Forestry Corporation

ANNUAL REPORT 2017–18

Letter of submission

31 October 2018

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 2018 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 2017–18

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CEO and Chairman overview

This year marks five years since Forestry Corporation of NSW (Forestry Corporation) was established with a remit to transform Forests NSW into a commercially-focussed business that is sustainable both economically and environmentally while having regard for the communities where we operate. We are proud of what we have achieved over that period. Earnings Before Interest and Tax (EBIT) have almost trebled as have dividends paid to our owners, the State of New South Wales. Importantly, we have done this while maintaining high environmental standards, strong fire protection processes and systems as well as maintaining award-winning community facilities for recreation and tourism.

James M. Millar AM
Chairman

Robust financial performance

Continued strong demand for timber and wood products on the back of the continuing strong housing market and solid export markets underpinned another profitable year for both operating divisions. Revenue increased by four per cent to a record $384 million (FY17: $369 million) and at $66.4 million, EBIT was just below last year's record $66.7 million result. Both the Softwood Plantations Division and the Hardwood Forests Division exceeded expectations, returning solid results. Revenue was also substantially boosted by export operations which take place from areas without local processing capacity or utilising logs that due to their specification cannot be used in the domestic market.

Nick Roberts
Chief Executive Officer

Sound environmental management

For a forest to be productive, it must be healthy, and the sustainability of the forests we manage is our primary concern. Across our estate we ensured quality regeneration of native forests and replanted over 8000 hectares of plantations with around 9,000,000 seedlings ensuring future timber supply. The high standard of forest management we employ is recognised through our continued certification to the Australian Standard for Sustainable Forest Management (AS4708).

During the year, there were some noteworthy changes in the way we manage the two million hectare State forest estate. In May, the NSW Government announced the creation of new koala reserves that will incorporate 24,000 hectares of State forest. The new reserves will see around 5,000 hectares transferred to National Park, with the other identified areas remaining State forest flora reserves managed by the National Parks and Wildlife Service. This arrangement is similar to the landmark arrangement established in FY16 for the Murrah Flora Reserves on the south coast. The new reserves will form part of the million-hectare conservation estate within State forests and enhance the rich and continuous network of habitat we manage in and around productive areas of native forest and plantations benefitting koalas and other native animals.

The Government also passed important legislative amendments that will allow for the introduction of new environmental regulations in native State forests. Public comment was sought on a new Integrated Forestry Operations Approval (IFOA), which will regulate timber harvesting in Crown native forests in the coastal regions of the state. The proposed new regulations reflect contemporary thinking around environmental regulation, focussing on environmental effects and outcomes rather than being overly prescriptive, as had been the case in the past. In addition, the new regulations allow for the use of modern mapping technology, GPS location devices and better use of research technology, such as koala song meters, to enhance our efforts to monitor threatened species. They were drafted with the input of independent experts, environment groups and industry and will maintain an extremely high level of environmental protection in all native forest harvesting operations. They are designed to be easier to implement and enforce, and accordingly will be accompanied by significantly stricter financial penalties for breaches. The passage of the *Forestry Legislation Amendment Act 2018* during the year has paved the way for the new regulations to come into effect in FY19.

Focus on safety and engagement

Our achievements as an organisation stem from the passion and commitment of our people. This year we conducted our third staff engagement survey and are pleased to report that engagement has increased by 11 per cent since we first surveyed staff four years ago. Engaged staff are motivated to stay and inspired to do their best, which is important as we move into a new and exciting phase of growth.

We have not had such a remarkable turnaround when it comes to safety, but we remain determined to make our workplaces safer and reduce our rate of injuries and incidences. Our total recordable injury frequency rate was 19.6 injuries per million hours worked which was a decline on last year and did not meet our target of 12.3. We have spent a great deal of time this year benchmarking similar organisations to our own and discussing safety performance with our staff and contractors to identify attitudes to safety and gauge where we are operating below best practice. The outcome is a new Safety Strategy focussed on critical risk, contractor management, leadership and performance, and health and wellbeing. These will form our priorities for the year ahead.

“The forestry industry in NSW is moving into a new period of expansion, and the work we have done over the past few years has ensured we will be a major player in the industry’s exciting next chapter.

An exciting vision for the future

Another positive financial result has also placed us in a strong cash position which will allow us to continue to invest money back into the business as we move into FY19. We continue to look for opportunities to invest in land to increase the size of the plantation estate as well as operationalise advances in technology and modernise our fleet and office resources. This extends to developing innovative new systems and making better use of equipment and emerging technologies in our forestry operations.

In a major development for the forestry industry, this year the NSW Government made a substantial financial commitment to the future of forestry in this state, setting aside funds for training and expansion. Our plantation expansion investments will be bolstered by the Government’s $24 million equity investment in Forestry Corporation for land acquisition to establish new timber plantations. The Government has also committed $4.6 million to industry training, some of which will come to Forestry Corporation to deliver training in safety, environmental compliance and contractor certification.

After achieving good results during our first five years as a State Owned Corporation, we are well positioned for the future. The forestry industry in NSW is moving into a new period of expansion, and the work we have done over the past few years has ensured we will be a major player in the industry’s exciting next chapter.

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).

Responsible Wood
RW/1-21-5

PEFC
PEFC/21-23-05

bsi.
ISO 14001
Environmental Management


FF
Ford

Operational overview

Softwood Plantations Division

Transition to new leadership

The Softwood Plantations Division welcomed new General Manager, Mike Beardsell, to the helm during the second half of FY18, following the resignation of long-term General Manager Ian Brown early in the year. The management team assumed leadership responsibilities during the transition period, maintaining consistency and ensuring the division continued to deliver on its objectives throughout the year. Mike brings a wealth of experience and expertise in forestry and a range of other sectors and will steer the division into its new growth phase.

Exports continue to drive profits

Strong domestic and international markets underpinned another profitable year for the Softwood Plantations Division. The division exceeded its targets by 10 per cent to equal last year's record results, ending the year with EBIT of $64 million (FY17: $64 million).

Revenue from export operations out of Walcha and Bombala again made a significant contribution to the bottom line as the division continued to capitalise on the strong demand and high prices from Asian markets. These smaller operating districts have been driving solid revenue for several years as overseas buyers purchase timber that cannot currently be sold and processed locally. Harvested areas are continuing to be replanted with high quality seedlings, to ensure these plantations are stocked with superior timber for the future.

Our production nursery again produced a large crop of top grade seedlings and survival rates remained high.

Safer and more efficient operations

A range of improvements have been made in recent years to enhance efficiency and drive down overhead costs. Building on a successful docketing system, which has increased transparency and enabled real-time monitoring of timber from the forest to the customer, the division has been investigating further supply chain optimisation.

Mandated safety requirements in haulage contracts are also beginning to pay dividends, with a substantial reduction in log truck rollovers during the year. Rollovers are a major safety risk and have been a key focus area for the industry as a whole for several years. New requirements, which include mandatory rollover protection and telematics in all log transport vehicles, are resulting in safer log haulage operations and more effective investigations when incidents do take place, ultimately heading towards minimising the risk of rollovers.

Investing in growth

Record returns in recent years have enabled a new focus on expansion and the division has been actively searching for suitable land to acquire. Following the successful integration of a significant 11,000 hectare acquisition in FY17, a number of small plantations and plantable areas were added to the estate during FY18. With the NSW Government's substantial commitment of funds for plantation expansion announced in June, further expansion is expected during FY19.

Softwood Plantations Division Financial year to 30 June		2013	2014	2015	2016	2017	2018
Revenue[1]	$M	204	221	214	232	254	262
EBIT[1]	$M	41	55	54	59	64	64

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

Hardwood Forests Division

Strong top line growth

The Hardwood Forests' $3.6 million (FY17: $5.3 million) year end result was a positive one. While it did not match the record FY17 result, the division recorded strong top-line growth and delivered its second consecutive operating profit and fourth consecutive positive EBIT result despite incurring significant firefighting costs during the year. Timber supply against contracted long-term Wood Supply Agreements was achieved and efficiencies in logistics continued to be realised especially on the north coast.

> Compliance with environmental regulations remained high and work to develop a new Coastal Integrated Forestry Operations Approval (IFOA), which aims to improve environmental regulation into the future, neared completion.

New opportunities

After significant work to identify and quantify timber resources on Western Lands Leases and develop appropriate regulatory conditions for harvesting, new contracts were entered into for harvest, haulage and processing of additional volumes from leases around Balranald. Operations are now beginning to ramp up in these Western Lands Leases, providing a boost to revenue and the local timber industry.

With long-term timber supply contracts on the far south coast expiring during FY19, planning for the future is progressing and expressions of interest were invited for ongoing supply.

On the north coast and in the Western Region, long-term customers Australian Solar Timbers and Baradine Sawmilling made the decision to cease trading. While it is always sad to see businesses make the decision to close, Australian Solar Timbers was quickly purchased by another customer and the timber previously allocated to Baradine Sawmilling will be put to the market, creating new opportunities for local businesses.

Tight regulation

Compliance with environmental regulations remained high and work to develop a new Coastal Integrated Forestry Operations Approval (IFOA), which aims to improve environmental regulation into the future, neared completion.

Three matters relating to compliance around rocky outcrops and cliffs from operations undertaken in FY14 were brought before the Land and Environment Court during the year. Forestry Corporation pleaded guilty to one but defended the other two, one of which was decided in our favour and the other withdrawn by the Environment Protection Authority. These particular matters again highlighted the ambiguity of the current IFOA.

The proposed new IFOA is intended to have a greater focus on outcomes and allows for much greater use of technology like GPS that has been proven to improve accuracy and safety in the field.

Community partnerships and stewardship

Fire management is one of our most important community services. Dry conditions brought an early start to the fire season this year and our firefighters controlled numerous blazes in forests and plantations throughout the extended season, limiting damage to forest health and timber resources. We also deployed crews to help protect communities from several severe fires outside of State forests and our firefighters were involved in saving homes in Tathra and Wauchope.

Traditional low-intensity burning practices were employed in hazard reduction burns in several State forests in consultation with the Local Aboriginal Land Councils. These burns were intended to reduce fuel levels and bushfire risk for the local community as well as improve ease of movement through country for cultural purposes and contribute to restoring a more traditional forest structure. The traditional burning closely reflects the frequent burning that has been carried out over the landscape for generations.

