Forestry Corporation

ANNUAL REPORT

2019–20

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Forestry Corporation Annual Report 2019–20

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LETTER OF SUBMISSION

31 October 2020

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

The Hon. Damien Tudehope, MLC
Minister for Finance and Small Business
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 ended 30 June 2020 for tabling in Parliament.

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

The report was 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

Anshul Chaudhary
Acting CEO

“Our purpose is growing sustainably, managing commercially and supporting communities in a changing world.

ABOUT US

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

Commencing in 1916 as the NSW Forestry Commission, Forestry Corporation was established as a State Owned Corporation on 1 January 2013 and appointed to manage the State forest estate in line with the objectives and functions of the *Forestry Act 2012*.

We manage approximately 230,000 hectares of softwood timber plantations in the central west, south and north of NSW and just under 35,000 hectares of hardwood timber plantations in north east NSW. We also manage around two million hectares of multiple-use public native forests, including coastal native forests, cypress forests and red gum forests, for environmental conservation, tourism, sustainable timber production and to facilitate other primary industries such as grazing and beekeeping.

Our purpose is growing sustainably, managing commercially and supporting communities in a 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.

Our forest management is independently certified to the Australian Standard for Sustainable Forest Management and our operations underpin a vital and vibrant renewable timber industry in regional NSW.

As a statutory firefighting authority, we play a key role in preventing and managing fires and protecting communities as part of the State's coordinated firefighting response. We employ a highly trained and skilled firefighting workforce and carry out annual hazard reduction, training and maintenance programs. We also maintain a firefighting fleet, equipment and heavy plant as well as a network of fire trails and fire towers to aid rapid detection and early suppression of fires in State forests.

Sustainable business

When forests are managed well and managed sustainably, they deliver a vast range of benefits for our communities, including places to visit and enjoy, clean waterways, habitat for protected wildlife, biodiversity, carbon storage and, of course, wood products.

The same State forests have been harvested and regrown for more than a century, generating renewable timber products like house framing, flooring, furniture and packaging while preserving forest values and regrowing in perpetuity. Timber is one of the most sustainable building materials available and the Intergovernmental Panel on Climate Change recognises that managing forests for sustainable timber production plays a role in mitigating climate change.

Management of NSW State forests is certified sustainable to the internationally-recognised environmental, social, economic and sustainability criteria of Responsible Wood, the Australian Standard for Sustainable Forest Management (AS4708:2013), which is part of the largest global certification scheme – the Programme for Endorsement of Certification (PEFC) – and Environmental Management System (ISO 14001:2004). These certifications independently verify that our forest management is world-class.

Sustainability is a core principle underpinning our forest management and 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 report each year.

Responsible Wood
RW/1-21-5

PEFC™
PEFC/21-23-05

bsi.
ISO 14001
Environmental Management

CHAIRMAN AND CEO MESSAGE

The financial year ended 30 June 2020 (FY20) brought some of the most significant challenges faced in more than a century of forest management. Fires affected around half the State forest estate and a quarter of the plantation assets, requiring an unprecedented firefighting commitment. As we moved into a substantial post-fire recovery phase, the global COVID-19 pandemic forced a redefinition of our workplaces and processes for the safety of our staff, contractors and communities.

Following many years of improving business processes, increasing efficiency and delivering strong profits, this year's fires have driven a sharp change in focus for the organisation and we are now entering a phase of investment in recovery. The forests and plantations affected by fire are not completely lost and we are committed to replanting, regrowing and rebuilding for the future.

Unprecedented fires cause widespread impact

The scale of the fires that impacted coastal NSW defied even the most pessimistic projections. Fires affected more than five million hectares of public and private land across NSW, including around 890,000 hectares of native State forests and 65,000 hectares of hardwood and softwood timber plantations. Put simply, we have scarcely seen fires of this scale and severity before.

As a statutory firefighting authority, we were actively engaged in firefighting for most of the year. Our commitment of staff and resources to the coordinated firefighting response led by the NSW Rural Fire Service (RFS) was enormous, involving staff, contractors, air support and heavy plant, as well as international and interstate forestry firefighting strike teams.

The direct cost of firefighting was $40 million, the costs of repairing damaged infrastructure including roads and bridges has been estimated at between $100-200 million and biological assets have been written down by $346 million due to the impact on the softwood plantations estate. Additionally, Forestry Corporation will see an impact on future sales from reduced volumes resulting from the fires. The effects on forest biodiversity, flora and fauna and the timber resource are being assessed and programs are being established to monitor forest recovery over the long term.

Focus shifts to replanting, regrowing and rebuilding

The NSW Government announced in February that it would not proceed with the potential long-term lease of the plantation assets, which was the subject of a scoping study announced in August 2019. This has enabled the organisation to shift focus to the task of replanting, regrowing and rebuilding for the future.

Due to the extraordinary circumstances, Forestry Corporation received an exemption from declaring a dividend for FY20 to allow investment in recovery. In addition, the NSW Government provided a $46 million equity injection as part of the State's COVID-19 stimulus funding to support forest recovery programs including the repair of fire-damaged infrastructure, replanting plantations and expanding seedling nurseries. An additional $22.6 million, being the balance of the $24 million four-year fund announced in FY18 to purchase private land to expand the plantation estate, was also redirected to replanting efforts ensuring the State's plantations are re-established in the shortest possible timeframe.

In fire-affected pine plantations, recovery efforts have focused on harvesting and selling as much fire-affected resource as possible to utilise the valuable timber for the industry. Fire-affected timber retains the same structural properties as unburnt timber if it is processed and used within around 12 months, so the rate of production has increased significantly. Interstate crews have provided additional capacity and new export routes have been established for timber that cannot be processed locally.

Replanting activities have also been rapidly scaled up, with capacity at both the Grafton and Blowering production nurseries increased to support a seven-year plantation replanting effort.

In native forests, our focus has been on balancing the community's ongoing need for timber with the recovery of forest health, biodiversity and flora and fauna. The scale and intensity of native forest operations was reduced, with a larger proportion of operations moved to hardwood plantations. We also worked with the regulator to develop additional measures for the post-fire environment. Assessments are continuing to ensure the robust measures in place to protect soil and water, wildlife habitat and forest biodiversity remain appropriate and long-term monitoring programs are being developed. The impact on long-term sustainable wood supply is also being reassessed to ensure forests continue to be managed sustainably.

Steady revenue delivers strong results

Forestry Corporation's financial position at the end of FY20 remains relatively strong. Revenue[1] was two per cent higher at $428 million (FY19: $417 million). This is in large part due to a three-fold increase in non-timber (other) revenue to $28 million comprised predominately of reimbursed firefighting costs incurred on declared natural disaster fires ($22 million).

An accelerated harvest program to salvage timber from softwood plantations impacted by fires maintained timber revenue at only three per cent lower than last year, offsetting the significant reduction in timber harvested from native forests. The revenue margin has been reduced by $9 million due to salvage timber rebates provided to customers and contractors.

The steady revenue supported solid normalised earnings[2] before interest

1 Revenue includes other income and interest.

2 Reconciliation of normalised earnings is detailed in the table on page 15.

James M. Millar AM
Chairman

Anshul Chaudhary
Acting CEO

and taxes (EBIT) which, at $60 million (FY19: $74 million), were $14 million less than last year's result and $8 million lower than the Statement of Corporate Intent (SCI) business plan.

Evolving safety challenges require agile response

More than 500 Forestry Corporation staff completed in excess of 16,500 shifts on fires from June 2019 until early February 2020. Such a protracted firefighting response brought a range of safety challenges and supporting the wellbeing of staff who worked through some difficult and traumatic experiences has been a priority.

The COVID-19 pandemic saw the organisation, along with businesses throughout the nation, navigating new territory. While office-based employees rapidly transitioned to working from home arrangements, as an organisation engaged in forest management and primary production, new processes were required to maintain safe environments for operational staff and contractors. A pandemic response committee was established to monitor and rapidly implement the evolving public health advice.

Maintaining the safety of our staff, contractors and forest users is paramount and many forests were closed or partially closed for extended periods during the year due to the risk of fire, post-fire hazards or in line with public health orders. Many have not yet reopened to communities due to the ongoing risks from fire damage.

Given the extraordinary safety challenges the organisation has faced, it is pleasing that the enhanced focus on safety has been reflected in an improvement in the injury rates. We ended the year with a total recordable injury frequency rate of 8.3 per million hours worked (FY19: 13.6) and a lost time injury frequency rate of 4.4 (FY19: 9.1) and remain focused on delivering a step-change reduction in employee and contractor injuries.

