	32,019	(28,033)	40,057
Actuarial (gains)/losses arising from liability experience	(733)	2,377	(240)	141	(3,785)	(1,898)	(4,758)	620
Benefits paid	(6,665)	(3,589)	(839)	(464)	(11,999)	(11,602)	(19,503)	(15,655)
Taxes, premiums & expenses paid	178	(381)	(4)	(66)	1,643	594	1,817	147
Present value of defined benefit obligations at end of the year	74,268	82,904	6,726	7,690	248,297	279,531	329,291	370,125

Notes to the financial statements *cont.*

Fair value of Fund assets

All Pooled Fund assets are invested by SAS Trustee Corporation (STC) at arm's length through independent fund managers, assets are not separately invested for each entity and it is not possible or appropriate to disaggregate and attribute fund assets to individual entities. As such, the disclosures below relate to total assets of the Pooled Fund.

Asset category	As at 30 June 2017				As at 30 June 2016			
	Total $'000	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000	Level 1 $'000	Level 2 $'000	Level 3 $'000
Cash	3,087,307	3,077,362	9,945	-	2,050,414	2,044,454	5,960	-
Australian Fixed Interest	2,500,725	997	2,499,728	-	2,720,590	2,724	2,717,865	-
International Fixed Interest	480,991	-	480,991	-	834,374	(1,358)	835,731	-
Australian Equities	9,446,079	8,947,483	498,572	24	9,720,877	9,171,767	549,087	24
International Equities	12,053,503	9,033,497	1,869,112	1,150,894	12,093,667	9,026,207	2,078,766	988,694
Property	3,453,108	926,105	533,191	1,993,812	3,650,267	1,113,253	618,946	1,918,068
Alternatives	9,066,056	390,899	5,068,137	3,607,020	7,115,949	470,130	3,122,185	3,523,634
Total	40,087,769	22,376,343	10,959,676	6,751,750	38,186,138	21,827,178	9,928,540	6,430,420

Fund assets

The percentage invested in each asset class at the reporting date is:

As at 30 June	2017 %	2016 %
Cash	7.7%	5.4%
Australian Fixed Interest	6.2%	7.1%
International Fixed Interest	1.2%	2.2%
Australian Equities	23.6%	25.5%
International Equities	30.1%	31.7%
Property	8.6%	9.6%
Alternatives	22.6%	18.6%
Total	100.0%	100.0%

- Level 1 - quoted prices in active markets for identical assets or liabilities. The assets in this levels are listed shares; listed unit trusts.
- Level 2 - inputs other than quoted prices observable for the asset or liability either directly or indirectly. The assets in this level are cash; notes; government, semi-government and corporate bonds; unlisted trusts where quoted prices are available in active markets for identical assets or liabilities.
- Level 3 - inputs for the asset or liability that are not based on observable market data. The assets in this level are unlisted property; unlisted shares; unlisted infrastructure; distressed debt; hedge funds.

Derivatives, including futures and options, can be used by investment managers. However, each manager's investment mandate clearly states that derivatives may only be used to facilitate efficient cashflow management or to hedge the portfolio against market movements and cannot be used for speculative purposes or gearing of the investment portfolio. As such managers make limited use of derivatives.

Fair value of entity's own financial instruments

The disclosures below relate to total assets of the Pooled Fund.

The fair value of the Pooled Fund assets as at 30 June 2017 include $354.0 million in NSW government bonds. Of the direct properties owned by the Pooled Fund:

- SAS Trustee Corporation occupies part of a property 100% owned by the Pooled Fund with a fair value of $250 million (30 June 2016: $222 million).
- Health Administration Corporation occupies part of a property 50% owned by the Pooled Fund with a fair value (100% interest) of $261 million (30 June 2016: $243 million).

Significant Actuarial Assumptions at the Reporting Date

As at 30 June	2017	2016
Discount rate	2.62%	1.99%
Salary increase rate (excluding promotional increases)	2.50% 2017/2018 and 2018/2019; 3.50% 2019/2020 and 2020/2021; 3.00% pa 2021/2022 to 2025/2026; 3.50% pa thereafter	2.50% 2016/2017 to 2018/2019; 3.50% 2019/2020 and 2020/2021; 3.00% pa 2021/2022 to 2025/2026; 3.50% pa thereafter
Rate of CPI increase	2.00% 2017/2018; 2.25% 2018/2019; 2.50% pa thereafter	1.5% 2015/2016; 1.75% 2016/2017; 2.25% 2017/2018; 2.50% pa thereafter
Pensioner mortality	The pensioner mortality assumptions are as per the 2015 Actuarial Investigation of the Pooled Fund. These assumptions are disclosed in the actuarial investigation report available from the trustee's website. The report shows the pension mortality rates for each age.	The pensioner mortality assumptions are as per the 2015 Actuarial Investigation of the Pooled Fund. These assumptions are disclosed in the actuarial investigation report available from the trustee's website. The report shows the pension mortality rates for each age.

Sensitivity Analysis

The entity's total defined benefit obligation as at 30 June 2017 under several scenarios is presented below. The total defined benefit obligation disclosed is inclusive of the contribution tax provision which is calculated based on the asset level at 30 June 2017.

Scenarios A to F relate to sensitivity of the total defined benefit obligation to economic assumptions, and scenarios G and H relate to sensitivity to demographic assumptions.