During the year we again won places in regional and State tourism awards for facilities in State forests, recognising the investments we have made in improving forest facilities and developing unique and interesting experiences for visitors in collaboration with local communities.

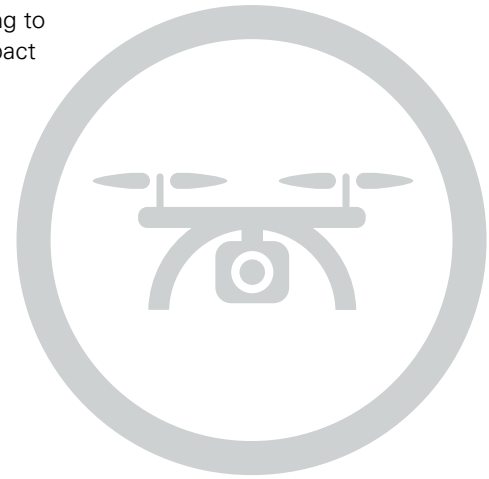
Hardwood Forests Division Financial year to 30 June		2013	2014	2015	2016	2017	2018
Revenue[1]	$M	101	100	99	102	109	117
EBIT[1]	$M	(12)	(9)	2	1.2	5.3	3.6

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

Corporate services

Continued innovation

Ongoing investments in trialling new technologies in our operations are continuing to bear fruit. Staff trained as drone pilots have been able to make an immediate impact in fire management, integrating the technology seamlessly with our map app to find fires very early and pinpoint the best point to send a crew to extinguish the fire quickly and effectively. The trials are also delivering positive results in a number of other areas, identifying opportunities to enhance operations and improve accuracy, safety and efficiency.



With a strong balance sheet enabling extra investment in technology during FY18, workshops were held to bring together operational staff from throughout the business and experts from the technology sector to identify emerging technologies that can deliver productivity and safety improvements to our front-line operations. The outcomes from this workshop will help guide our investments in the new year.

Fleet enhancements

Following an overhaul of fleet management in FY17, a large replacement program was carried out to enhance the safety and efficiency of our fleet by renewing ageing light fleet. This investment was made possible in part through savings realised from outsourced fleet management. We have also invested in telematics in our light fleet and continue to work through the data generated by this program with a focus on encouraging safe driving behaviours.

Driving is one of the biggest risks for our staff, so governance and monitoring have also been tightened. A new driver training framework has also been developed for all staff, with specialised modules for those whose roles require regular or off-road driving, and will be rolled out during FY19 to further enhance driver safety.

Asset enhancement

This year we employed a new system to help manage permits for telecommunication towers following a comprehensive review and streamlining of processes associated with management of this infrastructure on State forests. We also disposed of several surplus buildings no longer required for our operations ensuring that resources are focused on the assets needed for business operations.

Investing in our people

Investing in the ongoing professional development of our people is important for the growth of the organisation. Professional development is a core focus of the performance development scheme, which more than 90 per cent of staff are actively engaged in. We have introduced a new leadership program specifically developed for our staff. During FY18, the Leadership Excellence at Forestry (LEAF) program was delivered to 40 front-line supervisors and will benefit both the participants and their staff.

> “Professional development is a core focus of the performance development scheme, which more than 90 per cent of staff are actively engaged in...

The Finance and Technology Division underwent a realignment during the year to focus on services and outcomes required by the business.

Improving diversity has been identified as an organisational priority and a Diversity and Inclusion Strategy has been developed outlining 10 initiatives specifically targeting gender diversity. Initiatives directly addressing recruitment, flexibility, training, development, communication and culture change have already begun to have an impact, with notable increases in the proportion of female applicants for roles and staff embracing flexible arrangements at all levels of the business.

Financial results

Record revenue and strong growth

Forestry Corporation's financial position continues to strengthen year on year, exceeding targets and expectations. The ongoing domestic housing construction boom and buoyant export markets combined to deliver a record $384 million in revenue (FY17: $369 million) and a near-record $66.4 million EBIT (FY17: $66.7 million). Both operating divisions returned strong financial results, with the Softwood Plantations Division exceeding targets by 10 per cent and the Hardwood Forests Division delivering a second consecutive operating profit despite significant expenditure on firefighting. The overall EBIT margin of 17.3 per cent reflects consistently strong financial performance, quality earnings and cost improvements across the business.

Capital and shareholder return

During FY18, $49 million in dividends (relating to prior year) and income tax (relating to current year) was paid. A further $25 million dividend was declared this year, just shy of the highest-ever $30 million declared in FY17. Strong profits boosted operating cash flows and Forestry Corporation ended the year in a positive cash position, with $38 million in the bank. This places the organisation in a good position to reinvest in the business and pursue opportunities for expansion.

Balance sheet

Continued revenue growth and careful management of expenses has ensured the organisation maintains a solid balance sheet. Key financial ratios such as Gross Debt to Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) (at 1.5 times), Interest Cover (at 9.9 times) and Liquidity Ratio (at 1.4 times) reflect strong financial management and demonstrate solid foundations for future 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:

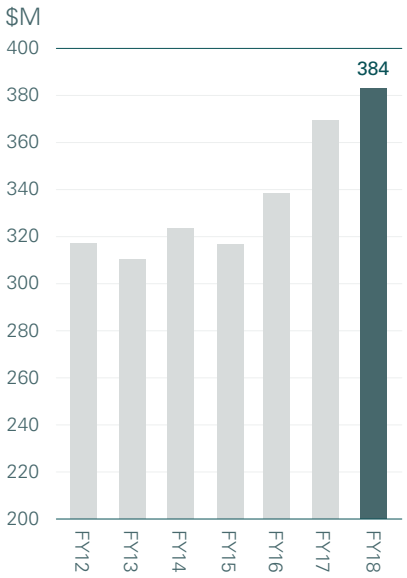
Bridge: Underlying Earnings to Statutory Result	2017 $m	2018 $m
Underlying Earnings Before Interest and Tax (EBIT)	67	66
Underlying Profit After Tax	43	42
Impact of valuation of standing timber (net of tax)	9	(6)
Impact of actuarial assessment on the defined benefit superannuation liabilities (net of tax)	30	38
Total Comprehensive Income / (Loss) per the Financial Statements	82	74

Financial highlights

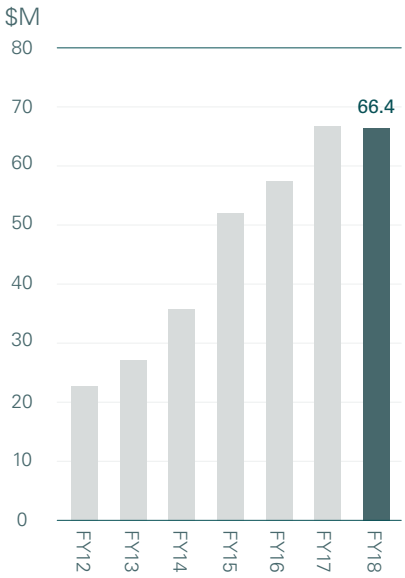
Key financial data										2018 SCI performance		
Year ended 30 June		2012	2013	2014	2015	2016	2017	2018		SCI	Variance	
Revenue[1]	$M	318	310	324	317	339	369	384		371	13	●
Operating profit[1]	$M	14	19	27	45	51	61	60		51	9	●
EBIT[1]	$M	23	28	36	52	57	67	66		58	9	●
Dividend payable	$M	5	9	10	19	22	30	25		25	0	●
Borrowings	$M	133	131	108	89	64	108	108		108	(0)	●
Key ratios												
Return on equity	%	2.2	2.5	3.0	4.2	4.9	5.4	5.2		4.8	0.4	●
EBIT margin[1]	%	7.3	9.0	11.0	16.4	16.9	18.1	17.3		15.6	1.7	●
Liquidity ratio	times	1.1	1.4	1.5	1.4	1.3	1.3	1.4		1.4	(0.0)	●
Debt to EBITDA	times	4.2	3.5	2.4	1.5	1.0	1.5	1.5		1.7	(0.2)	●
Interest cover	times	2.5	2.9	4.0	7.1	9.0	12.0	9.9		8.5	1.4	●

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

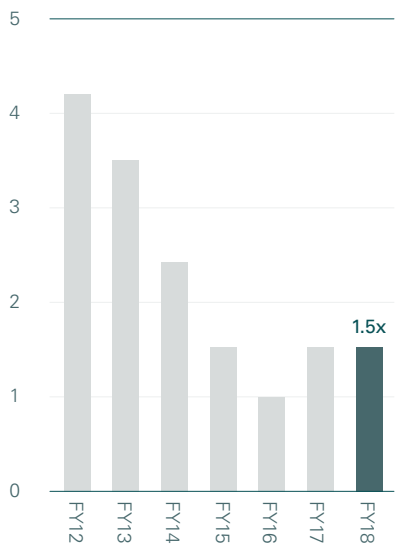
REVENUE $384 M



EBIT MARGIN 17.3%



DEBT COVER 1.5x EBITDA



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 of Forestry Corporation are appointed by the voting shareholders. The 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 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 the Corporation's long-term value that will benefit the people of NSW, with strong corporate governance and strategic planning pivotal to achieving this objective.

Two independent members of the Board were re-appointed on 1 March 2018 for three-year terms.

Board of Directors

- **Mr James M. Millar AM** – Director and Chair
  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)

  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 in working with companies across a broad range of industry sectors in developing 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. Geoffrey also chairs a number of audit and risk committees. He works as an advisor to professional service firms where he also uses his experience to mentor and coach partners and senior directors.

- **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 currently chairs four Boards.

- **Wendy Machin**
  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 sector. She is currently Chair of the Customer Owned Banking Association, and the Australasian New Car Assessment Program (ANCAP). She has previously served a twelve-year term as an NRMA Director, serving six years as President. Wendy was elected to the NSW Legislative Assembly in 1985 where she served until 1996 and maintains a strong interest in disability and social services.

- **Dr Lyndall Bull**
  BSc, B For Sc (Hons), PhD, MIFA, 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.