Looking to the long term

At the end of FY20, Chief Executive Officer Nick Roberts made the decision to move on after 13 years of strong leadership. Nick led the transition of the NSW Forestry Commission into the Forestry Corporation of NSW and the subsequent business transformation that culminated in the record financial performance seen in recent years. Long-serving Chief Financial Officer Anshul Chaudhary has been appointed Acting Chief Executive Officer while the Board works to appoint a new leader to move the organisation into the next phase of recovery and regeneration of the business.

As we look to the future, we are committed to ensuring State forests continue to be managed in line with the principles of ecologically sustainable forest management while delivering an ongoing supply of renewable timber to the community and industries that rely on it. Compliance with the strict environmental regulations governing native forestry operations and ongoing environmental monitoring will be core focus areas as we continue through the recovery phase. We will also be working with the NSW Government towards coordinated implementation of recommendations of the various inquiries into the 2019–20 fire season to strengthen the coordinated firefighting response.

The solid results delivered in FY20 are not expected to be repeated in FY21 and we do not anticipate a return to the level of financial performance of recent years in the near future. Sustainable yield modelling is being reviewed to quantify the impact of fires on the supply of timber in the short, medium and long term from both plantations and native forests, with the volume of timber produced anticipated to decrease in the medium term. Timber revenue is projected to decrease by around 25 per cent as salvage programs draw to a close, markets respond to the downturn triggered by the global COVID-19 pandemic and supply contracts are realigned to the available resource. Simultaneously, costs associated with replanting are expected to increase by up to $15 million a year through to 2027 and there is also significant ongoing investment required in repair of infrastructure throughout the two million hectare State forest estate.

Forestry is a long-term industry and, while the events of FY20 will have lasting impacts on our business and the State forests under our stewardship for many years to come, we will replant and regrow. Our team of professional and dedicated staff are committed to this feat and we thank them for their firefighting efforts last season, their resilience during the year and their enthusiasm and innovation as we move forward. Looking to the long-term, we will continue to play an essential role in supporting communities with renewable, sustainable, locally-sourced building products while regenerating for the future.

James M. Millar AM
Chairman

Anshul Chaudhary
Acting CEO

OPERATIONAL OVERVIEW

SOFTWOOD PLANTATIONS DIVISION

Fires affect one quarter of plantation estate

The 2019–20 fire season impacted approximately 52,000 hectares of stocked softwood plantations managed by the Softwood Plantations Division, which is around one quarter of the total softwood plantation estate. The largest impact occurred around the south west slopes and southern NSW, where roughly half the softwood timber resource is located. Close to a third of the 100,000 hectares of timber plantations around Tumut were affected by fire, along with nearly a third of the plantations around Bombala. While the scale of the softwood plantation estate is smaller in the north of the state, fires affected a substantial proportion of the plantations near Grafton along with the processing facility of the district's major customer. Plantations near Bathurst and Oberon were largely unaffected.

Production increases due to salvage operations

There is generally a window of around 12 months to salvage and process fire-affected timber before it begins to deteriorate, so the widespread fire impact required the rapid commencement of large-scale salvage harvest programs. Harvesting operations were scaled up to substantially above the normal rate of production in fire-affected areas, with additional harvesting contractors and customers engaged to recover as much merchantable timber as possible. Salvaged timber was supplied to local processors in line with existing long-term contracts and new export opportunities were established for timber not suitable for, or beyond the capacity of, local markets.

At 30 June, approximately 1.5 million tonnes of fire-affected timber had been salvaged, with an estimated five million tonnes expected to be salvaged in total. Salvage operations have ensured contractual timber commitments were met for this year despite the fire impact.

Equity injection supports rapid investment in replanting

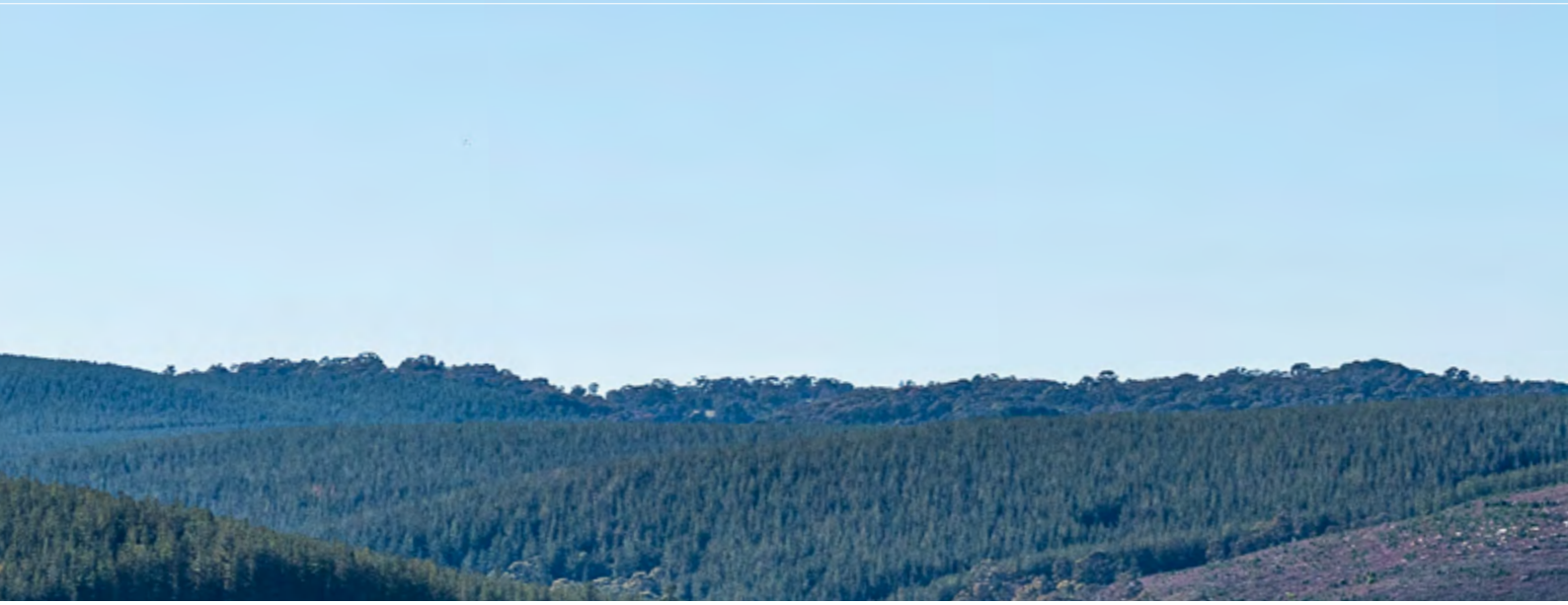
Alongside the salvage harvest program, work began on a large-scale replanting program to regrow fire-affected plantations. Approximately $28 million of the NSW Government's $46 million equity injection as part of the COVID-19 stimulus funding and the $22.6 million balance of the plantation expansion equity injection has been directed to replanting plantations and expanding nurseries. Salvage operations have also offset as much as possible the costs of clearing affected areas.

This has enabled immediate investment in upgrades to increase capacity at the two production nurseries and the rapid commencement of a fast-tracked replanting program to restock impacted plantations. The nursery upgrades will be completed in time for the spring sowing season, allowing the dispatch of significantly larger seedling crops for replanting from 2021, and the increased replanting program will take place over the next seven years. This accelerated planting program will increase planting costs by up to $15 million each year through to 2027, when affected plantations are projected to be fully restocked.

> "Salvage operations have ensured contractual timber commitments were met for this year despite the fire impact.

Long-term lease not proceeding following scoping study, fire impact

The NSW Government announced on 29 August 2019 that it would undertake a scoping study into the potential long-term lease of the commercial softwood plantation business managed by the Softwood Plantations Division. The study was independently commissioned by NSW Treasury and the division provided information to assist with the investigation as required. Following the significant fire impact over the 2019–20 summer, the NSW Government announced on 20 February 2020 that a long-term lease would not proceed.