As at 30 June	2017			2016		
	Base Case	Scenario A -1.0% discount rate	Scenario B +1.0% discount rate	Base Case	Scenario A -1.0% discount rate	Scenario B +1.0% discount rate
Discount rate	as above	as above -1.0% pa	as above +1.0% pa	1.99%	0.99%	2.99%
Rate of CPI increase	as above	as above	as above	as above	as above	as above
Salary inflation rate	as above	as above	as above	as above	as above	as above
Defined benefit obligation $'000	329,291	374,351	292,140	370,125	428,916	325,213

As at 30 June	2017			2016		
	Base Case	Scenario C +0.5% rate of CPI increase	Scenario D -0.5% rate of CPI increase	Base Case	Scenario C +0.5% rate of CPI increase	Scenario D -0.5% rate of CPI increase
Discount rate	as above	as above	as above	as above	as above	as above
Rate of CPI increase	as above	above rates plus 0.5% pa	above rates less 0.5% pa	as above	above rates plus 0.5% pa	above rates less 0.5% pa
Salary inflation rate	as above	as above	as above	as above	as above	as above
Defined benefit obligation $'000	329,291	349,368	310,908	370,125	395,143	347,972

As at 30 June	2017			2016		
	Base Case	Scenario E +0.5% salary increase rate	Scenario F -0.5% salary increase rate	Base Case	Scenario E +0.5% salary increase rate	Scenario F -0.5% salary increase rate
Discount rate	as above	as above	as above	as above	as above	as above
Rate of CPI increase	as above	as above	as above	as above	as above	as above
Salary inflation rate	as above	above rates plus 0.5% pa	above rates less 0.5% pa	as above	above rates plus 0.5% pa	above rates less 0.5% pa
Defined benefit obligation $'000	329,291	330,774	327,863	370,125	372,014	368,321

Notes to the financial statements *cont.*

As at 30 June	2017			2016		
	Base Case	Scenario G Higher mortality*	Scenario H Lower mortality**	Base Case	Scenario G Higher mortality*	Scenario H Lower mortality**
Defined benefit obligation $'000	329,291	334,527	325,698	370,125	366,036	376,177

**Assumes the short-term pensioner mortality improvement factors for years 2017-2021 also apply for years after 2021*

***Assumes the long-term pensioner mortality improvement factors for years post 2021 also apply for years 2017 to 2021*

The defined benefit obligation has been recalculated by changing the assumptions as outlined above, whilst retaining all other assumptions.

Asset-Liability matching strategies

The Trustee monitors its asset-liability risk continuously in setting its investment strategy. It also monitors cashflows to manage liquidity requirements. No explicit asset-liability matching strategy is used by the Trustee.

Funding arrangements

Funding arrangements are reviewed at least every three years following the release of the triennial actuarial review and was last reviewed following completion of the triennial review as at 30 June 2015. Contribution rates are set after discussions between the employer, STC and NSW Treasury.

Funding positions are reviewed annually and funding arrangements may be adjusted as required after each annual review.

Surplus/deficit

The following is a summary of the 30 June 2017 financial position of the Fund calculated in accordance with AASB 1056 Accounting Standard "Superannuation Entities":

Financial Year to 30 June	SASS		SANCS		SSS		Total	
	2017 $000	2016 $000	2017 $000	2016 $000	2017 $000	2016 $000	2017 $000	2016 $000
Accrued benefits*	53,861	55,916	5,539	5,947	139,362	141,181	198,762	203,044
Net market value of Fund assets	(62,349)	(61,707)	(7,547)	(7,498)	(139,232)	(136,995)	(209,128)	(206,200)
Net (surplus)/deficit	(8,488)	(5,791)	(2,008)	(1,551)	130	4,186	(10,366)	(3,156)

** There is no allowance for a contribution tax provision within the Accrued Benefits figure for AASB 1056. Allowance for contributions tax is made when setting the contribution rates.*

Contribution recommendations

Recommended contribution rates for the entity are:

	SASS		SANCS		SSS	
	2017	2016	2017	2016	2017	2016
multiple of member contributions	1.9	1.9	-	-	1.6	1.6
% member salary	-	-	2.50%	2.50%	-	-

Economic assumptions

The economic assumptions adopted for the 30 June 2017 AASB 1056 Accounting Standard "Superannuation Entities":

For the period 30 June	2017 %	2016 %
Expected rate of return on Fund assets backing current pension liabilities	7.4% pa	7.8% pa
Expected rate of return on Fund assets backing other liabilities	6.4% pa	6.8% pa
Expected salary increase rate (excluding promotional salary increase)	2.7% to 30 June 2019 then 3.2% pa thereafter	3.0% to 30 June 2019 then 3.5% pa thereafter
Expected rate of CPI increase	2.2% pa	2.5% pa

Future expected contributions

Financial Year to 30 June	SASS		SANCS		SSS		Total	
	2017 $000	2016 $000	2017 $000	2016 $000	2017 $000	2016 $000	2017 $000	2016 $000
Future expected employer contributions for the following year	1,117	1,080	237	250	160	158	1,514	1,488

Maturity profile of defined benefit obligation

The weighted average duration of the defined benefit obligation is 12.1 years.