- **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 eight Board meetings held during the reporting year, three of these were conducted by teleconference. The attendance by directors at Board meetings is outlined below:

Member	Number of Meetings Attended
Mr James Millar AM	8
Ms Sarah Kearney	6
Ms Wendy Machin	8
Dr Lyndall Bull	8
Mr Geoffrey Applebee	8
Mr Noel Cornish	7
Mr Nick Roberts	8

Board committees

The Board is supported by the Audit and Risk Committee, the People Committee and the Safety Committee which provide for more detailed analysis of the areas of finance, risk, audit, remuneration, human resources and safety.

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, two meetings of the People Committee and two meetings of the Safety Committee.

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.

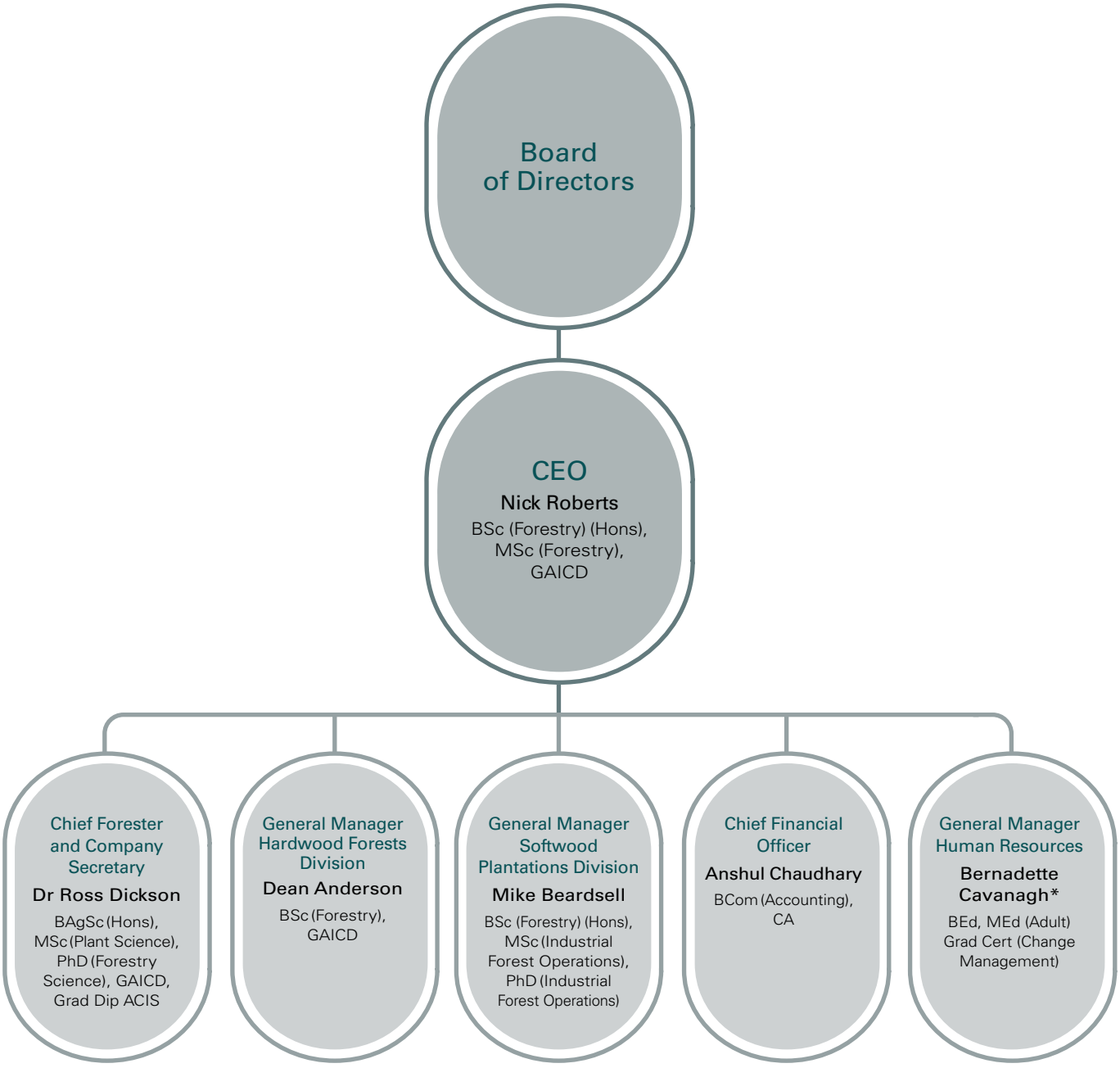
Further instruments that govern Forestry Corporation's forestry operations include the NSW Forest Agreements and the Regional Forest Agreements.

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 general managers. The management team structure and responsibilities are listed on page 19.

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.

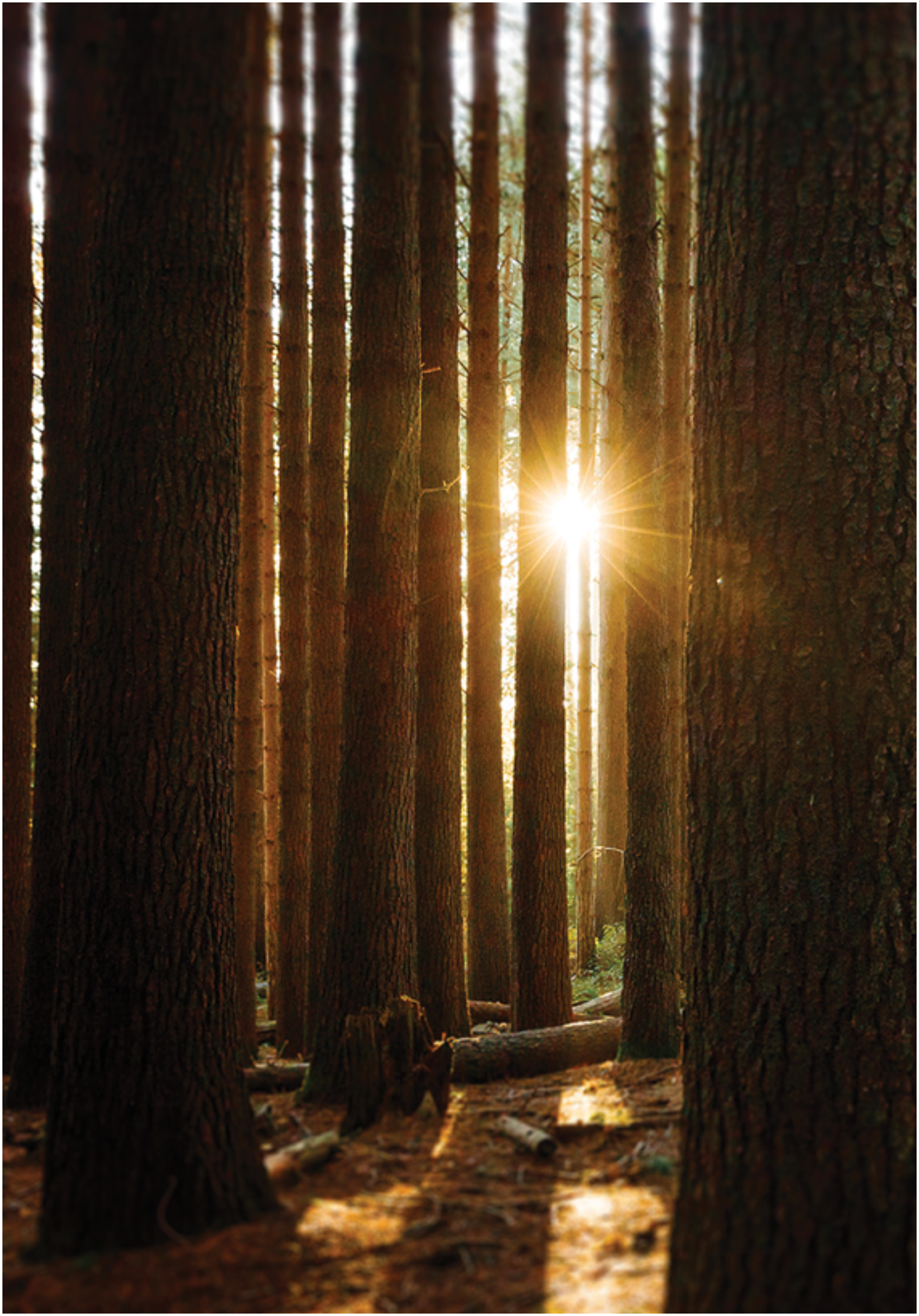
- hardwood marketing and timber sales
- native forest stewardship
- forest management planning
- timber harvesting and roading operations.

- 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.

** Bernadette Cavanagh resigned from her role after the end of financial year and finished work with the Corporation in September 2018.*



Financial statements

Statement of profit or loss and other comprehensive income

For the year ended 30 June 2018

	Note	30 June 2018 $'000	30 June 2017 $'000
Revenue	4	365,778	351,173
Other income	5	17,790	17,861
Change in fair value of biological assets	16	(8,861)	13,182
Expenses			
Operating expenses	6	(241,954)	(230,329)
Employee benefits expense		(70,286)	(68,886)
Depreciation and amortisation expense		(7,975)	(6,467)
Impairment of assets		(221)	(60)
Finance costs	7	(6,725)	(5,548)
Profit before income tax expense		47,546	70,926
Income tax expense	8	(14,270)	(21,488)
Profit after income tax expense for the year attributable to the owners of Forestry Corporation of New South Wales		33,276	49,438
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Gain on the revaluation of land and buildings, net of tax		31	-
Actuarial gain on defined benefit plans, net of tax		40,641	33,054
Other comprehensive income for the year, net of tax		40,672	33,054
Total comprehensive income for the year attributable to the owners of Forestry Corporation of New South Wales		73,948	82,492

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 2018

	Note	30 June 2018 $'000	30 June 2017 $'000
Assets			
Current assets			
Cash and cash equivalents	9	37,515	33,438
Trade and other receivables	12	50,834	48,986
Inventories	13	3,499	3,042
Biological assets	14	72,001	78,698
Total current assets		163,849	164,164
Non-current assets			
Property, plant and equipment	15	988,818	989,276
Biological assets	16	911,491	913,655
Investment properties	17	6,836	6,658
Total non-current assets		1,907,145	1,909,589
Total assets		2,070,994	2,073,753
Liabilities			
Current liabilities			
Trade and other payables	18	46,484	49,475
Borrowings	19	21,413	13,535
Dividend provided	20	25,051	29,543
Provisions	21	27,370	28,297
Income tax		1,026	2,625
Total current liabilities		121,344	123,475
Non-current liabilities			
Borrowings	22	86,770	94,833
Provisions	23	3,617	4,358
Retirement benefit obligations	34	65,199	120,162
Deferred tax	24	512,484	498,476
Total non-current liabilities		668,070	717,829
Total liabilities		789,414	841,304
Net assets		1,281,580	1,232,449
Equity			
Contributed equity	25	421,706	421,706
Reserves	26	641,181	641,698
Retained profits		218,693	169,045
Total equity		1,281,580	1,232,449