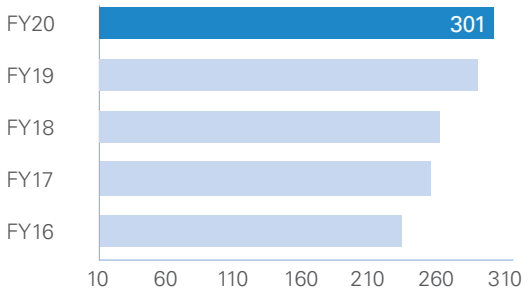
Forward outlook projects reduction in supply

While the plantation footprint has not diminished and plantations will be fully restocked in an accelerated replanting program, the fires have impacted growing stock that will take time to replace. A post-fire review of the volume of timber that can sustainably be sourced from State forest plantations has indicated that timber supply cannot sustainably return to existing volumes in the worst-affected management areas for up to 20 years. A projected decline in the available softwood resource in the region stemming from previous fire activity last decade was already being managed with customers, and the 2019–20 fires have exacerbated the situation. The impacts of the fires are being managed in line with force majeure provisions of contracts and the division will continue working closely with local customers across management areas to realign contracts to the available supply. The reduction in timber yields will be reflected in a projected 25 per cent reduction in timber revenue for the division in coming years.

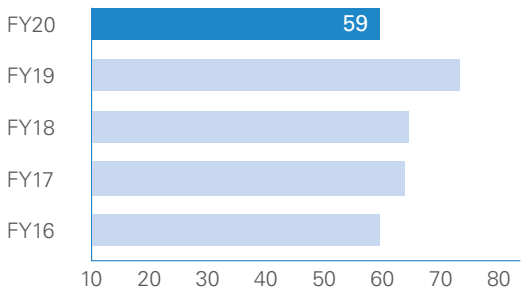
Engaging communities in regrowing and rebuilding

The fires over the 2019–20 summer not only impacted local timber industries, but they also affected some much-loved forest attractions. One example is the Sugar Pine Walk, a stand of trees planted in Tumbarumba more than 90 years ago as a trial during the early establishment of the softwood plantation industry in NSW. The walk was iconic for its history and beauty and its loss was felt by the local industry and surrounding communities. The division has engaged with the local community to recognise the loss of this walk through a photo competition and has committed to both regrowing the Sugar Pine Walk for future generations and also establishing a new visitor destination for the local region. The division will continue to engage with local communities through the recovery phase.

Softwood: Revenue[1] ($m)



Softwood: Normalised earnings[2] ($m)



Division financial results

Year ended 30 June ($ millions)	FY16	FY17	FY18	FY19	FY20
Softwood Plantations					
Revenue[1]	232	254	262	289	301
Normalised earnings[2]	59	64	64	73	59

1 Revenue includes other income and interest.

2 Excludes significant items such as revaluation impact, impairments and impact on superannuation funds, before taxes.

HARDWOOD FORESTS DIVISION

Widespread fires trigger assessments and reviews

Fires impacted 831,439 hectares of native forest well as 5,252 hectares of hardwood plantations. This equates to around half of the native forest estate, including productive forest areas as well as areas managed solely for conservation, and 15 per cent of the hardwood plantation estate. The fires also damaged the Batemans Bay depot as well as facilities and assets owned by some customers and contractors. The impacts of fires in terms of scale and severity were most pronounced on the south coast and upper north coast, with the western region largely unaffected.

While many native species are adapted to withstand fire and will grow on, the fire impact in many areas was severe and warranted a range of reviews and assessments to ensure operations continue to be managed in line with ecologically sustainable forest management principles. In the immediate post-fire period, the division commenced a review of the suitability of the conditions of the Coastal Integrated Forestry Operations Approval (CIFOA) for regulating forestry operations in the post-fire context as well as a review of sustainable timber yields. Ongoing research, including research partnerships with the Department of Primary Industries Forest Science branch (DPI – Forestry), continued and work has begun with the Natural Resources Commission (NRC) to develop long-term monitoring programs to assess recovery in the post-fire environment.

Production scaled back, moved to plantations

In response to the widespread fire impact, steps were taken to balance the community's need for timber with the recovery of forests and wildlife. Operations were spread across timber plantations and unburnt areas and the Environment Protection Authority (EPA) developed site-specific conditions to allow some small-scale operations to take place in fire-affected forests. These steps minimised the impact on wildlife and forest health in the post-fire period while continuing supply to industry where possible.

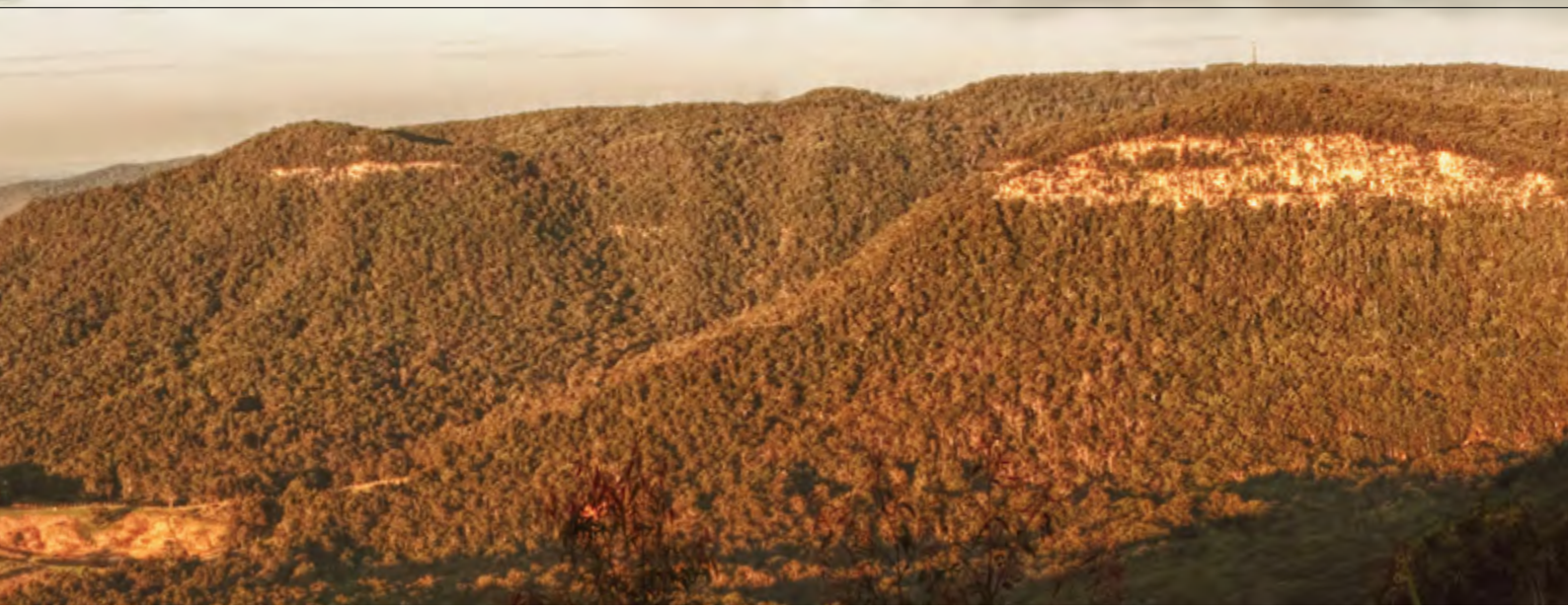
While force majeure provisions were enacted in contracts, best endeavours must be made to deliver on commitments. The prioritisation of plantation timber enabled minimum timber supply commitments to be met in some instances on the north coast, however the absence of hardwood timber plantations on the south coast and the higher severity of the fire impact in southern NSW has meant that minimum supply commitments have not been met in most instances. Work will continue into FY21 to map a path to recovery for both the forests and the industries and communities that rely on them.

> "In response to the widespread fire impact, steps were taken to balance the community's need for timber with the recovery of forests and wildlife.

Renewed focus on compliance for operations

The prescriptions that are in place on native forest operations are designed to provide the highest level of environmental protection when correctly applied on forestry operations. Unfortunately, during the year penalty infringement notices were received for two instances of not fully complying with some conditions under the previous regulatory framework. After 30 June, the EPA commenced prosecution in the Land and Environment Court in relation to operations completed in 2018 under previous regulations and stop work orders were received for two active operations.

This has fallen well short of expectations, and immediate steps were taken to commence an independent and external review into the strength of practices and compliance with the regulations across all native forest operations. There are many hundreds of conditions that must be complied with on each forestry operation and significant investment has been made in developing specific training and resources to support the correct implementation of the regulations. Efforts are being redoubled



to ensure compliance with each of these conditions and, to this end, the division will continue working closely with the EPA.