Profit and Loss Impact

Financial Year to 30 June	SASS		SANCS		SSS		Total	
	2017 $000	2016 $000	2017 $000	2016 $000	2017 $000	2016 $000	2017 $000	2016 $000
Current service cost	1,140	1,146	300	296	294	132	1,734	1,574
Net interest	411	311	1	(20)	2,835	3,009	3,247	3,300
Profit or loss component of the Defined Benefit Cost	1,551	1,457	301	276	3,129	3,141	4,981	4,874

Other Comprehensive Income

Financial Year to 30 June	SASS		SANCS		SSS		Total	
	2017 $000	2016 $000	2017 $000	2016 $000	2017 $000	2016 $000	2017 $000	2016 $000
Actuarial (gains) losses on liabilities	(5,472)	10,186	(565)	700	(26,768)	40,347	(32,805)	51,233
Actual return on Fund assets less Interest income	(4,261)	(121)	(512)	(13)	(9,640)	(157)	(14,413)	(291)
Total remeasurement in Other Comprehensive Income	(9,733)	10,065	(1,077)	687	(36,408)	40,190	(47,218)	50,942

End of the audited Financial Statements

Directors' declaration

30 June 2017

Pursuant to Section 41C (1B) and (1C) of the *Public Finance and Audit Act 1983*, the *Forestry Act 2012* and in accordance with a resolution of the Board of Directors, we declare on behalf of Forestry Corporation of New South Wales that in our opinion:

- The financial statements have been prepared in accordance with Australian Accounting Standards and interpretations, the *State Owned Corporations Act 1989*, the *Public Finance and Audit Act 1983* and the Public Finance and Audit Regulations 2015;
- We are not aware of any circumstances at the date of this declaration that would render any particulars included in the financial report to be misleading or inaccurate;
- the attached financial statements and notes give a true and fair view of the Corporation's financial position as at 30 June 2017 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the Corporation will be able to pay its debts as and when they become due and payable.

On behalf of the Directors

James M. Millar AM
Chairman

Nick Roberts
Chief Executive Officer

Dated this: 4 September 2017

INDEPENDENT AUDITOR'S REPORT

Forestry Corporation of New South Wales

To Members of the New South Wales Parliament

Opinion

I have audited the accompanying financial statements of Forestry Corporation of New South Wales (the Corporation), which comprise the statement of financial position as at 30 June 2017, the statement of profit and loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information.

In my opinion, the financial statements:

- give a true and fair view of the financial position of the Corporation as at 30 June 2017, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (PF&A Act) and the Public Finance and Audit Regulation 2015.

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

Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's Responsibilities for the Audit of the Financial Statements' section of my report.

I am independent of the Corporation in accordance with the requirements of the:

- Australian Auditing Standards
- Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants' (APES 110).

I have fulfilled my other ethical responsibilities in accordance with the APES 110.

Parliament promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of public sector agencies
- precluding the Auditor-General from providing non-audit services.

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

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards, the PF&A Act and the *State Owned Corporations Act 1989* and for such internal control as the directors determine is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors must assess the Corporation's ability to continue as a going concern except where they intend to liquidate the Corporation or cease operations. The assessment must disclose, as applicable, matters related to going concern and the appropriateness of using the going concern basis of accounting.

Auditor's Responsibility for the Audit of the Financial Statements

My objectives are to:

- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the financial statements.

A description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar4.pdf. The description forms part of my auditor's report.

My opinion does not provide assurance:

- that the Corporation carried out its activities effectively, efficiently and economically
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.

C J Giumelli
Director, Financial Audit Services

7 September 2017
SYDNEY

Statutory information

Consultants

More than $50,000 (per engagement)

Vendor and subject area	Amount $
Ernst & Young – Finance / Business Strategy	170,365
Safetyworks Group – Management / Business Strategy	82,840
Deloitte – Finance / Business Strategy	64,038
Strategic Human Resource – Management / Business Strategy	52,988
Geotrack Engineering – Engineering	51,209

$50,000 or less (per engagement)

Forestry Corporation employed 72 consultants for engagements costing less than $50,000, at a total cost of $705,748 as detailed in the table below.

Subject area	Amount $
Engineering	98,297
Environmental	55,919
Finance and Accounting/Tax	61,822
Legal	3,200
Management Services	259,277
Organisational Review	107,452
Training	43,976

Cost of Annual Report

The total external costs incurred in the production of the Forestry Corporation Annual Report for FY17 were approximately $4597 excluding GST. The Annual Report is available at **www.forestrycorporation.com.au**.

Credit card certification

Corporate credit card use is monitored on a monthly basis. Only eligible staff are issued with corporate credit cards to facilitate travel, accommodation and limited purchases. The Chief Financial Officer and relevant senior manager approve all cards issued and the relevant manager approves all expenses associated with card use.

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

Finance information

Debt management

At 30 June 2017, Forestry Corporation's total borrowings were $108 million (2016: $64 million). Debt increased in FY17 due to borrowings to fund the purchase of significant new timber plantation assets. The debt portfolio was sourced almost entirely through NSW Treasury Corporation and is actively managed to limit the cost of funds.