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 2018

	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

	Contributed equity $'000	Reserve for deferred tax asset $'000	Asset revaluation reserve $'000	Retained profits $'000	Total equity $'000
Balance at 1 July 2017	421,706	50,092	591,606	169,045	1,232,449
Profit after income tax expense for the year	-	-	-	33,276	33,276
Other comprehensive income for the year, net of tax	-	-	31	40,641	40,672
Total comprehensive income for the year	-	-	31	73,917	73,948
Transactions with owners in their capacity as owners:					
Transfer of asset revaluation reserves to retained profits	-	-	(782)	782	-
Reversal of deferred tax liability on disposal of assets	-	-	234	-	234
Dividend	-	-	-	(25,051)	(25,051)
Balance at 30 June 2018	421,706	50,092	591,089	218,693	1,281,580

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 2018

	Note	30 June 2018 $'000	30 June 2017 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		414,526	395,277
Payments to suppliers and employees (inclusive of GST)		(348,755)	(325,819)
Interest received		616	597
Interest and other finance costs paid		(6,343)	(5,119)
Income taxes paid		(19,028)	(20,154)
Net cash from operating activities	10	41,016	44,782
Cash flows from investing activities			
Payments for property, plant and equipment	15	(8,820)	(26,232)
Payments for purchase of standing timber	16	-	(33,989)
Proceeds from disposal of property, plant and equipment		1,655	5,704
Net cash used in investing activities		(7,165)	(54,517)
Cash flows from financing activities			
Proceeds from borrowings		-	44,506
Dividends paid		(29,543)	(22,229)
Repayment of borrowings		(231)	-
Net cash from/(used in) financing activities		(29,774)	22,277
Net increase in cash and cash equivalents		4,077	12,542
Cash and cash equivalents at the beginning of the financial year		33,438	20,896
Cash and cash equivalents at the end of the financial year	9	37,515	33,438

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

Notes to the financial statements

For the year ended 30 June 2018

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 24 August 2018.

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.

Notes to the financial statements cont.

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.

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 (2017: 251,000) hectares of softwood plantations and 30,000 (2017: 30,000) hectares of hardwood plantations.

Native Forest Timber

The Corporation manages approximately 1.8 million (2017: 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;

Notes to the financial statements cont.

The discount rate applied in the calculation is 7.50% (2017: 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.

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 corporate 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.

Notes to the financial statements cont.

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 and Amended standards adopted by the Corporation

The Corporation has applied new disclosure requirements under AASB 107 - Statement of Cash Flows for the first time for the annual reporting period commencing 1 July, 2017. Adoption of these amendments did not have any significant impact in the prior period and will not affect the current or future periods.

New Accounting Standards and Interpretations not yet mandatory or early adopted

The following Australian Accounting Standards and Interpretations that have been published but are not yet mandatory and have not been applied in preparing these financial statements:

i. AASB 9 addresses the classification, measurement and derecognition of financial assets and liabilities, introduces new rules for hedging and impairment model for financial assets.

   The Corporation's financial assets and liabilities are recognised as amortised costs and do not meet the criteria for measurement of fair value through Profit and Loss (FVPL) or Other Comprehensive income (FVOCI).

   Furthermore, there is no need to apply hedge accounting for its financial instruments and adopt the impairment model for its financial assets.

ii. AASB 15, Revenue from Contracts with Customers is the new standard for recognition of revenue. It will replace AASB 118 that covers revenue arising from the sale of goods and services.

   AASB 15 requires an entity to recognise revenue when the performance obligations are completed and control of the goods and services effectively are transferred to the customers.

   The Corporation has reviewed and analysed the impact of AASB 15 in terms of its revenue recognition. AASB 15 would not have significant impact on the current recognition of Forest Sales Revenue. In terms of Non-Timber Revenue of long-term contracts whereby, there is a significant financing component, discounting would have to be applied to recognize the corresponding interest revenue and the expenses over the term of the contracts. As the Non-Timber Revenue is only a minor component of the Total Revenue, the impact of recognition of interest revenue and expenses would not be significant.

iii. AASB 16, requires all non-cancellable operating leases to be recognized as a right of use asset, and the corresponding lease liability will be recorded. Low-value and short-term leases are however excluded.

   The operating lease payment expense in the financial statements would be replaced by depreciation of the recognised right-of-use asset and interest expense that will be incurred on the lease liability. The Corporation has reviewed the cancellable leases and the impact of adoption of AASB 16 will not be significant.

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 various factors. These include expectations of future events, which 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.

Notes to the financial statements cont.

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 28).

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 34).

Note 4. Revenue

	30 June 2018 $'000	30 June 2017 $'000
Sales revenue		
Forests sales revenue	344,593	330,484
Other revenue		
Other services rendered	16,617	15,964
Interest	616	597
Rent income from investment properties	295	278
Other rental	3,657	3,850
	21,185	20,689
Revenue	365,778	351,173

Note 5. Other income

	30 June 2018 $'000	30 June 2017 $'000
Grants revenue - community service obligations	15,901	15,673
Grants revenue - other state government grants	1,183	548
Net gain on disposal of non-current assets	706	1,640
Other income	17,790	17,861

Community Service Obligations (CSO)

The Corporation incurred $15.90 million (2017: $15.67 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 2018 $'000	30 June 2017 $'000
Contract harvest and haulage	163,195	150,071
External contractor costs	44,024	44,729
Other operating expenses	10,319	11,795
Materials	14,707	13,737
Occupancy costs	2,320	2,218
Forest management and licence costs	170	1,046
Travel and accommodation	2,520	2,312
Communication and computer costs	3,518	2,894
Insurance and state taxes	1,181	1,527
	241,954	230,329

Notes to the financial statements cont.

Note 7. Expenses

	30 June 2018 $'000	30 June 2017 $'000
Profit before income tax includes the following specific expenses:		
Finance costs		
Government guarantee fee	1,991	1,511
Interest expenses	4,734	4,037
Finance costs expensed	6,725	5,548
Superannuation expense		
Defined contribution superannuation expense	3,837	3,636
Defined benefit superannuation expense	1,431	1,526
Total superannuation expense	5,268	5,162

Refer to note 34 for Defined benefit superannuation expense.

Note 8. Income tax expense

	30 June 2018 $'000	30 June 2017 $'000
Income tax expense		
Current tax	17,429	17,715
Deferred tax - origination and reversal of temporary differences	(3,159)	3,773
Aggregate income tax expense	14,270	21,488
Deferred tax included in income tax expense comprises:		
Increase/(decrease) in deferred tax liabilities (note 24)	(3,159)	3,773
Numerical reconciliation of income tax expense and tax at the statutory rate		
Profit before income tax expense	47,546	70,926
Tax at the statutory tax rate of 30%	14,264	21,278
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Non-taxable expenses	6	246
Sundry items	-	(36)
Income tax expense	14,270	21,488

	30 June 2018 $'000	30 June 2017 $'000
Amounts charged directly to equity		
Deferred tax liabilities (note 24)	17,389	14,165

Note 9. Current assets - cash and cash equivalents

	30 June 2018 $'000	30 June 2017 $'000
Cash on hand	16	17
Cash at bank	12,368	9,375
NSW Treasury Corporation TCorpIM Cash Fund	25,131	24,046
	37,515	33,438

The NSW Treasury Corporation TCorpIM Cash Fund has been subject to floating interest rates between 1.99% and 2.28% (2017: 2.37% and 2.53%)

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

	30 June 2018 $'000	30 June 2017 $'000
Profit after income tax expense for the year	33,276	49,438
Adjustments for:		
Depreciation and amortisation	7,975	6,467
Net gain on disposal of property, plant and equipment	(706)	(1,640)
Net fair value gain on biological assets	8,861	(13,182)
Other non-cash items	58,296	47,620
Change in operating assets and liabilities:		
Increase in trade and other receivables	(1,849)	(5,344)
Decrease/(increase) in inventories	(457)	106
Increase/(decrease) in trade and other payables	(2,991)	7,156
Decrease in provision for income tax	(1,599)	(2,440)
Increase/(decrease) in deferred tax liabilities	(3,159)	3,773
Decrease in other provisions	(56,631)	(47,172)
Net cash from operating activities	41,016	44,782

Note 11. Changes in liabilities arising from financing activities

	Short-term borrowings $'000	Long-term borrowings $'000	Total $'000
Balance at 1 July 2016	-	63,521	63,521
Re-classified to Current	13,483	(13,483)	-
Loans received	-	44,506	44,506
Other changes	52	289	341
Balance at 30 June 2017	13,535	94,833	108,368
Re-classified to Current	8,001	(8,001)	-
Loans repayment	-	(231)	(231)
Other changes	(123)	169	46
Balance at 30 June 2018	21,413	86,770	108,183

Notes to the financial statements cont.

Note 12. Current assets - trade and other receivables

	30 June 2018 $'000	30 June 2017 $'000
Trade receivables	46,816	44,107
Less: Provision for impairment of receivables	(2)	(31)
	46,814	44,076
Other debtors	1,659	2,157
Prepayments	2,361	2,753
	50,834	48,986

Impairment of receivables

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

	30 June 2018 $'000	30 June 2017 $'000
Over 3 months overdue	2	31

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

	30 June 2018 $'000	30 June 2017 $'000
Opening balance	31	540
Additional provisions recognised	2	31
Unused amounts reversed	(31)	(540)
Closing balance	2	31

Past due but not impaired

Customers with balances past due but without provision for impairment of receivables amount to $12,028,000 as at 30 June 2018 ($15,007,000 as at 30 June 2017).