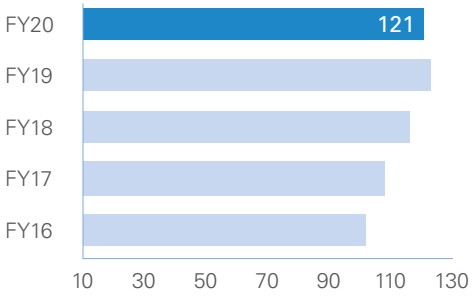
Stimulus injection and fires drive significant infrastructure program

In the aftermath of the fires, damage to roads, bridges, recreation facilities and other infrastructure has been estimated at $100 to $200 million. This is in addition to the make safe works required across the landscape to reopen roads and remove safety hazards such as falling and dangerous trees from major access routes. The majority of the impacted infrastructure is managed by the Hardwood Forests Division, due to the native forest estate being around ten times the size of the plantation estate. Many initial make safe programs were funded by the Rural Fire Service as part of the fire effort and $18 million of the $46 million equity injection from the NSW Government as part of the COVID-19 stimulus funding will go towards some of the infrastructure repairs. There will be significant investment required beyond this funding grant, which may require additional borrowings or grant funding in coming years. While key access routes and visitor areas have been prioritised for reopening, many forests remain closed due to unresolved safety issues. The repair program will be ongoing for the foreseeable future.

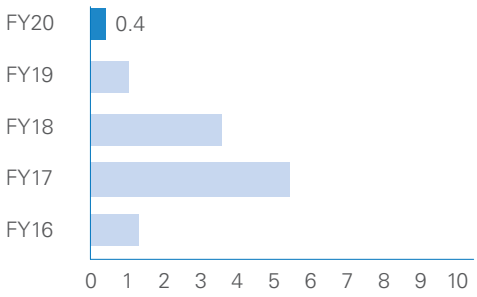
Tourism grants support post-fire recovery

Building on many years of tourism excellence and in recognition of the role State forests play as world-class tourism destinations driving visitors to regional NSW, two $2 million grants were received during the year from the NSW Government's Regional Growth - Environment and Tourism Fund. The fund invests in infrastructure to increase tourist visitation to regional NSW and create jobs. Grants were received for the development of a tourism precinct in Cowarra State Forest near Port Macquarie and Bago State Forest, between Tumut and Tumbarumba. Each of these grants will support development of tourism facilities in fire-affected communities, supporting both post-fire recovery and ongoing forest-based tourism into the future.

Hardwood: Revenue[1] ($m)



Hardwood: Normalised earnings[2] ($m)

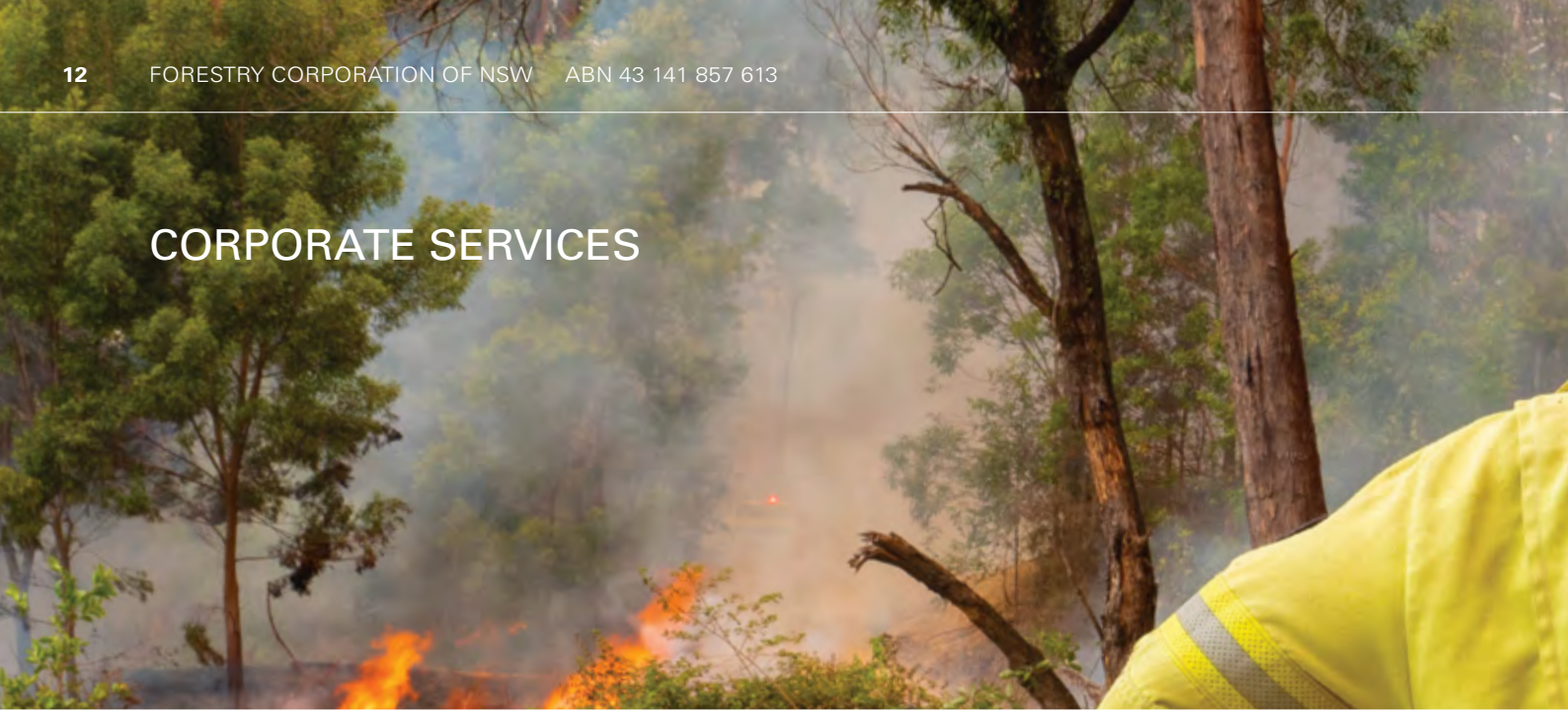


Division financial results

Year ended 30 June ($ millions)	FY16	FY17	FY18	FY19	FY20
Hardwood Forests					
Revenue[1]	102	109	117	123	121
Normalised earnings[2]	1.2	5.3	3.6	1.1	0.4

1 Revenue includes other income and interest.

2 Excludes significant items such as revaluation impact, impairments and impact on superannuation funds, before taxes.



CORPORATE SERVICES

Largest ever firefighting commitment

Widespread fires commenced on the north coast as early as July, and by October had already impacted large areas of native forests and hardwood plantations on the north coast and a substantial proportion of the softwood plantation resource around Grafton. In late December and early January, severe fires swept through softwood plantations around Tumut and Bombala as well as native forests around Tumbarumba and on the south coast right down to Eden.

As one of NSW's four statutory firefighting authorities, Forestry Corporation was heavily involved in firefighting as part of the State's coordinated firefighting response led by the RFS. The logistical firefighting task was the largest ever embarked upon, with ongoing staff deployments continuing throughout the state over many months. The full time, seasonal and casual firefighting workforce was bolstered by the engagement of contractors as required as well as several forestry strike teams from interstate and overseas. Forestry Corporation also engaged its own contract aircraft and diverted heavy machinery such as bulldozers from operations to help build containment lines and keep fires in check.

Due to the scale and size of the natural disaster fires, Forestry Corporation had far greater involvement than ever before in protecting private properties and communities. Forestry Corporation's skill and experience in managing heavy fleet was utilised broadly during the coordinated firefighting effort. Whether deployed to the fire front or not, all staff were involved in supporting the firefighting efforts including by managing logistics and ensuring continuity of public information and essential tools such as GIS mapping, IT systems and payroll.

Fleet and technology investments bear fruit

Ongoing investments over several years in rolling out drone technology and delivering safer fleet paid dividends during the protracted fire season. In recent years, a substantial investment has been made in purchasing unmanned aerial vehicles, or drones, including those with thermal sensing capability, and training pilots from throughout the business. The use of drones has been embedded in firefighting over several seasons, as they allow safe and rapid assessment of fire behaviour and spread to inform decision-making. The ready availability of drones and pilots throughout the extended fire season proved invaluable. Drones have also proven to be essential tools for carrying out post-fire assessments in areas where aerial hazards make on-ground assessments unsafe.

Similarly, investments over recent years in upgrading the light and heavy fleet to ensure it is fit for purpose and equipped with the most up-to-date safety features improved the reliability and safety of the fleet throughout the lengthy fire season. The firefighting efforts were also supported by local servicing agents who worked long hours to ensure vehicles were off the road for the shortest period of time during the peak of firefighting efforts.