Debt portfolio performance

	Forestry Corporation	Benchmark
Market valuation 30 June 2017*	$115 million	N/A
Generalised cost of funds	4.17%	1.05%

** Market value of debt represents the value if all debt had to be retired and differs from the capital value, which is the value in the financial statements.*

At 30 June 2017, 100 per cent of total debt was charged interest at the fixed rate.

Investment management performance

At 30 June 2017, Forestry Corporation's financial investments totalled $24.05 million (FY16: $6.98 million). The investment portfolio's performance is benchmarked against the NSW Treasury Corporation's TCorpIM Cash Fund, consistent with NSW Treasury guidelines and to maximise investment returns while maintaining appropriate risk controls.

Interest of $444,820 (FY16: $646,929) at a yearly rate of 2.37 per cent (FY16: 2.47per cent) was received from Treasury Corporation on amounts lodged on their TCorpIM Cash Fund.

Implementation of price determination

Forestry Corporation has implemented, in the most part, the recommendations of the 2013 Independent Pricing and Regulatory Tribunal (IPART) Review of Rental Arrangements for Communication Towers on Crown Land for new Forest Permits.

A concerted effort was made during the year to audit the documentation for all sites and streamline the administrative process of managing telecommunication sites on State forests.

Forward outlook

	Financial year to 30 June 2018 budget	
	Measure	Target
Revenue	$m	370.7
EBITDA	$m	64.7
EBITDA on sales	%	17.5
EBIT	$m	57.8
Operating profit before tax	$m	51.0
NPAT	$m	35.7
Dividend payout ratio	%	70
Return on assets	%	2.8
Return on equity (excl. land asset)	%	4.8

Government Information Public Access

There were 13 valid Government Information Public Access (GIPA) applications received between 1 July 2016 and 30 June 2017. Four applications were received prior to 30 June 2016 but a decision on these were made after 30 June 2016 and are included in this report. The decision on one application was pending as at 30 June 2017 and will be included in next year's report.

The applications predominantly sought information on the management of State forests and timber supply.

A number of documents, including policies and harvest plans for native forest operations, were released proactively and are available through Forestry Corporation's website.

Number of Government Information Public Access applications by type of application and outcome*

	Access granted in full	Access granted in part	Information not held
Media	–	–	–
Members of Parliament	–	1	–
Private sector businesses	–	–	–
Not-for-profit organisations or community groups	2	3	–
Members of the public (application by legal representative)	–	–	–
Members of the public (other)	4	5	1
Total	6	9	1

** The following reporting categories have not been included in the table above as no applications fell into these categories: Information already available; Information not held; Refused to confirm/deny whether information is held; Application withdrawn; Refused to deal with application.*

Human resources

At 30 June 2017, Forestry Corporation employed 539 full time equivalent (FTE) staff. This figure comprised 305 FTE employees primarily involved in management, administration and technical roles, and 234 FTE employees primarily engaged in field contractor management, road construction and maintenance, tree planting and pruning, nursery work, forest conservation and fire protection.

The majority of Forestry Corporation staff are employed under an Enterprise Agreement and a number of senior staff are employed under common law contracts, all of which clearly set out entitlements and expectations and are underpinned by a range of regularly reviewed personnel policies, including an overarching code of conduct and policies on specific activities or expectations such as firefighting, alcohol and other drugs and overtime.

Employee numbers – trend (Full Time Equivalent)

Year end 30 June	Office-based	Field based	Total
2014	337	255	592
2015	315	267	582
2016[1]	307	237	544
2017	305	234	539

Trends in the representation of Equal Employment Opportunity groups

Equal Employment Opportunity (EEO) group Financial year to 30 June	Benchmark or target	2015	2016	2017
Women	50%	17.2%	18.1%	18.7%
Aboriginal and Torres Strait Islander peoples	2.6%	3.8%	4%	3.8%
People whose first language is not English	19%	6.3%	6%	5.2%
People with a disability	N/A	4.6%	4.8%	5%
People with a disability requiring work-related adjustment	1.5%	N/A*	1%	1%

** Information not available*

1 FY16 figures have been amended in this report following a review of previously published figures.

Trends in the distribution of EEO groups

EEO group Financial year to 30 June	Benchmark or target	2015	2016	2017
Women	100	111	111	107
Aboriginal and Torres Strait Islander peoples	100	83	73	77
People whose first language is not English	100	121	116	119
People with a disability	100	90	86	91
People with a disability requiring work-related adjustment	100	N/A*	N/A*	N/A*

** Information not available*

Equity, diversity, multiculturalism and equal employment opportunity

Forestry Corporation values the contributions that people from a range of backgrounds with diverse experiences can make to the work environment. Strategic initiatives have been developed to improve diversity in our workforce and work towards meeting Board targets and objectives for diversity in the workplace.

On International Women's Day in March 2017, Forestry Corporation released its Diversity and Inclusion Strategy to staff. This strategy aims to promote a diverse and inclusive workplace for all and to set in train changes that will develop a dynamic workforce of the future. The strategy contains an action plan that will assist with improving gender diversity in Forestry Corporation.

Equal employment opportunity planning is also dealt with in State legislation. Workforce diversity obligations are established under section 63 of the *Government Sector Employment Act 2013*. The effect of this legislation is to make the head of a State Owned Corporation responsible for workforce diversity.