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 2018 $'000	30 June 2017 $'000
31 to 60 days	11,144	13,582
61 to 90 days	455	815
Over 91	429	610
	12,028	15,007

Note 13. Current assets - inventories

	30 June 2018 $'000	30 June 2017 $'000
Work in progress and finished goods	3,499	3,042

Note 14. Current assets - biological assets

	30 June 2018 $'000	30 June 2017 $'000
Biological assets at fair value	72,001	78,698

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 16 for reconciliation of movements in the current biological assets.

Refer to note 28 for further information on fair value measurement.

Note 15. Non-current assets - property, plant and equipment

	30 June 2018 $'000	30 June 2017 $'000
Land	887,836	887,790
Buildings	23,916	24,261
Less: Accumulated depreciation	(10,634)	(9,830)
	13,282	14,431
Plant and equipment	23,986	21,233
Less: Accumulated depreciation	(9,193)	(7,681)
	14,793	13,552
Roads and bridges	141,904	141,180
Less: Accumulated depreciation	(70,420)	(67,741)
	71,484	73,439
Property work in progress - at cost	1,423	64
	988,818	989,276

Notes to the financial statements cont.

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 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
Additions	165	59	6,513	724	1,359	8,820
Disposals	(259)	-	(690)	-	-	(949)
Revaluation increments	65	-	-	-	-	65
Impairment of assets	-	(231)	-	(10)	-	(241)
Transfers from/(to) investment properties	75	(253)	-	-	-	(178)
Depreciation expense	-	(724)	(4,582)	(2,669)	-	(7,975)
Balance at 30 June 2018	887,836	13,282	14,793	71,484	1,423	988,818

Refer to note 28 for further information on fair value measurement.

Note 16. Non-current assets - biological assets

	30 June 2018 $'000	30 June 2017 $'000
Biological assets at fair value	911,491	913,655

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

	Biological assets $'000
Balance at 1 July 2016	945,181
Harvested timber	(37,645)
Purchase of standing timber	33,989
Changes in fair value less estimated point of sale costs due to:	
– changes in volumes, prices and markets	50,828
Balance at 30 June 2017	992,353
Harvested timber	(40,192)
Changes in fair value less estimated point of sale costs due to:	
– changes in volumes, prices and markets	31,331
Balance at 30 June 2018	983,492

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 28 for further information on fair value measurement and reconciliations of biological assets.

Note 17. Non-current assets – investment properties

	30 June 2018 $'000	30 June 2017 $'000
Investment properties	6,836	6,658
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	6,658	6,821
Net transfers from property, plant and equipment	178	-
Disposals	-	(163)
Closing fair value	6,836	6,658

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 the 2016 financial year, a comprehensive valuation of investment properties was 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 28 for further information on fair value measurement.

Lessor commitments

	30 June 2018 $'000	30 June 2017 $'000
Minimum lease commitments receivable but not recognised in the financial statements:		
Within one year	117	338
One to five years	394	984
More than five years	105	1,433
	616	2,755

Note 18. Current liabilities - trade and other payables

	30 June 2018 $'000	30 June 2017 $'000
Trade creditors	29,494	32,589
Revenue received in advance	16,990	16,886
	46,484	49,475

Refer to note 27 for further information on financial instruments.

Note 19. Current liabilities - borrowings

	30 June 2018 $'000	30 June 2017 $'000
NSW Treasury Corporation loans	21,413	13,535

Refer to note 27 for further information on financial instruments.

Notes to the financial statements cont.

Note 20. Current liabilities - Dividend provided

	30 June 2018 $'000	30 June 2017 $'000
Dividend provided	25,051	29,543

Note 21. Current liabilities - provisions

	30 June 2018 $'000	30 June 2017 $'000
Employee benefits	26,835	27,520
Workers compensation	535	777
	27,370	28,297

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 2017	777
Additional provisions recognised	128
Amounts transferred from non-current	280
Amounts used	(350)
Unused amounts reversed	(300)
Balance at 30 June 2018	535

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 $4,891,000 (2017: $4,773,000).

Note 22. Non-current liabilities - borrowings

	30 June 2018 $'000	30 June 2017 $'000
NSW Treasury Corporation loans	86,770	94,833

Refer to note 27 for further information on financial instruments.

Note 23. Non-current liabilities - provisions

	30 June 2018 $'000	30 June 2017 $'000
Employee benefits	530	720
Onerous contracts	2,097	2,368
Workers compensation	990	1,270
	3,617	4,358

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:

	30 June 2018 $'000	30 June 2017 $'000
Balance at 1 July 2017	2,368	1,270
Amounts transferred to current	-	(280)
Reversal during the year	(271)	-
Balance at 30 June 2018	2,097	990

Notes to the financial statements cont.

Note 24. Non-current liabilities – deferred tax

	30 June 2018 $'000	30 June 2017 $'000
Deferred tax liability comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Biological assets	284,851	287,509
Provisions	(8,832)	(9,068)
Revenue in advance	(5,097)	(5,066)
Others	35	-
	270,957	273,375
Amounts recognised in equity:		
Revaluation of property, plant and equipment	261,087	261,150
Retirement benefit obligations	(19,560)	(36,049)
	241,527	225,101
Deferred tax liability	512,484	498,476
Movements:		
Opening balance	498,476	481,690
Charged/(credited) to profit or loss (note 8)	(3,159)	3,773
Charged to equity (note 8)	17,389	14,165
Recognised directly in equity	(222)	(1,152)
Closing balance	512,484	498,476

Note 25. Equity - Contributed equity

	30 June 2018 $'000	30 June 2017 $'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.

Note 26. Equity - reserves

	30 June 2018 $'000	30 June 2017 $'000
Asset revaluation reserve	591,089	591,606
Reserve for deferred tax assets	50,092	50,092
	641,181	641,698

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 27. 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 (2017: 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.

Notes to the financial statements cont.

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 1.99% and 2.28% (2017: 2.37% and 2.53%). An official increase/decrease in interest rate of 0.3% (2017: 0.3%) would have an adverse/favourable effect on profit after tax of $227,000 (2017: $228,000).

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 74% of forests sales revenue for 2018 (2017: 78%). Additionally, these customers accounted for 76% of our accounts receivable as of 30 June 2018 (2017: 78%). 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.

30 June 2018	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	-	46,484	-	-	-	46,484
Interest-bearing - fixed rate						
NSW TCorp. loans	4.20%	26,128	24,905	60,846	8,294	120,173
Total non-derivatives		72,612	24,905	60,846	8,294	166,657

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

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 $112,733,000 (2017: $114,888,000) 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 2018		30 June 2017	
	Carrying amount $'000	Fair value $'000	Carrying amount $'000	Fair value $'000
Liabilities				
Borrowings	108,183	112,733	108,368	114,888
	108,183	112,733	108,368	114,888

Notes to the financial statements cont.

Note 28. 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 2018	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Land (including Crown and Freehold land)	-	887,836	-	887,836
Building	-	-	13,282	13,282
Plant and equipment	-	12,922	1,871	14,793
Roads and bridges	-	-	71,484	71,484
Investment properties	-	6,836	-	6,836
Biological assets	-	-	983,492	983,492
Total assets	-	907,594	1,070,129	1,977,723
Liabilities				
Onerous contracts provision	-	-	2,097	2,097
Total liabilities	-	-	2,097	2,097

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 properties	-	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

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 properties 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.

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 the 2018 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 cubic 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.

Notes to the financial statements cont.

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 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
Additions	59	861	724	1,644
Disposals	-	(15)	-	(15)
Transfers to investment properties	(253)	-	-	(253)
Impairment of assets and reversal of impairment loss	(231)	-	(10)	(241)
Depreciation	(724)	(586)	(2,669)	(3,979)
Balance at 30 June 2018	13,282	1,871	71,484	86,637

Movements in level 3 assets for Onerous contracts provision are provided in note 23.

Movements in level 3 assets for Biological assets are provided in note 16.

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

Description	Unobservable inputs	Range (weighted average)	Sensitivity ($000)
2018			
a. Biological assets	(i) Discount rate	+1%	1% increase would decrease fair value by $90,183
		-1%	1% decrease would increase fair value by $107,197
	(ii) Expected future sales values	+/- 5%	5% change would increase/(decrease) the fair value by $134,759
	(iii) Expected future costs	+/- 5%	55% change would increase/(decrease) the fair value by $85,584
	(iv) Expected future changes in volume	+/- 5%	5% change would increase/(decrease) the fair value by $70,396
b. Onerous contracts provision	(i) Discount rate	+1%	1% increase would increase fair value by $68
		-1%	1% decrease would decrease fair value by $98
	(ii) Expected 3 years direct/indirect costs	+/- 5%	5% change would increase/(decrease) the fair value by $466

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 decrease fair value by $23
		-1%	1% decrease would increase fair value by $51
	(ii) Expected 3 years direct/indirect costs	+/- 5%	5% change would increase/(decrease) the fair value by $456

Note 29. 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 — Board Member (Non-Executive)
- Wendy Machin — 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 (resigned 30/09/2017) — General Manager Softwood Plantations Division
- Mike Beardsell (appointed 11/12/2017) — 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 made 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 2018 $	30 June 2017 $
Short-term employee benefits	2,492,425	2,197,473
Post-employment benefits	150,768	126,267
Long-term benefits	81,743	104,633
	2,724,936	2,428,373

Notes to the financial statements cont.

Note 30. 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 2018 $	30 June 2017 $
Audit services - The Audit Office of New South Wales		
Audit of the financial statements (excluding GST)	274,000	274,000

Note 31. Commitments

	30 June 2018 $'000	30 June 2017 $'000
Lease commitments - operating		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	717	822
One to five years	2,184	1,202
More than five years	9,111	6,031
	12,012	8,055
Capital commitments		
Committed at the reporting date but not recognised as liabilities, payable:		
Property, plant and equipment	3,698	3,161
Biological assets	1,439	-
	5,137	3,161

Note 32. Contingent Liabilities\Assets

At 30 June 2018, 837,065 hectares (2017: 638,641 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 2018, the Corporation has no contingent assets.

Note 33. Events after the reporting period

No matter or circumstance has arisen since 30 June 2018 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 34. 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 2018 $'000	30 June 2017 $'000
Present value of the defined benefit obligation	278,739	329,291
Fair value of defined benefit plan assets	(213,540)	(209,129)
Net liability in the statement of financial position	65,199	120,162

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.