Focus shifts to reviewing and reflecting

The severity of the 2019-20 fire season necessitated a thorough review process at several levels. Internal after-action reviews are routinely carried out after every fire season and these were carried out for all the fire protection areas where Forestry Corporation participated in firefighting during 2019-20. In addition, external after-action reviews have been carried out. Forestry Corporation has also contributed as required to the NSW Independent Expert Inquiry into the 2019-20 Bushfire Season and the Royal Commission into National Natural Disaster Arrangements (Bushfire Royal Commission). Forestry Corporation will work with the NSW

Government to implement the relevant recommendations of these inquiries.

After such a lengthy fire season, encouraging staff engaged in firefighting to reflect on the season and how it may have impacted their health and wellbeing has also been a priority. Specific counselling and support services have been made available to all firefighting staff and additional preparations have been made ahead of the next fire season to support staff who are not equipped to return to firefighting duties in the short term.

Global pandemic triggers workplace transformation

The declaration of the global COVID-19 pandemic triggered a rapid shift in priorities and focus. Investments in technology improvements over many years supported the swift and smooth transition to working from home for office-based staff, however the continuation of operations in the field required the development of new processes, procedures and guidelines. A pandemic response committee was established to oversee the organisation's response and ensure workplaces and public facilities remained safe and compliant with the evolving public health advice. This work will continue into FY21.

Enterprise Agreement rolled over

The majority of Forestry Corporation's staff are employed under an Enterprise Agreement, which sets out the terms and conditions of employment including movements in wages. The existing Enterprise Agreement was due to expire on 30 June 2020 and negotiations progressed with unions and staff representatives. Following the commencement of the Salaries Award Case being heard by the NSW Industrial Relations Commission, agreement was reached with the unions to roll over the existing Enterprise Agreement for 12 months to 30 June 2021. As part of this agreement, Forestry Corporation will adjust wages in FY21 in accordance with the outcome of that case. Negotiations will recommence in the second quarter of FY21 with a view to having the new Enterprise Agreement in place by June 2021.

> "The logistical firefighting task was the largest ever embarked upon, with ongoing staff deployments continuing throughout the state over many months.

FINANCIAL RESULTS

Revenue increases but normalised earnings down

After many years of strong financial performance, normalised earnings before interest and taxes[1] for FY20 were $60 million (FY19: $74 million). While this was a solid financial result given the year's challenges, it was down $14 million from the previous year and $8 million lower than the target in the Statement of Corporate Intent (SCI) business plan agreed with shareholders.

Revenue[2] increased by two per cent to $428 million (FY19: $417 million), however timber revenue was three per cent lower than the previous year. Timber revenue was driven by the accelerated harvest salvage program implemented by the Softwood Plantations Division in the latter part of the year to recover fire-affected timber. With reduced domestic demand, surplus volumes were redirected to export markets. The revenue margin has been reduced by $9 million due to salvage timber rebates provided to customers and contractors.

In the Hardwood Forest Division, production and revenue have substantially reduced following fires, particularly in the southern part of NSW. Forestry Corporation is continuing to work with the EPA to balance the recovery of the forest environment with ongoing timber production.

The reduction in timber revenue was more than offset by other revenue, which was approximately three times higher than the previous year at $28 million. The majority of this revenue was reimbursement of natural disaster firefighting costs under the Government Reimbursement Policy, which increased by $22 million on FY19. This increase reflects the severe bushfire season, which resulted in Forestry Corporation working on declared natural disaster fires for a significant portion of the year.

Operating expenses include $7 million of funding received under the NSW Government's COVID-19 stimulus package to repair bushfire damaged infrastructure assets, replant trees and expand the nurseries.

Capital and shareholder return

An equity injection of $46 million was received in April 2020 from the NSW Government as part of a wider COVID-19 stimulus package. This funding was directed to repairing bushfire-damaged infrastructure and assets, replanting trees and expanding the nurseries.

Forestry Corporation received an exemption from declaring a dividend for the current year in order to fund future activities associated with bushfire recovery.

After tax balance sheet retained profits decreased by $204 million to $134 million (FY19: $338 million). The primary contributing factor was the softwood timber valuation loss of $346 million before tax, which resulted from the bushfires.

Balance sheet

Forestry Corporation's position at 30 June 2020 remains relatively strong. The balance sheet is supported by key financial ratios such as to Gross Debt to Normalised Earnings Before Depreciation and Amortisation at 1.2 times (FY19: 1.0 times), Interest Cover at 11.2 times (FY19: 11.8 times) and Liquidity Ratio at 2.3 times (FY19: 1.4 times).

Cash remains solid, while trade receivables are elevated due to credit extension with improved aged debtors. Trade creditors are also elevated due to activities underway at year end associated with the softwood salvage program and the bushfire recovery program funded by the COVID-19 stimulus injection.

Biological assets are lower by $346 million, reflecting the post-fire assessment of losses to the softwood plantation estate.

Other items

The initial financial effects of COVID-19 have been mitigated by the continuation of forestry operations, the transition to work from home for employees and the time lag in the housing market industry. No significant financial effects were identified after reviewing at-risk areas such as fair value of property, plant and equipment and expected credit losses.

The statutory (non-operating) adjustments recorded in the financial statements had a significant impact on net profit results, however they are non-cash and do not affect the normalised earnings. For clarity, the significant items recorded in the income statement have been reconciled in the tables overleaf.

1 Reconciliation of normalised earnings is detailed in the table on page 15.

2 Revenue includes other income and interest.

FY20 Divisional breakdown ($ millions)	Softwood	Hardwood	Corporate	Rounding	Total
Revenue[1]	301	121	6	0	428
Normalised earnings[2]	59	0	0	1	60

1 Revenue includes other income and interest.

2 Excludes significant items such as revaluation impact, impairments and impact on superannuation funds, before taxes.

Reconciliation of normalised earnings to statutory results ($ millions)	2019	2020
Total Comprehensive Income / (Loss) per the Financial Statements	228	(213)
Impact of actuarial assessment on the defined benefit superannuation liabilities (net of tax)	17	(6)
Impact of valuation of standing timber (net of tax)	(124)	242
Impact of revaluation and related impairment of property, plant and equipment (net of tax)	(74)	13
Normalised Earnings[2] After Tax	47	36
Interest and tax on normalised earnings[2]	27	24
Normalised Earnings[2]	74	60

2 Excludes significant items such as revaluation impact, impairments and impact on superannuation funds, before taxes.

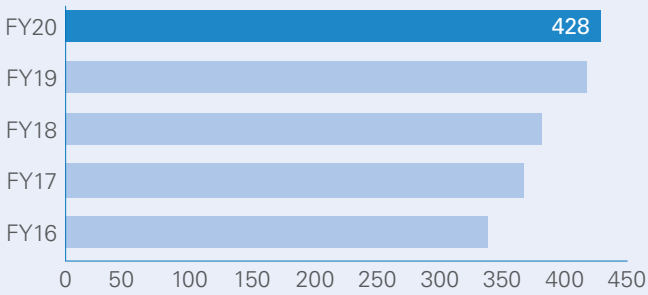
Financial highlights

Key financial data							2020 SCI targets	
Year ended 30 June		FY16	FY17	FY18	FY19	FY20	SCI	Variance
Revenue[1]	$m	339	369	384	417	428	394	34
Normalised earnings[2]	$m	57	67	66	74	60	68	(8)
Dividend payable	$m	22	30	25	33	0	31	(31)
Borrowings	$m	64	108	108	86	86	86	0
Biological assets	$m	858	992	983	1,171	825	985	(160)
Key ratios								
Return on equity	%	4.9	5.4	5.2	4.9	4.5	5.1	(0.6)
Normalised earnings[2] margin	%	16.9	18.1	17.3	17.7	14.0	17.3	(3.3)
Liquidity ratio	times	1.3	1.3	1.4	1.4	2.3	1.4	0.9
Gross debt to normalised earnings before depreciation and amortisation	times	1.0	1.5	1.5	1.0	1.2	1.1	0.1
Interest cover	times	9.0	12.0	9.9	11.8	11.2	12.9	(1.6)

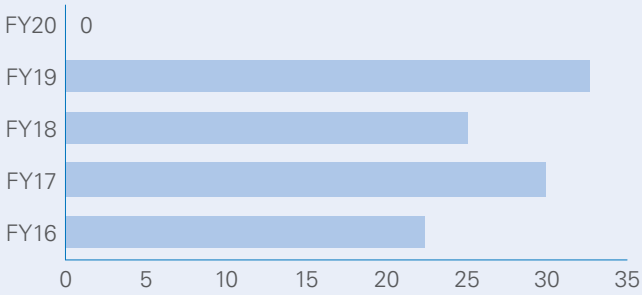
1 Revenue includes other income and interest.