Gender distribution of senior executives

Band	Gender			
	Female		Male	
	FY16	FY17	FY16	FY17
Band 4 or above	–	–	1	1
Band 3	–	–	–	–
Band 2	–	–	3	3
Band 1	–	1	1	1

Aboriginal employment strategy

In FY17, Forestry Corporation continued employing an Indigenous trainee through group training organisation MEGT to complete a Certificate III in Forest Growing and Management. This traineeship was completed through TAFE NSW Riverina Institute Tumut and supported by the Hardwood Forests Division.

Forestry Corporation also supported a school-based traineeship program on the south coast.

Structural adjustment

During FY17, Forestry Corporation continued to review its workforce and organisational structures. Minor reviews were undertaken during the year to streamline functions, re-engineer business processes and further strengthen Forestry Corporation's service delivery and commercial operating position.

Salary and wage movement

During FY17, a new three-year enterprise agreement was negotiated for implementation in FY18. The existing enterprise agreement, which had a nominal expiry date of 30 June 2017, provided for a 2.5 per cent increase to salary and wages for staff covered by the agreement.

Average remuneration of senior executives

Band	FY16 $	FY17 $
Band 4 or above	560,275	568,151
Band 3	–	–
Band 2	317,647	318,528
Band 1	278,271	191,524*

** Reflects the average remuneration paid to two senior executives, one of whom was only employed for part of the year. Around 3.15 per cent (FY16: 3.04%) of total employee-related expenditure during the reporting year related to senior executives.*

Training and organisational development

Technical skills

Forestry Corporation undertook a project in FY17 to review core technical skills against positions to ensure a high standard of regular upskilling and competence verification for staff against national units of competence. A new Learning Management System was introduced to improve the overall management of training.

Performance framework

A new online system was piloted to replace the paper-based performance review process. The system has greater capability to record and track progress against individual and corporate goals. With a continued focus on improving the quality of performance discussions,

Forestry Corporation rolled out a suite of tools to support managers and staff in this process.

Forestry Corporation's performance process will continue to improve in FY18 with the rollout of the online system to most employees.

Reward and recognition program

Forestry Corporation's Peak Performer Reward and Recognition Program continued in FY17, with awards received by employees for demonstrating leadership in safety and environment, commercial innovation and performance excellence.

Leadership development

In FY17, Forestry Corporation continued its focus on developing both current and future leaders within the organisation. The Leadership Capability Framework and Grow with Forestry Corporation Development Guide were both refreshed and relaunched. Staff were also provided with access to an online Leadership Inventory Tool to support them to identify their strengths and development needs.

The ongoing Life Styles Inventory (LSI) program was also rolled out to additional management levels and senior technical staff to provide them with insight into their behaviours and leadership development opportunities. In FY17, we piloted a coaching program, which involved 16 senior leaders developing their coaching skills over a four-month period. In FY18, we will continue to develop our coaching culture and launch a Supervisor Development Program.

Employee engagement

Forestry Corporation continued to build on employee engagement throughout the business with targeted initiatives in each division to address the improvement opportunities evident in the FY16 engagement survey. This will continue to be an area of focus and another staff engagement survey is planned for FY18.

Work Health and Safety

The safety and wellbeing of staff, contractors and others on Forestry Corporation worksites is a priority. Forestry Corporation has a detailed safety management system supported by standard operating procedures and underpinned by a range of regularly reviewed policies and staff training to promote safety in all workplaces. The Total Recordable Injury Frequency Rate for FY17 was 19.0 per million hours worked (FY16:18.7), which was short of the target of 9.4. A strategic review is being completed to inform a new corporate safety strategy, which is expected to be implemented in FY18 with the aim of improving safety performance across the business.

Public Interest Disclosures

Forestry Corporation has a Public Interest Disclosures (PID) policy, which is available on our website.

Procedures for making and dealing with PIDs are also provided to assist staff. The policy and procedures were made available to staff during FY17 via the intranet. No PIDs were received during FY17.

Legislation and legal issues

There have been no significant changes to the principal legislation relevant to Forestry Corporation's core activities during FY17. Forestry Corporation was not party to any significant judicial decision affecting the organisation during FY17.

Overseas visits

- July 2016: Planning Manager, Duncan Watt, and Forest Modeller, Ben Pierce, from the Softwood Plantations Division's Tumut Management Area travelled to Oregon, USA, to attend an industry tour, visit the Forest Education Centre and meet with customers and agents to facilitate sales of softwood timber to China.
- December 2016: the Softwood Plantation Division's Northern Softwoods Haulage and Sales Manager, Tijmen Klootwijk, travelled to New Zealand as part of a delegation to investigate forest product transportation and log transport safety.
- February 2017: the Hardwood Forests Division's Senior Manager Marketing, Martin Grealy and Senior Manager, Production South, Daniel Tuan travelled to Vietnam to attend the International Woodfiber Resource and Trade Conference and to visit timber processing facilities.
- February 2017: Chief Executive Officer, Nick Roberts, travelled to New Zealand to meet with a key softwood customer on price review negotiations. The customer's head office is in New Zealand.
- March 2017: Softwood Plantations Division Forest Modeller, Tessa Courtney travelled to New Zealand to complete a training course in modelling software.
- April 2017: Chief Executive Officer, Nick Roberts, and Chief Forester and Company Secretary, Ross Dickson, travelled to New Zealand to attend a meeting of the Radiata Pine Breeding Company, of which Forestry Corporation is a major shareholder. In FY17, Dr Dickson travelled to New Zealand on four other occasions (October 2016 and February, May and June 2017) to attend meetings of the Radiata Pine Breeding Company. Forest Information and Planning Manager, Mike Sutton, also travelled to New Zealand to attend the Radiata Pine Breeding Company's Technical Committee Meeting in December 2016 and May 2017.
- May 2017: four members of the Senior Management Team visited New Zealand on a safety benchmarking tour. The team met with senior leaders from a number of companies and organisations to examine safety performance and discuss success factors associated with safety improvement.