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 actuary has commenced work on the 30 June 2018 investigation. Once completed, the report will be available on the Fund's website.

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.

Notes to the financial statements cont.

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	
	2018 $000	2017 $000	2018 $000	2017 $000	2018 $000	2017 $000	2018 $000	2017 $000
Net Defined Benefit Liability/(Asset) at start of year	11,918	21,197	(822)	191	109,066	142,537	120,162	163,925
Current service cost	930	1,140	259	301	179	294	1,368	1,735
Net Interest on the net defined benefit liability/(asset)	298	411	(23)	1	2,855	2,835	3,130	3,247
Actual return on Fund assets less Interest income	(3,574)	(4,261)	(434)	(512)	(8,042)	(9,640)	(12,050)	(14,413)
Actuarial (gains)/losses arising from changes in demographic assumptions	955	(18)	(111)	(11)	1,086	15	1,930	(14)
Actuarial (gains)/losses arising from changes in financial assumptions	(8,422)	(4,721)	(524)	(314)	(38,395)	(22,998)	(47,341)	(28,033)
Actuarial (gains)/losses arising from liability experience	2,223	(733)	98	(240)	(2,890)	(3,785)	(569)	(4,758)
Employer contributions	(1,052)	(1,097)	(222)	(238)	(157)	(192)	(1,431)	(1,527)
Net Defined Benefit Liability/(Asset) at end of year	3,276	11,918	(1,779)	(822)	63,702	109,066	65,199	120,162

Reconciliation of the Fair Value of Fund Assets

Financial Year to 30 June	SASS		SANCS		SSS		Total	
	2018 $000	2017 $000	2018 $000	2017 $000	2018 $000	2017 $000	2018 $000	2017 $000
Fair value of Fund assets at beginning of the year	62,350	61,707	7,547	7,498	139,232	136,995	209,129	206,200
Interest income	1,571	1,184	187	142	3,493	2,661	5,251	3,987
Actual return on Fund assets less Interest income	3,573	4,261	434	512	8,042	9,640	12,049	14,413
Employer contributions	1,052	1,097	222	238	157	192	1,431	1,527
Contributions by participants	532	588	-	-	113	100	645	688
Benefits paid	(4,237)	(6,665)	(553)	(839)	(11,626)	(11,999)	(16,416)	(19,503)
Taxes, premiums & expenses paid	106	178	(67)	(4)	1,412	1,643	1,451	1,817
Fair value of Fund assets at end of the year	64,947	62,350	7,770	7,547	140,823	139,232	213,540	209,129

Reconciliation of the Defined Benefit Obligation

Financial Year to 30 June	SASS		SANCS		SSS		Total	
	2018 $000	2017 $000	2018 $000	2017 $000	2018 $000	2017 $000	2018 $000	2017 $000
Present value of defined benefit obligations at beginning of the year	74,268	82,904	6,726	7,690	248,297	279,531	329,291	370,125
Current service cost	930	1,140	259	300	179	294	1,368	1,734
Interest cost	1,868	1,595	162	144	6,349	5,496	8,379	7,235
Contributions by participants	532	588	-	-	113	100	645	688
Actuarial (gains)/losses arising from changes in demographic assumptions	955	(18)	(111)	(11)	1,086	15	1,930	(14)
Actuarial (gains)/losses arising from changes in financial assumptions	(8,422)	(4,721)	(524)	(314)	(38,395)	(22,998)	(47,341)	(28,033)
Actuarial (gains)/losses arising from liability experience	2,223	(733)	98	(240)	(2,890)	(3,785)	(569)	(4,758)
Benefits paid	(4,237)	(6,665)	(553)	(839)	(11,626)	(11,999)	(16,416)	(19,503)
Taxes, premiums & expenses paid	107	178	(67)	(4)	1,412	1,643	1,452	1,817
Present value of defined benefit obligations at end of the year	68,224	74,268	5,990	6,726	204,525	248,297	278,739	329,291

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 2018				As at 30 June 2017			
	Total $'000	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000	Level 1 $'000	Level 2 $'000	Level 3 $'000
Short Term Securities	4,401,164	2,185,469	2,215,695	-	3,087,307	3,077,362	9,945	-
Australian Fixed Interest	2,234,921	41,854	2,193,068	-	2,500,725	997	2,499,728	-
International Fixed Interest	1,396,107	8,116	1,387,991	-	480,991	-	480,991	-
Australian Equities	9,271,405	8,719,442	548,908	3,055	9,446,079	8,947,483	498,572	24
International Equities	10,891,350	8,499,476	2,391,501	373	12,053,503	9,033,497	1,869,112	1,150,894
Property	3,711,287	788,018	608,934	2,314,335	3,453,108	926,105	533,191	1,993,812
Alternatives	9,894,828	420,898	5,332,818	4,141,113	9,066,056	390,899	5,068,137	3,607,020
Total	41,801,063	20,663,272	14,678,915	6,458,876	40,087,769	22,376,343	10,959,676	6,751,750

Fund assets

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

As at 30 June	2018 %	2017 %
Short Term Securities	10.5%	7.7%
Australian Fixed Interest	5.3%	6.2%
International Fixed Interest	3.3%	1.2%
Australian Equities	22.2%	23.6%
International Equities	26.1%	30.1%
Property	8.9%	8.6%
Alternatives	23.7%	22.6%
Total	100.0%	100.0%

Level 1 - quoted prices in active markets for identical assets or liabilities. The assets in this level 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.

Notes to the financial statements cont.

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 2018 include $97.7 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 $280 million (30 June 2017: $250 million).
- Health Administration Corporation occupies part of a property 50% owned by the Pooled Fund with a fair value (100% interest) of $287 million (30 June 2017: $261 million).

Significant Actuarial Assumptions at the Reporting Date

As at 30 June	2018	2017
Discount rate	4.03%	2.62%
Salary increase rate (excluding promotional increases)	2.7% pa for 2018/19; 3.2% pa thereafter.	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
Rate of CPI increase	2.25% pa for 2018/19 and 2019/20; 2.5% pa thereafter.	2.00% 2017/2018; 2.25% 2018/2019; 2.50% pa thereafter
Pensioner mortality	The pensioner mortality assumptions are those to be used for the 2018 actuarial investigation of the Pooled Fund. These assumptions will be disclosed in the actuarial investigation report which will be available on the Trustee's website when the investigation is complete. The report will show the pension mortality rates for each age. Alternatively, the assumptions are available on request from the Trustee.	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 2018 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 2018.

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	2018			2017		
	Base Case	Scenario A	Scenario B	Base Case	Scenario A	Scenario B
	-1.0% discount rate	+1.0% discount rate		-1.0% discount rate	+1.0% discount rate	
Discount rate	as above	as above -1.0% pa	as above +1.0% pa	as above	as above -1.0% pa	as above +1.0% pa
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	278,739	312,422	250,511	329,291	374,351	292,140

As at 30 June	2018			2017		
	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	278,739	294,072	264,605	329,291	349,368	310,908

As at 30 June	2018			2017		
	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	278,739	279,850	277,666	329,291	330,774	327,863

As at 30 June	2018			2017		
	Base Case	Scenario G Higher mortality*	Scenario H Lower mortality**	Base Case	Scenario G Higher mortality*	Scenario H Lower mortality**
Defined benefit obligation $'000	278,739	281,756	276,204	329,291	334,527	325,698

**Assumes the short-term pensioner mortality improvement factors for years 2018-2023 also apply for years after 2023*
***Assumes the long-term pensioner mortality improvement factors for years post 2023 also apply for years 2018 to 2023*

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. 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 2018 financial position of the Fund calculated in accordance with AASB 1056 Accounting Standard "Superannuation Entities":

Financial Year to 30 June	SASS		SANCS		SSS		Total	
	2018 $000	2017 $000	2018 $000	2017 $000	2018 $000	2017 $000	2018 $000	2017 $000
Accrued benefits*	56,752	53,861	6,042	5,539	136,662	139,362	199,456	198,762
Net market value of Fund assets	(64,947)	(62,349)	(7,770)	(7,547)	(140,823)	(139,232)	(213,540)	(209,128)
Net (surplus)/deficit	(8,195)	(8,488)	(1,728)	(2,008)	(4,161)	130	(14,084)	(10,366)

* *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.*

Notes to the financial statements cont.

Contribution recommendations

Recommended contribution rates for the entity are:

	SASS		SANCS		SSS	
	2018	2017	2018	2017	2018	2017
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 30 June 2018 AASB 1056 Accounting Standard "Superannuation Entities" are (these assumptions are consistent with the assumptions to be used for the 2018 actuarial investigation of the Pooled Fund):

For the period 30 June	2018 %	2017 %
Expected rate of return on Fund assets backing current pension liabilities	7.4% pa	7.4% pa
Expected rate of return on Fund assets backing other liabilities	6.4% pa	6.4% pa
Expected salary increase rate (excluding promotional salary increase)	2.7% to 30 June 2019 then 3.2% pa thereafter	2.7% to 30 June 2019 then 3.2% pa thereafter
Expected rate of CPI increase	2.2% pa	2.2% pa

Future expected contributions

Financial Year to 30 June	SASS		SANCS		SSS		Total	
	2018 $000	2017 $000	2018 $000	2017 $000	2018 $000	2017 $000	2018 $000	2017 $000
Future expected employer contributions for the following year	965	1,117	200	237	99	160	1,264	1,514

Maturity profile of defined benefit obligation

The weighted average duration of the defined benefit obligation is 11.2 years.

Profit and Loss Impact

For the year ended 30 June	SASS		SANCS		SSS		Total	
	2018 $000	2017 $000	2018 $000	2017 $000	2018 $000	2017 $000	2018 $000	2017 $000
Current service cost	930	1,140	259	300	179	294	1,368	1,734
Net interest	299	411	(24)	1	2,855	2,835	3,130	3,247
Profit or loss component of the Defined Benefit Cost	1,229	1,551	235	301	3,034	3,129	4,498	4,981

Other Comprehensive Income

For the year ended 30 June	SASS		SANCS		SSS		Total	
	2018 $000	2017 $000	2018 $000	2017 $000	2018 $000	2017 $000	2018 $000	2017 $000
Actuarial (gains) losses on liabilities	(5,244)	(5,472)	(537)	(565)	(40,199)	(26,768)	(45,980)	(32,805)
Actual return on Fund assets less Interest income	(3,574)	(4,261)	(434)	(512)	(8,042)	(9,640)	(12,050)	(14,413)
Total remeasurement in Other Comprehensive Income	(8,818)	(9,733)	(971)	(1,077)	(48,241)	(36,408)	(58,030)	(47,218)

Impact of Change in Method of Determining the Discount Rate

The approach to setting the discount rate as at 30 June 2018 has changed. In prior years, the discount rate was based on the yield on Commonwealth Government bonds. A corporate bond yield has been used instead for this year's reporting as at 30 June 2018 (and will be used for future years' reporting).