2 Excludes significant items such as revaluation impact, impairments and impact on superannuation funds, before taxes.

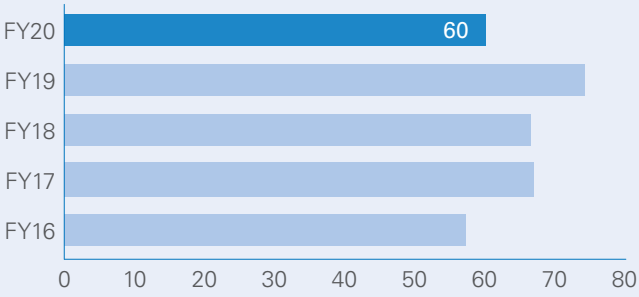
Revenue[1] ($m)



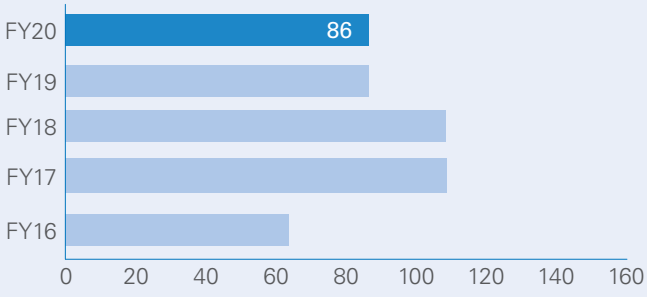
Dividend ($m)



Normalised earnings[2] ($m)



Debt ($m)



1 Revenue includes other income and interest.

2 Excludes significant items such as revaluation impact, impairments and impact on superannuation funds, before taxes.

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.

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

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

a. to be a successful business and, to this end:
   i. to operate at least as efficiently as any comparable businesses
   ii. to maximise the net worth of the State's investment in the corporation
b. to have regard for the interests of the community in which it operates
c. where its activities affect the environment, to conduct its operations in compliance with the principles of ecologically sustainable development contained in section 6 (2) of the Protection of the *Environment Administration Act 1991*
d. to contribute towards regional development and decentralisation
e. to be an efficient and environmentally sustainable supplier of timber from Crown-timber land and land owned by it or otherwise under its control or management.

Forestry Corporation Board

Under the *Forestry Act 2012* the Board of Directors is appointed by the voting shareholders. Forestry Corporation has two voting shareholders, the Treasurer and the Minister for Finance and Small Business. The Board accountability to its shareholders is set out in its constitution and the *State Owned Corporations Act 1989*.

The Board comprises up to 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.

Board of Directors

- **Mr James M. Millar AM – Director and Chairman** BCom, FCA, FAICD
  Current term: 15 February 2019 – 14 February 2022

  James is the former Chief Executive 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)
  Current term: 15 February 2019 – 14 February 2022

  Sarah is a Director of Performance Insights and Sarah Kearney Consulting and is a former Managing Director of global HR consulting organisation SHL Australia and New Zealand (now known as Gartner Group). Sarah has extensive experience 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
  Current term: 1 March 2018 – 28 February 2021

  Geoff is a former Partner with Ernst & Young, a position he held for 22 years. He has built a long career in the accounting profession and is a director of a number of Australian companies and not-for-profit organisations. Geoff also chairs a number of audit and risk committees. 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 and Chair of Safety Committee** BSc (Metallurgy), MEngSc, FAICD
  Current term: 1 March 2018 – 28 February 2021

  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 has been a director or chair a number of companies and organisations

in the government, education and manufacturing sectors. Noel is currently the chair of two companies in finance and in resources supply chain sectors.

- Wendy Machin – B.A. (UTS), M.Comm, GAICD
  Term: 11 May 2017 - 10 May 2020

  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 Reflection Holiday Parks and is a director of Heritage Bank and Golf Australia. She 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
  Term: 11 May 2017 - 31 August 2019

  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 entities as a director or advisor and in various capacities on energy, education and environmental committees or organisations. Lyndall is the founder and Principal of Lynea Advisory.

- Nick Roberts – CEO and Executive Director BSc (Forestry) (Hons), MSc (Forestry), GAICD
  Resigned as CEO and Executive Director: Effective 29 July 2020

  Nick has significant forestry and timber industry experience in Australia and overseas. He has been the chief executive officer of Forestry Corporation of NSW, NSW's largest commercial forest manager, for 13 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 and the Safety Committee for the Australian Forest Products Association.

Board meetings

There were fifteen Board meetings held during the reporting year. These consisted of seven scheduled meetings and eight additional meetings to consider issues raised by the bushfires. Nine of these meetings were conducted by teleconference (five due to COVID-19 pandemic restrictions). The attendance by directors at Board meetings is outlined below:

Member	Number of Meetings Attended
Mr James Millar AM	15
Ms Sarah Kearney	14
Ms Wendy Machin	13
Dr Lyndall Bull	1
Mr Geoffrey Applebee	14
Mr Noel Cornish	13
Mr Nick Roberts	13

Board committees

The Board is supported by the Audit and Risk Committee, the People Committee and the Safety Committee which deliver more detailed analysis 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 four meetings of the Audit and Risk Committee, three meetings of the People Committee and one meeting of the Safety Committee. The impact of both the bushfires and the COVID-19 pandemic disrupted committee meeting schedules, but staff wellbeing and safety were high priorities for discussion during Board meetings.

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 the Plantations and Reafforestation (Code) Regulation 2001 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 detail the 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.

“Work will continue into FY21 to map a path to recovery for both the forests and the industries and communities that rely on them.

ORGANISATIONAL STRUCTURE

Chief Forester and Company Secretary

Ross Dickson
BAgSc (Hons), MSc (Plant Science), PhD (Forestry Science), GAICD, Grad Dip ACIS

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

General Manager Hardwood Forests Division

Daniel Tuan
BA

- hardwood marketing and timber sales
- native forest stewardship and fire management
- forest management planning
- timber harvesting and roading operations
- ecological surveys and monitoring
- hardwood plantations.

General Manager Softwood Plantations Division

Mike Beardsell
BSc (Forestry) (Hons), MSc (Industrial Forest Operations), PhD (Industrial Forest Operations)

- softwood plantation establishment
- management and planning
- harvesting and roads
- sales and procurement
- fire and stewardship
- seedling production.

Chief Financial Officer

Grant Steen*
BEc, CPA

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

General Manager People and Safety

Meredith Payne
BA (Psychology) DipEd Post Grad Diploma (HR)

- human resources
- safety
- organisational development
- learning.

** Nick Roberts resigned as CEO in May 2020. Anshul Chaudhary was appointed Acting CEO and Grant Steen took on the role as Acting Chief Financial Officer from that time.*

FINANCIAL STATEMENTS

30 June 2020

Information to be read in conjunction with the financial statements

The 2019/20 financial year has been an extraordinary year for the Corporation. There have been multiple major events that have challenged the business. The most significant event was the severe bushfire season which has had the following consequential impacts:

- Biological assets: Approximately 25% of the Softwood plantations estate and more than 50% of the Hardwood forests were impacted by the fires resulting in a significant write-down of these assets on the balance sheet
- Infrastructure: Substantial damage has been sustained to the forestry road network and other infrastructure assets. While the full extent of the damage assessment is yet to be completed due to the vast area to be assessed, remedial and 'make-safe' work have begun.
- Fire management cost: Fire related activities required extensive employee engagement and wider resource reallocation from both within and outside the business. As a result, total fire costs and fire-fighting cost recoveries were significantly up on prior years.
- Equity grant: An equity grant was received from the NSW Government as part of a wider stimulus package to repair bushfire damaged infrastructure assets, replant trees and expand the nurseries. A project team is in the process of delivering the works.
- Fire salvage: A program of accelerated fire salvage of Softwood timber was commenced to harvest the burnt stands before they became unsaleable. The operations were ramped up during the latter part of the year and represents a major logistical exercise due to volume of timber involved.
- Environmental compliance: In the Hardwoods Forest Division, the Corporation is working with the regulator to operate in selected fire-affected native forests under site specific conditions with additional requirements above the usual regulation to protect the environment.
- Another major event in the latter half of the year was the global COVID-19 pandemic. For the Corporation, the financial effect of COVID-19 has been mitigated by the continuation of forestry operations, the transition to work from home for employees and the continuing demand of the housing industry. No significant financial effects were identified after reviewing at risk areas such as fair value of property, plant and equipment and expected credit losses.