Research and development

The Forest Science Unit within the NSW Department of Industry (DOI) – Lands and Forestry provided technical advice, and research and development services to Forestry Corporation under a Service Level Agreement (SLA). Forestry Corporation invested $1.7 million in research and development under this SLA during FY17. The Forest Science Unit has scientific and technical expertise in forest ecology and sustainability, forest health and biosecurity, forest resource assessment and spatial modelling, carbon in forests, wood products and bioenergy, and biometric and cost-benefit analysis services. DOI – Lands and Forestry also represented forestry on the NSW Scientific Committee.

Recent research activities conducted by the Forest Science Unit include:

Forest ecology

- Publication of a spatial model for mapping the distribution of koala habitat and continued surveys of koalas with Songmeters across north coast forests
- Continuing the NSW Environmental Trust-funded project reviewing the capacity of thinning cypress regrowth to restore habitat biodiversity
- Analysis of biodiversity data investigating the effects of early thinning in river red gum forests
- Analysis of bat calls collected as part of biodiversity monitoring in the Pilliga forests
- Ongoing data collection for a monitoring program for the Hastings River Mouse
- Analysis of long-term bat banding data in relation to forest disturbance history
- Development of call recognisers for Giant Burrowing Frogs (Eden) and Bell Miners (north coast)
- Publication of microhabitat use by Eastern Pygmy Possums in regrowth and mature forests
- Publication of trends over 17 years in mammals and nocturnal birds in eucalypt plantation landscapes of the north coast
- Analysis of coarse woody debris data from north east forests to provide benchmarks for different forests and to investigate the effect of harvesting on environmental features (DoI Lands and Forestry funded)
- Completing biodiversity surveys targeting birds, ground mammals, reptiles, bats and a structural complexity index as part of a mechanical thinning trial on the north coast (Commonwealth funded).

Forest health and biosecurity

- Undertaking annual aerial and ground surveys of the softwood and eucalypt plantation estate for detection of pests and diseases
- Monitoring the successful establishment of the parasitic wasp released as a biological control agent for the Essigella pine aphid
- Continuing research into the impact of the exotic pathogen Myrtle Rust
- Completing the Forest and Wood Products Australia (FWPA) funded project evaluating the costs and benefits of new and existing biosecurity threats to Australia's plantation industry
- Assisting the Softwood Plantations Division with an external biosecurity audit implementation program
- Continuing the forestry biosecurity surveillance program for exotic pests and diseases at high-risk environs
- Contributing towards a transition to management program for the Exotic Giant Pine Scale
- Providing training for Softwood Plantations Division staff in Sirex Wood Wasp management and conducting an audit of the Sirex biological control program
- Providing timely advice on any biosecurity matters relating to Forestry Corporation's business
- Representing Forestry Corporation interests on state and national biosecurity bodies, including chairing the Forest Health and Biosecurity Committee
- Conducting aerial surveys for Bell Miner Associated Dieback (BMAD) on the north coast.

Forest resource assessment and remote sensing

- Routinely provide Forestry Corporation's Senior Management team with updates on relevant research and development advances and applications of remote-sensing technologies
- Contributing towards the development of LiDAR-based plot imputation methodologies for predicting stand volume and timber products in pine plantations and native regrowth forests
- Analysing acoustic data for the assessment of the wood properties of Slash Pine and F2 Hybrid Southern Pine
- Analysing results from the long-term, Blackbutt Correlated Curve Trend (CCT) experiment data to provide more accurate taper data for stem volume calculations and for statistical comparisons of stem volume and stem form
- Completing a comparison of Probable Limits of Error (PLE) estimates derived from LiDAR and plot inventory data in the Eden forests, showing that LiDAR estimates are characterised by lower uncertainty
- Comparing of harvester head data with LiDAR-derived yield estimates in a Tasmanian P. radiata plantation as part of the collaborative FWPA remote sensing project
- Continuing to analyse harvester head data in order to improve information provided to Forestry Corporation's softwood customers
- Preparing of an accurate Yield Association Group classification map across all forests in north eastern NSW.

Forest carbon

- Continuing the North Coast Residues project that aims to promote the increased use of forestry biomass for bioenergy generation
- Coordinating workshops at key regional hubs on the north coast to engage key stakeholders on the potential for bioenergy use from forestry biomass
- Coordinating a national seminar in collaboration with CSIRO to communicate key findings of the FWPA project "Carbon in native forests" to industry, academics and policy-makers
- Establishing and measuring of 240 plots as part of the National Mechanical Fuel Load Reduction Trials
- Contributing to the Commonwealth Government's draft Carbon Farming Initiative (CFI) forest plantation methodology
- Presenting at the Bioenergy Australia Conference as part of the ABBA (Australian Biomass for Bioenergy Assessment) project
- Continuing research on carbon storage of wood products in landfill – successful completion of laboratory-scale bioreactor tests with Weathertex products and bamboo flooring, and submission of a manuscript as part of a PhD project on the topic
- Contributing as an invited author to a high-level response by the International Energy Agency to a report on the climate mitigation benefits of bioenergy.