The table below shows a comparison of the AASB 119 deficit/(surplus) as at 30 June 2018 using a discount rate based on corporate bond yields and the deficit/(surplus) that would have been calculated had a discount rate based on Government bond yields been used.

For the year ended 30 June	SASS		SANCS		SSS		Total	
	2018 $000	2017 $000	2018 $000	2017 $000	2018 $000	2017 $000	2018 $000	2017 $000
Deficit/(surplus) using Corporate bond yield	3,277	-	(1,780)	-	63,702	-	65,199	-
Deficit/(surplus) using Government bond yield	11,585	-	(1,249)	-	101,205	-	111,541	-
Difference in deficit/ (surplus)	(8,308)	-	(531)	-	(37,503)	-	(46,342)	-

End of the Audited Financial Statements

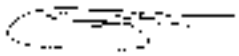
Director's declaration

30 June 2018

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 2018 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

24 August 2018

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 the Forestry Corporation of New South Wales (the Corporation), which comprise the Statement of profit or loss and other comprehensive income for the year ended 30 June 2018, the Statement of financial position as at 30 June 2018, the Statement of changes in equity and the 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 2018, 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 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.

Other Information

Other information comprises the information included in the Corporation's annual report for the year ended 30 June 2018, other than the financial statements and my Independent Auditor's Report thereon. The directors of the Corporation are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprises the Directors Declaration.

My opinion on the financial statements does not cover the other information. Accordingly, I do not express any form of assurance conclusion on the other information.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude there is a material misstatement of the other information, I must report that fact.

I have nothing to report in this regard.

Director's Responsibilities 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 are responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Corporation or to cease operations or have no realistic alternative but to do so.

Auditor's Responsibilities 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

30 August 2018
SYDNEY

Statutory information

Consultants

More than $50,000 (per engagement)

Vendor and subject area	Amount $
LJM Group - HR Safety Culture	163,448
Indufor Asia Pacific - Operational Management	70,000

$50,000 or less (per engagement)

Forestry Corporation employed 61 consultants for engagements costing less than $50,000, at a total cost of $663,206 as detailed in the table below.

Subject area	Amount $
Engineering	47,275
Environmental	69,141
Finance and Accounting/Tax	64,492
Human Resources	144,632
Legal	1,603
Organisational Review	151,051
Operational Management	165,433
Training	19,579

Cost of Annual Report

The total external costs incurred in the production of the Forestry Corporation Annual Report for FY18 were $5147.88 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 General 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 2018, Forestry Corporation's total borrowings were $108 million (2017: $108 million). 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 2018*	$113 million	N/A
Generalised cost of funds	4.20%	2.35%

* *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 2018, the corporation's debt was subject to interest charges at fixed rates from TCorp.

Investment management performance

At 30 June 2018, Forestry Corporation's financial investments totalled $25.1 million (FY17: $24.05 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 $465,418 (FY17: $444,820) at a yearly rate of 1.99 per cent (FY17: 2.37 per 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, streamline the administrative processes and implement improved management systems for telecommunication sites on State forests.

Forward outlook

	Financial year to 30 June 2019 budget	
	Measure	Target
Revenue	$m	380
EBITDA	$m	68
EBITDA on sales	%	18
EBIT	$m	60
Operating profit before tax	$m	53
NPAT	$m	37
Dividend payout ratio	%	70
Return on assets	%	2.9
Return on equity (excl.land asset)	%	6.8

Government Information Public Access

There were 13 valid Government Information Public Access (GIPA) applications received between 1 July 2017 and 30 June 2018. One application was received prior to 30 June 2017 but a decision on this was made after 30 June 2018 and is included in this report. The decision on three applications were pending as at 30 June 2018 and will be included in next year's report.

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

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	Refused to deal with application
Media	–	–	–
Members of Parliament	–	1	–
Private sector businesses	–	1	2
Not-for-profit organisations or community groups	2	–	–
Members of the public (application by legal representative)	–	2	–
Members of the public (other)	–	3	–
Total	2	7	2

* *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.*

Human resources

At 30 June 2018, Forestry Corporation employed 520 full time equivalent (FTE) staff. This figure comprised 308 FTE employees primarily involved in management, administration and technical roles, and 212 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
2015	315	267	582
2016	307	237	544
2017	305	234	539
2018*	308	212	520

* *at 28 June 2018*

Statutory information cont.

Trends in the representation of Equal Employment Opportunity groups

Equal Employment Opportunity (EEO) group Financial year to 30 June	Benchmark or target	2016	2017	2018
Women	50%	18.1%	18.7%	19.6%
Aboriginal and/or Torres Strait Islander people	2.6%	4%	3.8%	4.1%
People whose first language is not English	19%	6%	5.2%	5.5%
People with a disability	N/A	4.8%	5%	7.1%
People with a disability requiring work-related adjustment	1.5%	1%	1%	0.8%

Trends in the distribution of EEO groups

EEO group Financial year to 30 June	Benchmark or target	2016	2017	2018
Women	100	110	107	105
Aboriginal and/or Torres Strait Islander people	100	77	77	80
People whose first language is not English	100	116	119	119
People with a disability	100	86	91	89
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 recognises the value and benefits of an inclusive and diverse workplace and we are proud of our progress we have made on the strategic initiatives that were developed in FY18.

In March 2018 we celebrated International Women's Day (IWD) with several Forestry staff attending IWD functions across the state. In our offices many morning teas were held where the value and impact of women in our workplace was recognised and celebrated. Throughout the week our Board Members and CEO shared their views and insights on the importance of an inclusive and diverse workplace. On IWD we launched the Parental Toolkit which has a key focus on keeping in touch during periods of extended leave. We also had three female members of our workforce attend the *Women In Leadership* program, run by the University of NSW, Australian Graduate School of Management. We had female representation in our overseas firefighting deployment and have had a strong focus in increasing our female firefighting leaders. We continue to focus our efforts to deliver on the strategic initiatives we set ourselves in FY17 in making our workplace inclusive and diverse.

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	
	FY17	FY18	FY17	FY18
Band 4 or above	–	–	1	1
Band 3	–	–	–	–
Band 2	–	–	3	3
Band 1	1	1	1	1

Aboriginal employment strategy

Forestry Corporation is committed to diversity in employment and actively encourages people from ethnically diverse backgrounds to apply for roles. In FY18 the Hardwood Forests Division employed six people in its Aboriginal Partnership Liaison Team and these are dedicated Aboriginal roles. Forestry Corporation also actively encouraged Aboriginal people to apply for term and casual firefighting position.

Structural adjustment

During FY18, Forestry Corporation continued to review its workforce and organisational structures. A significant review of the Finance and Technology division was undertaken enabling the division to better align and increase resources to support the business and further strengthen Forestry Corporation's service delivery and commercial operating position.

Salary and wage movement

In FY18 Forestry Corporation for the first time undertook a performance-based pay review of Levels 7 and above.

This approach further strengthens the Corporation's focus on developing a high-performance culture and recognising and rewarding individuals based on their contributions towards the corporation's goals and objectives. The Forestry Corporation provided for a 2.5 per cent increase to salary and wages for staff covered by the agreement and for Level 6 employees as part of their transitioning arrangements.

Average remuneration of senior executives

Band	FY16 $	FY17 $	FY18 $
Band 4 or above	560,275	568,151	582,799
Band 3	–	–	
Band 2	317,647	318,528	230,320*
Band 1	278,271	191,524	265,040

* *Reflects the average remuneration paid to 4 senior executives, two were only employed for part of the year. ~3 per cent (FY17: 3.15%) of total employee-related expenditure during the reporting year related to senior executives.*

Training and organisational development

Technical skills

In FY18 Forestry Corporation introduced a new Learning Management System to improve the overall management of our employee training. Since the implementation of the system in late 2017 an extensive process of locating missing training records has been underway. This process has resulted in the collation and inputting of 12,231 records into the PeopleStreme system. Each record notes the current national unit of competency, matched and evidenced with a certificate of qualification and assigned to an individuals' profile. This allows managers to quickly and simply view the qualifications their staff hold and for the first time provides the business with a source of training data they can rely upon.

Performance framework

With the introduction of PeopleStreme, Forestry Corporation's performance process has continued to evolve in FY18 with the rollout of the online system to all staff levels 3 and above. The system has been readily accepted by the business and has seen a significant improvement in participation and the quality of conversations around performance. A continued focus on improving maturity around performance discussions will be carried into FY19.

Reward and recognition program

Forestry Corporation's Peak Performer Reward and Recognition Program continued in FY18. This year saw several teams being recognised in demonstrating commitment to safety and environment, commercial innovation and performance excellence.

Leadership development

Investing in the ongoing development of our people is not only a driver of positive employee engagement, it is important for the growth of our organisation.

Over the last 12 months we have kick-started this by focusing on the development of leaders through the introduction of LEAF – Leadership Excellence at Forestry Corporation. LEAF programs are part of a broader Leadership Learning pathway which looks to develop leaders at each level in our business.

Our first program, LEAF I has been targeted to develop our Frontline supervisors. To date, we have delivered three programs, with a total of 40 supervisors commencing the program. More recently we delivered to the business the first workshop of LEAF II. The audience for this program are our managers of people and teams. Already we have seen positive feedback from both programs, not only around the content, but also the overall experience and opportunity to network with leaders from all around the business.

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. In our pulse survey conducted early in 2018. We achieved a 4 per cent increase to our overall engagement score from FY16 and of notable improvement was an 7 per cent increase in our female engagement, a strong recognition of the work we have done over the last year in developing our female workforce.