A summary of the financial impacts brought to account in the year-end financial statements is:

Softwood biological asset value asset reduction	$371 million
Note: Hardwood division do not recognise biological assets	
Softwood road and other infrastructure asset reduction	$1 million
Note: Hardwood division either do not recognise or have fully impaired infrastructure assets	
Fire costs paid	$40 million
Fire cost recovery received/receivable	$22 million
Stimulus equity grant received	$46 million

Start of audited financial statements

Statement of profit or loss and other comprehensive income

For the year ended 30 June 2020

	Note	30 June 2020 $'000	30 June 2019 $'000
Revenue	5	406,160	395,836
Other income	6	20,779	20,161
Interest revenue calculated using the effective interest method		510	989
Change in fair value of biological assets	18	(346,057)	177,338
Expenses			
Operating expenses	7	(270,049)	(263,919)
Employee benefits expense		(89,368)	(73,051)
Depreciation and amortisation expense		(10,334)	(9,059)
Impairment of right-of-use assets		(3,517)	-
Impairment of assets		(22)	(1,666)
Revaluation decrement		(2,496)	(1,179)
Impairment of receivables		(733)	-
Finance costs	8	(5,316)	(6,021)
Profit/(loss) before income tax (expense)/benefit		(300,443)	239,429
Income tax (expense)/benefit	9	89,524	(73,042)
Profit/(loss) after income tax (expense)/benefit for the year attributable to the owners of Forestry Corporation of New South Wales		(210,919)	166,387
Other comprehensive income/(loss)			
Items that will not be reclassified subsequently to profit or loss			
Gain on the revaluation of land and buildings, net of tax		-	77,907
Loss on the revaluation of roads and bridges, net of tax		(8,887)	-
Actuarial gain/(loss) on defined benefit plans, net of tax		5,944	(16,828)
Other comprehensive income/(loss) for the year, net of tax		(2,943)	61,079
Total comprehensive income/(loss) for the year attributable to the owners of Forestry Corporation of New South Wales		(213,862)	227,466

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

Statement of financial position

As at 30 June 2020

	Note	30 June 2020 $'000	30 June 2019 $'000
Assets			
Current assets			
Cash and cash equivalents	10	98,662	54,947
Trade and other receivables	13	61,857	49,719
Inventories	14	4,283	3,494
Biological assets	15	85,497	76,858
Total current assets		250,299	185,018
Non-current assets			
Property, plant and equipment	16	1,083,708	1,100,899
Right-of-use assets	17	1,820	-
Biological assets	18	739,433	1,094,129
Investment properties	19	4,995	5,268
Intangibles	20	520	-
Total non-current assets		1,830,476	2,200,296
Total assets		2,080,775	2,385,314
Liabilities			
Current liabilities			
Trade and other payables	21	44,688	38,001
Contract liabilities	22	12,573	13,003
Borrowings	23	21,408	21,700
Dividend provided	24	-	32,592
Lease liabilities	25	575	-
Provisions	26	30,280	28,324
Income tax		307	2,871
Total current liabilities		109,831	136,491
Non-current liabilities			
Borrowings	27	64,724	64,753
Lease liabilities	28	4,209	-
Provisions	29	1,984	3,020
Retirement benefit obligations	40	85,527	91,681
Deferred tax	30	481,964	589,454
Total non-current liabilities		638,408	748,908
Total liabilities		748,239	885,399
Net assets		1,332,536	1,499,915
Equity			
Contributed equity	31	491,706	445,706
Reserves	32	707,247	716,688
Retained profits		133,583	337,521
Total equity		1,332,536	1,499,915

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 2020

	Contributed equity $'000	Reserve for deferred tax asset $'000	Asset revaluation reserve $'000	Retained profits $'000	Total equity $'000
Balance at 1 July 2018	421,706	50,092	591,089	218,154	1,281,041
Profit after income tax expense for the year	-	-	-	166,387	166,387
Other comprehensive income/(loss) for the year, net of tax	-	-	77,907	(16,828)	61,079
Total comprehensive income for the year	-	-	77,907	149,559	227,466
Transfer of Asset Revaluation to Retained Profit	-	-	(760)	760	-
Equity injection	24,000	-	-	-	24,000
Land revoked and transferred to Other NSW state government agency	-	-	(1,640)	1,640	-
Transactions with owners in their capacity as owners:					
Dividend	-	-	-	(32,592)	(32,592)
Balance at 30 June 2019	445,706	50,092	666,596	337,521	1,499,915

	Contributed equity $'000	Reserve for deferred tax asset $'000	Asset revaluation reserve $'000	Retained profits $'000	Total equity $'000
Balance at 1 July 2019	445,706	50,092	666,596	337,521	1,499,915
Loss after income tax benefit for the year	-	-	-	(210,919)	(210,919)
Other comprehensive income/(loss) for the year, net of tax	-	-	(8,887)	5,944	(2,943)
Total comprehensive loss for the year	-	-	(8,887)	(204,975)	(213,862)
Transfer of Asset Revaluation to Retained Profit	-	-	(876)	876	-
Equity injection	46,000	-	-	-	46,000
Reversal of deferred tax liability on disposal of assets	-	-	263	-	263
Transactions with owners in their capacity as owners:					
Land revocation and transferred to NSW State agency, net of tax	-	-	(161)	161	-
Land dedication and transferred from NSW State agency, net of tax	-	-	246	-	246
Reversal of deferred tax liability on disposal of assets	-	-	(26)	-	(26)
Balance at 30 June 2020	491,706	50,092	657,155	133,583	1,332,536

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 2020

	Note	30 June 2020 $'000	30 June 2019 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		446,174	447,523
Payments to suppliers and employees (inclusive of GST)		(385,826)	(360,807)
Interest received		510	989
Interest and other finance costs paid		(5,378)	(6,467)
Income taxes paid		(19,032)	(19,145)
Net cash from operating activities	11	36,448	62,093
Cash flows from investing activities			
Payments for property, plant and equipment	16	(10,211)	(14,288)
Payments for standing timber	18	-	(10,157)
Proceeds from disposal of property, plant and equipment		4,747	2,320
Net cash used in investing activities		(5,464)	(22,125)
Cash flows from financing activities			
Dividends paid		(32,592)	(25,051)
Repayment of borrowings		-	(21,485)
Repayment of lease liabilities		(677)	-
Equity injection	31	46,000	24,000
Net cash from/(used in) financing activities		12,731	(22,536)
Net increase in cash and cash equivalents		43,715	17,432
Cash and cash equivalents at the beginning of the financial year		54,947	37,515
Cash and cash equivalents at the end of the financial year	10	98,662	54,947

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

Note 1. General information

The financial statements of the 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 tree 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 18 September 2020.

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 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 4.

Revenue recognition

Revenue is recognised at the amount that reflects the consideration to which the Corporation is expected to be entitled in exchange for transferring control of goods or services to a customer. The transaction price takes into account estimates of variable consideration such as discounts and refunds as well as the time value of money. Revenue is recognised when or as each separate performance obligation is satisfied.

Sale of timber and related activities

Revenue from the sale of timber and other forest products is recognised at the point in time when product is delivered to the customer. Timber is delivered in accordance with the specifications in the sales contract, such as log length, diameter and species, and delivery is confirmed. Delivery in accordance with the contract denotes acceptance by the customer and confirms that the performance obligations are met for the revenue recognition to occur.

Sales of permits and other forest management services

Revenue from permits and forest management services is recognised over a period of time. Revenue is typically received in advance, with the amount received representing a net present value aligned with individual contractual arrangements. Revenue is then recognised on an activity basis when the transfer of services to the customer occurs. Estimates of revenues, costs, or extent of progress towards completion are revised if circumstances change.

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 Services

Other revenue is recognised when it is received or when the right to receive payment is established once performance obligations are completed.

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 Revenue NSW. The NTER closely mirrors the Commonwealth Income Tax Assessment Acts of 1936 and 1997 (as amended) and is administered by the Australian Taxation Office (ATO).