Biometrical and trial information assistance

- Analysis of total activity, richness and species composition of 16 species of bats to quantify the effects of harvesting and burning in forests near Eden
- Analysis of the effect of blackberry infestation on the growth of Radiata Pine in the Snowy Region
- Finalising the analysis of the Brooman rainfall/water quality study
- Provision of assistance in use of R programming and RESDAT.

Forestry Corporation continued to chair the joint DOI-Lands and Forestry/Forestry Corporation Animal Ethics Committee, which oversees the issuing of Animal Research Authorities for forest-based fauna survey work.

Forestry Corporation collaborated on a range of FWPA-funded research including:

- eCambium wood quality study
- Remote sensing of evapotranspiration
- High resolution remote sensing
- Use of dense point cloud data for inventory
- Southern Pine wood characterisation study.

Forestry Corporation is also a shareholder in the Radiata Pine Breeding Company and Forestry Corporation's Chief Forester and Company Secretary is the current Chairman of that company. Through this arrangement, Forestry Corporation has access to the company's breeding research and development program.

Responding to community concerns

A stakeholder engagement policy can be viewed on our website, outlining our commitment to facilitating opportunities for engagement with stakeholders. Stakeholder engagement was undertaken in FY17 as part of routine operational planning across all aspects of the business. A complaints procedure was implemented during the year and this information is available on the website.

During the year, Forestry Corporation received representations from the community on a range of issues including the environment, neighbour relations, recreation, land management, weed control and timber supply. Forestry Corporation welcomes feedback and regularly amends operations to continuously improve operations and accommodate community concerns where practical.

Risk management, internal audit and insurance

Forestry Corporation's Board has an Audit and Risk Committee which has been established under the Board-approved internal audit charter.

Forestry Corporation's risk management framework meets the State Owned Corporation requirements set out in the NSW Treasury Policy TPP 09-5, and Australian/New Zealand Standard Risk Management – principles and guidelines (AS/NZS ISO 31000:2009 Risk Management).

Internal audits of Forestry Corporation are undertaken by an external service provider, selected from a shortlist of preferred providers, based on a tendering process. The audits are conducted as part of an approved internal audit plan linked to identified business risks.

To ensure the independence of the audit process, the external service provider reports to the Audit and Risk Committee and has access to the Chief Executive Officer as required.

Six internal audits were initiated during the year, covering bushfire preparedness, hardwood forests modelling, 2016 National Greenhouse and Energy Report, safety management system post implementation effectiveness and IT security penetration testing.

Risk management

Forestry Corporation has an enterprise risk management framework, which includes clear allocation of responsibility for risk management and defined criteria for the assessment of likelihood and impacts of identified risk types within a standardised risk assessment matrix. A software tool has been implemented throughout the business to enable streamlined reporting and

assessment of incidents and hazards as well as risk identification, follow up of audit actions and risk mitigation measures.

Regular risk reviews are incorporated into the design and operation of the risk management framework. High-level corporate risks are reviewed and updated by the Senior Management Team on an annual basis before being submitted to the Audit and Risk Committee for review and approval.

Major business risks, and the management strategies put in place to deal with them, are outlined below.

Significant safety incident/fatality

Forestry Corporation dedicates substantial efforts to minimise the risk to employees and contractors by providing training, tools, system resources, planning and operational practices. By fostering a safety culture amongst all staff, Forestry Corporation aims to progress towards a goal of no safety incidents. This is underpinned by an independently audited and robust safety management system.

During FY17, senior managers from various parts of the business were involved in benchmarking visits to major businesses in a variety of industries to identify best practice techniques for improving the organisation's safety culture. A project will be implemented next financial year to involve a wide spectrum of staff in identifying new approaches to safety. Under the banner "What's Safe?" the project will include staff surveys and focus group discussions. In addition, an audit of safety management system post-implementation effectiveness identified 19 opportunities for improvement and action is underway to realise the indicated improvements.

Forestry Corporation also chairs the Australian Forest Products Association's national industry council on safety.

Serious bushfires

As part of normal fire management practices, Forestry Corporation maintains high levels of fire planning, preparedness and suppression capacity. Risk mitigation strategies include early detection through a network of fire towers, patrols on high fire danger days, integrated communications, technical applications such as a lightning strike detection system, and use of satellite infrared imagery. This is supported by well-trained staff available for immediate deployment using a heavy and light tanker fleet, and access to a fleet of earthmoving heavy machinery and contract aircraft.

Outside the fire season, fuel loads in the forests are maintained through prescribed burning or grazing, and an extensive network of roads and fire trails is maintained.

As part of the internal audit plan, a review of Forestry Corporation's bushfire preparedness was conducted by a recognised industry specialist who found adequate preparations were in place for the year's fire season. The review's recommendations for further enhancement of readiness for fire have been accepted and are being implemented.