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 FY18 was 19.6 per million hours worked (FY17:19), which was short of the target of 12.3. A new safety strategy was developed in FY18 and focuses on the four pillars of critical risk, contractor management, leadership and performance and health and wellbeing. This aims to improve safety performance across the business by deepening and maturing the safety culture and continues to be implemented in 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 FY18 via the intranet. No PIDs were received during FY18.

Statutory information cont.

Legislation and legal issues

The *Forestry Legislation Amendment Act 2018* was assented to on 27 June 2018. This legislation revised the regulatory regime for private and public native forestry including the legal framework for adopting the remade coastal integrated forestry operations approval and made minor amendments to the principal legislation relevant to Forestry Corporation's core activities, the *Forestry Act 2012*.

The prosecution of Forestry Corporation by the Environment Protection Authority (EPA) over alleged offences in relation to searching for and protecting rocky outcrops in Glenbog and Badja State forests during operations in 2013 was conducted in FY18. Forestry Corporation pleaded guilty to one allegation, the judgement was held in favour of Forestry Corporation on the second and the EPA withdrew the third.

Overseas visits

- October 2017: The CEO, Nick Roberts travelled to New Zealand to attend the Precision Agriculture Conference to gain a better understanding of the use of robotics, drones and other technologies in agriculture that may apply to forestry.
- November 2017: State Fire Manager, Timothy McGuffog travelled to India at the invitation of the World Bank for the International Workshop on Forest Fire Prevention and Management. Expenses were covered by the World Bank.
- March 2018: Manager, Forest Information and Planning, Mike Sutton travelled to Canada to speak at the ForestTechX Conference. Mr Sutton had meetings with consultants for a potential engagement to assist in resource model development, audit and review and with the University of British Columbia to discuss forest technology and connectivity projects.
- May 2018: Applied Research Analyst, Rochelle Kenna travelled to New Zealand to attend the Radiata Pine Breeding Company (RPBC) Technical Committee Meeting.
- Company Secretary, Dr Ross Dickson travelled to New Zealand on five other occasions (July, August, and October 2017 and March and May 2018) to attend meetings of the RPBC. Dr Dickson was appointed as Chair of the RPBC in May 2017, requiring him to travel to New Zealand as part of a restructuring of the company for the benefit of the shareholders.

Research and development

The Forest Science Unit within the NSW Department of Primary Industries – 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 FY18. 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 analytical services. DPI–Forestry also represented forestry on the NSW Scientific Committee and assisted in the compilation of scientific papers and reports that have been produced by FCNSW.

Forest ecology

- Publication of a spatial model for mapping the distribution of koala habitat
- Completion of the field work and data analysis of a three year koala study in north-east forests and response to timber harvesting based on data acquired using SongMeters
- Completion of the NSW Environment Trust-funded project assessing the capacity of thinning cypress regrowth to restore habitat biodiversity and three papers published
- Publication of biodiversity data investigating the initial effects of early thinning in red gum forests and participation in a Natural Resources Commission review of an associated thinning trial
- Analysis of bat calls collected as part of biodiversity monitoring in the Pilliga forests and results presented at a national conference.
- Analysis of data for ongoing monitoring program for the Hastings River Mouse
- Publication of long-term bat banding data in relation to forest disturbance history
- Development of automated 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 and submission of a paper to Austral Ecology on coarse woody debris data from north east forest to provide benchmarks for different forests and to investigate the effect of harvesting on environmental features (NSW DPI funded)
- Completion of pre-thinning 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)
- Contribute towards and provide secretariat assistance for the DPI/FCNSW Animal Ethics Committee

Forest health and biosecurity

- Completed the annual aerial and ground surveys of the softwood and eucalypt plantation estate for detection of pests and diseases
- Continued monitoring the successful establishment of the parasitic wasp released as a biological control agent for the Essigella Pine Aphid
- Provided training for Softwood Plantations Division staff in Sirex Wood Wasp management and complete an audit of the Sirex biological control program
- Conducted a contemporary examination of mycorrhizae in pine nurseries and plantations
- Published a Forest Health and Biosecurity Field Guide for Pinus plantations for use by the Softwood Plantations Division
- Investigated the applicability of using airborne photogrammetry for detecting forest health issues, specifically Sirex Wood Wasp
- Completed aerial surveys for Bell Miner Associated Dieback (BMAD) on the North Coast
- Provided timely advice on any biosecurity matters relating to Forestry Corporation's business
- Represent the Forestry Corporation's interests on state and national biosecurity bodies, including co-chairing the Forest Health and Biosecurity Subcommittee and Chairing the National Sirex Coordination Committee
- Published the Final Report (and associated papers published in Australian Forestry) on a Forest and Wood Products Australia (FWPA) funded project on evaluating the costs and benefits of new and existing biosecurity threats to Australia's plantation industry
- Continued research into the impact of the exotic pathogen Myrtle Rust
- Contributed towards a transition to management program for the exotic Giant Pine Scale
- Secured funding from Australian Department of Agriculture and Water Resources (DAWR) to continue forestry biosecurity surveillance for exotic pests and diseases at high-risk environs.

Forest resource assessment and remote sensing

- Using acoustic and IML-RESI drilling resistance measurements on standing trees and logs to predict structural grade outturn for slash and hybrid Southern Pines in northern NSW
- Developed spatially varying height-diameter equations using inventory data from a large number of spatially dispersed plots for deriving yield estimates from harvester data and from airborne LiDAR data in *P. radiata* plantations
- Developed product and residue biomass equations for individual trees in rotation age *P. radiata* stands under three thinning regimes
- Developed methods for reconstructing the size of individual trees using cut-to-length harvester data in *P. radiata* plantations
- Developed a new method based on nonlinear conditional quantiles for modelling conifer crown profiles with direct applications to *P. radiata*
- Undertook a literature review on the comparative performances of *P. radiata* trees grown from cuttings and from seedlings
- Submitted final reports for two national, FWPA-funded projects progressing the application of remote sensing technologies for forest resource assessment
- Demonstrated the relative effectiveness of deriving *P. radiata* yield estimates derived from aerial photogrammetric point-cloud data when compared to Airborne Laser Scanning (ALS) data.
- Analysed historical growth and final yield data from the long-term, Blackbutt Correlated Curve Trend (CCT) experiment to compare the growth and yield of the even-aged stands following different thinning treatments
- Development of a yield association group classification map across all forests in north eastern NSW

Forest carbon

- Completion of the North Coast residues project aimed at promoting the increased use of forestry biomass for bioenergy generation, results presented a several conferences including the European Biomass Conference
- All biomass measurements completed in 240 plots following treatment as part of the Federally-funded National Mechanical Fuel Load Reduction Trials
- Secured funding from the NSW Climate Change Fund for a new project on opportunities for biomass use for bioenergy in NSW
- Continuation of the ABBA (Australian Biomass for Bioenergy Assessment) project, funded by the Australian Renewable Energy Agency, with continued upload of forestry and other biomass layers at AREMI (Australian Renewable Energy Mapping Infrastructure)
- Final report for the Emissions Reduction Fund (ERF) forestry methodologies project (FWPA funded)
- Continuing research on carbon storage of wood products in landfill, two papers published in the international journal *Waste Management*
- Publication of manuscript on carbon estimation in mature native forests in Australia in the international journal *Forests*
- Development of guidelines for biomass and carbon estimation for the NSW fForest monitoring program

Statutory information cont.

Forestry Corporation continued to chair the joint DPI/ 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:

- High resolution remote sensing
- Use of dense point cloud data for inventory
- Southern Pine wood characterisation study
- Emissions Reduction Fund (ERF) forestry methodologies.

Forestry Corporation is also a shareholder in the Radiata Pine Breeding Company (RPBC) and Forestry Corporation's Chief Forester and Company Secretary is the current Chair of that company. Through this arrangement, Forestry Corporation has access to the company's breeding research and development program. The Forestry Corporation maintains and measures a number of *P. radiata* genetics trials as part of its RPBC membership arrangements.

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 FY18 as part of routine operational planning across all aspects of the business and a complaints procedure 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 Guidelines (AS/NZS ISO 31000:2018 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's reports are reviewed by the Audit and Risk Committee and the service provider has access to the Chief Executive Officer as required.

Three internal audits were initiated during the year, covering contract management in Hardwood Forests Division, privacy and information security arrangements, and hazard reduction. Two other planned audits covering chain of custody responsibility for heavy plant owned by the Corporation and employee expense management were deferred to the first quarter of FY19 due to other initiatives being implemented in the affected areas.

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. A thorough review of the framework was initiated during the year along with a specific project to review and update risk management processes for critical safety risks.

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. This was followed in FY18 by a project that involved a wide spectrum of staff in identifying new approaches to safety. Under the banner "What's Safe?" the project included staff surveys and focus group discussions. Information gathered through the What's Safe project led to the development of a comprehensive safety culture strategy named "360 Degrees Safe" which is underpinned by four large scale projects focusing on critical safety risks, contractor management, health and wellbeing and safety leadership and performance. 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. During FY18, a successful trial was undertaken of the use of drones for early detection of fires and fire ground management. The use of drones in fire detection and firefighting will be a regular feature of the Corporation's fire mitigation strategies in the future. 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 managed through prescribed burning or grazing, and an extensive network of roads and fire trails is maintained. An internal audit of hazard reduction burns was commenced in late June quarter of FY18 to review the effectiveness of this fuel reduction strategy.

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.

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. 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. As part of the review of privacy and information security arrangements, the security settings of Forestry Corporation's systems were assessed by Ernst & Young against the Australian Signal Directorate's 'Essential Eight' mitigation strategies. New technologies and software solutions are being explored to enable the Corporation to comply without significant impact on operations.

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*, *Workplace Injury and Workers Compensation Act 1998* and the Workers Compensation Regulation 2016.

As at 30 June 2018, 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.

Statutory information cont.

Digital information security attestation

Forestry Corporation had an Information Security Management System in place during FY18 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

Riverina Highlands Building
76 Capper Street
Tumut
Post: PO Box 291
Tumut 2720
Phone: 6947 3911

Cnr Browning and William Streets
Bathurst
Post: PO Box 143
Bathurst 2795
Phone: 6331 2044

Hardwood Forests Division

30 Park Avenue
Coffs Harbour
Post: PO Box 535
Coffs Harbour 2450
Phone: 6656 8800

Maher Street
Wauchope
Post: PO Box 168
Wauchope 2446
Phone: 6585 3744

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 or 9871 3377

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