Pests and diseases

Incursion of pests and diseases can pose a significant risk to the health and productivity of forests. Forestry Corporation completes systematic surveys of the forest estate to assess forest health and detect exotic incursions and possible outbreaks of pests and diseases of forests and timber. Reports on health surveys detail the location, extent and severity of detected damaging pests, diseases, weeds and climatic factors with recommended corrective actions. The improvement actions arising from the audit of biosecurity arrangements for softwood plantations have been implemented.

Storm and flood damage

Severe storms and floods can damage trees, particularly young plantations. Windthrow is the bending, breaking or uprooting of trees due to wind damage. Thinning programs are designed to reduce susceptibility to windthrow damage. Capacity for quick action to salvage damaged plantations is a key element of Forestry Corporation's response to this unpredictable risk and salvage operations were undertaken to harvest softwood plantation areas damaged by windthrow in the Bathurst area during the year. Quick response capability is also maintained for repairing storm and flood damage to roads, bridges and other infrastructure in the forests.

Meeting supply commitments

Effective strategic and tactical operational planning is undertaken to meet commitments in wood supply agreements. Appropriate scientific and technological tools and skills are employed in developing harvesting plans. Despite some weather-related interruptions, supply commitments were met for the year, including increased demand from several customers.

Significant downturn in timber demand

Forestry Corporation has no ability to control market demand and limited ability to reduce operating costs if demand falls. To limit financial impacts, Forestry Corporation is diversifying its product mix and participating in industry-wide campaigns to promote the use of wood.

Cyber security

Security of information systems is an ever increasing concern and Forestry Corporation is vigilant in keeping all the various information systems used in the business as safe as possible. Latest anti-virus and firewall software is used to protect all in-house systems and security protocols are in place for cloud based systems. Security of the systems is routinely tested throughout the year and detailed IT security audits are conducted by specialist external service providers in accordance with the internal audit plan and ad-hoc as required. A complete penetration testing was conducted during the year to identify any gaps in Forestry Corporation's layers of protection. While no major issues were identified, changes were recommended in some areas and these were implemented.

Insurance

Forestry Corporation maintains extensive insurance coverage. Policies in place for the year were for Combined General Liability, Excess Liability, Motor Vehicle, Industrial Special Risks Group, Group Personal Accident (Volunteers), Corporate Travel, Marine Cargo Insurance and Officer's and Employer's Liability under the *Workers Compensation Act 1987*.

As at 30 June 2017, all insurance cover is administered under the Treasury Managed Fund (TMF), which is the NSW Government's self-insurance scheme.

Forestry Corporation no longer holds a WorkCover NSW self-insurance licence, however remains responsible for the tail management of workers' compensation claims incurred whilst licensed as a self-insurer.

Digital information security attestation

Forestry Corporation had an Information Security Management System in place during FY17 consistent with the core requirements set out in the Digital Information Security Policy for the NSW Public Sector.

The security controls in place to mitigate identified risks to the digital information and digital information systems of Forestry Corporation are adequate for the foreseeable future.

Forestry Corporation has not maintained certified compliance with AS/NZS ISO/IEC 27001 Information technology–Security techniques–Information security management systems, as we believe our protection measures provide a commensurate level of assurance.

Forestry Corporation has an information technology steering group reporting to the senior management team on information security matters, including IT infrastructure and disaster recovery.

Exemptions from reporting provisions

Statutory requirements	Statutory references *	Comments
Paying accounts ■ performance in paying accounts, including action to improve payment performance	Schedule 1 ARSBR	Statutory State Owned Corporations are not subject to account payment provisions in section 13 of the Public Finance and Audit Regulation 2015
Time for paying ■ reasons for late payment ■ interest paid due to late payments	Schedule 1 ARSBR	As above

** ARSBR = Annual Reports (Statutory Bodies) Regulation 2015.*

Places of business

Forestry Corporation Head Office

121–131 Oratava Ave
West Pennant Hills

Post: PO Box 100
Beecroft 2119

Phone: 9872 0111

Softwood Plantations Division

Cnr Browning and William Streets
Bathurst

Post: PO Box 143
Bathurst 2795

Phone: 6331 2044

Riverina Highlands Building
76 Capper Street
Tumut

Post: PO Box 291
Tumut 2720

Phone: 6947 3911

Hardwood Forests Division

Maher Street
Wauchope

Post: PO Box 168
Wauchope 2446

Phone: 6585 3744

357 Harbour Drive
Coffs Harbour Jetty

Post: PO Box 535
Coffs Harbour 2450

Phone: 6656 8800

Crown Street
Batemans Bay

Post: PO Box 42
Batemans Bay 2536

Phone: 1300 880 548

Cnr Monash and Chelmsford Streets
Dubbo

Post: PO Box 865
Dubbo 2830

Phone: 6841 4200

Contact us:

www.forestrycorporation.com.au

info@fcnsw.com.au

Enquiries about visiting forests: 1300 655 687

Forestry Corporation's enquiry lines and major offices are staffed Monday-Friday between 9am and 5pm, with the exception of Dubbo, which is open between 8.30 am and 12:30pm or by appointment.

State forests are free to visit and open 24 hours a day, 365 days a year, except Cumberland State Forest and Strickland State Forest. Opening times for these forests and temporary closures of any other forests are listed on Forestry Corporation's website.

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Forestry Corporation

forestrycorporation.com.au