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

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

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

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

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

Current and non-current classification

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

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

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

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

Cash and cash equivalents

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

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

Trade and other receivables

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

The Corporation's trade and other receivables are subject to ongoing review for indicators of impairment. For receivables found to be impaired, an allowance for credit losses is recognised within other expenses. For receivables found to be uncollectable, the carrying is directly reduced, and a bad debt recognised within other expenses.

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.

Intangibles

Intangible assets comprise two assets – a right of access land easement and capitalised software cost. Intangibles are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually.

Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

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'. A fair value assessment of Property, Plant and Equipment has been carried out in accordance with TPP14-01 in the 2019 financial year. The next comprehensive valuation will be carried out in 2022.

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 & Equipment	3 to 50 years
Road and Bridges-earthworks	50 years
Road and Bridges-pavements	10 to 30 years
Bridges-Concrete and Steel Crossing	50 to 100 years

Intangibles:	
Software	5 years
Right of Access Easement	Indefinite

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 costs to sell in accordance with AASB 13 Fair Value Measurement and AASB 141 Agriculture. The Corporation's biological assets primarily consist of plantation timber (softwood).

Softwood

The Corporation manages approximately 230,000 (2019: 230,000) hectares of softwood plantations. During the 2019/20 bushfires, approximately 57,000 hectares of softwood plantations were burnt.

The plantation estate valuation was independently valued this year. The independent valuer has applied a market-based valuation approach, which involves a combination of the sales comparison method and income approach under a discounted cash flow framework.

Key assumptions used in the sales comparison approach include:

- Weighting adjustments applied to the selected comparable market transactions
- Net cash flows from the Softwood estate discounted with an implied discount rate.

Key assumptions used in the income approach include:

- Growth and yield
- Forest management, production, sales, general, administrative and land holding costs
- Log and wood products markets and prices
- Discount rate calculation - evidence based and theoretical costs of capital
- Management area resource availability after the 2019/20 fire season.

The net increment or decrement in the value movement of the softwood plantation estate has been recognised in the statement of financial performance and the statement of comprehensive income.

Hardwood

The Corporation manages approximately 34,000 (2019: 35,000) hectares of hardwood plantations and approximately 1,901,000 (2019: 1,935,000) hectares of native forests. During the 2019/20 bushfires, approximately 5,000 hectares of plantations and approximately 831,000 hectares of native forests was burnt.

Hardwood assets are currently impaired, and the tree crop value is not recognised in the financial statements. Related assets, except for land, are fully impaired.

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. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the depreciation / amortisation method or period.

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.

The Corporation carries an impairment provision for its substantial Hardwood assets relating to property, plant and equipment, excluding land. The Corporation also carries a revaluation reserve for the portion of Softwood roads and bridges relating to public use.

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.

Contract liabilities

Contract liabilities represent the Corporation's obligation to transfer goods or services to a customer and are recognised when a customer pays consideration, or when the Corporation recognises a receivable to reflect its unconditional right to consideration (whichever is earlier) before the Corporation has transferred the goods or services to the customer.

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.

Lease assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the Corporation expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of-use assets are subject to impairment or adjusted for any re-measurement of lease liabilities.

The Corporation has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

Lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or if that rate cannot be readily determined, the Corporation's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

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 it is 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
- interest cost of significant financing
- amortisation of discounts or premiums relating to borrowings and
- government guarantee fees
- interest cost on lease liabilities.

Provisions

Provisions are recognised when the Corporation 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 and annual leave expected to be wholly 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.

Other long-term employee benefits

Long-term employee benefits are all employee benefits other than short-term employee benefits and are recognised in non-current liabilities, provided there is an unconditional right to defer settlement of the liability for more than 12 months. 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 a high quality corporate bond rate 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 high quality 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.

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 is 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. The Board of Directors has recommended that no dividend be paid for the financial year ending 30 June 2020. The recommendation has been accepted.

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.

Comparative figures

Certain comparative amounts have been reclassified to conform to the current year's presentation. These amendments have no material impact and were made for comparative purposes only.

Note 3. New Accounting Standards and Interpretations adopted

The Corporation has adopted Accounting Standard AASB 16 Leases for the year ended 30 June 2020, applying the modified retrospective approach, without restatement of prior year comparatives.

AASB 16 Leases, requires all non-cancellable operating leases to be recognised as right-of-use assets and corresponding lease liabilities. It replaces operating lease payments expense with depreciation on the recognised right-of-use assets and interest expenses that will be incurred on the lease liabilities. Low values and short-term leases are excluded.

Impact on assets and liabilities on adoption of AASB 16 Leases as at 1 July 2019	$000
Lease liabilities as at 1 July 2019	5,400
Right-of-Use assets as at 1 July 2019	5,400

The lease liabilities as at 1 July 2019 can be reconciled to the operating lease commitments as at 30 June 2019 as follows:	$'000
Opening lease commitments as at 1 July 2019	9,765
Adjustment for CPI and GST recoverable	(1,804)
Short term and low value leases	(39)
Net present value (discounted at weighted average incremental borrowing rate at 5.90%)	(2,522)
Lease liabilities as at 1 July 2019	5,400

When adopting AASB 16 Leases from 1 July 2019, the Corporation has applied the following practical expedients:

- applying a single discount rate to the portfolio of leases with reasonably similar characteristics
- accounting for leases with a remaining lease term of 12 months as at 1 July 2019 as short-term leases
- using hindsight in determining the lease term when the contract contains options to extend or terminate the lease.

Refer to Note 17 for reconciliation of the right-of-use assets.

Refer to Note 28 for reconciliation of the current and non-current lease liabilities.

Note 4. Critical accounting adjustments, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on 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 estimate 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.

COVID-19

The COVID-19 health emergency has caused significant economic and social disruption across the globe in the mid to latter half of the financial year. For the Corporation, the financial effect of COVID-19 has been mitigated by the continuation of forestry operations, the transition to work from home for employees and the time lag of demand in the housing market industry. After review of the potential impact on the financial statements' areas such as fair value of property, plant and equipment and expected credit losses. There are no significant impacts upon the financial statements as at 30 June 2020.

The impact of COVID-19 on subsequent years is less certain. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and economic stimulus provided. The softening of the housing market will result in reduced customer demand and heightened credit risk, both of which are actively being managed by the Corporation.

Bushfire impact

The unprecedented bushfire season of 2019/20 has significantly impacted the Corporation. A summary of the key financial impacts recorded in the financial statements from the fires is as follows:

- $371 million: estimated loss in the value of softwood plantations estate
- $40 million: firefighting, fire preparation and hazard reduction costs incurred during the current financial year.

A further consequence of the bushfires was substantial infrastructure damage to roads and bridges, the majority of which relates to the Hardwood division. The repair cost has not been fully quantified, but the best estimate available is between $100 - $200 million. The Corporation is working with the NSW Government to progressively repair the damage over a 10-year period. In April 2020, the Corporation received $46,000,000 of equity funding as part of a wider stimulus package to repair bushfire damaged infrastructure assets, along with replanting and nursery expansion activities.

The Corporation actively maintains fire management capacity at strategic, tactical, and operational levels to mitigate the risk of the impact of bushfire. This includes investment in employee fire-fighting skills, fire-fighting plant and vehicles, forest fuel load management activities and through the use of innovative technology such as satellite infrared imagery and drones.

The bushfire risk and its impact has been incorporated in the financial statements in the valuation of the softwood plantation asset.

Natural resources and environmental matters

Consideration of the long-term sustainability of the forest is central to our business. Forestry is a long-term resource and the potential impact of climate change is considered by the Corporation and the resultant risks form part of the Corporate risk register and the current business strategy. Research into the effect and mitigation of climate change is undertaken by the broader industry research bodies, which the Corporation participates in. Climate-related risks to the business include potential impacts on fire season length and severity and impact on forest health and tree growth. Consideration of these impacts is included in our long-term planning and modelling. The organisation's response to climate change is a key pillar in its strategic plan.

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
- 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.

Allowances for expected credit losses

AASB 9 requires an entity to recognise a loss allowance for expected credit losses on financial assets. Examples of financial assets include a lease receivable, contract asset, trade receivable, loan commitment and financial guarantee.

The key impact for the Corporation is on trade receivables. The trade receivables impairment model measures the expected credit losses using a probability-weighted estimate of credit losses over the expected life of the financial asset. The impairment model considers a broad range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the asset.

Some key model considerations for the Corporation include:

- The short dated nature of the debts
- The financial standing of customers
- The security coverage over the contracts
- The housing market – current and forecast

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 is 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 40).

Note 5. Revenue

	30 June 2020 $'000	30 June 2019 $'000
Sales revenue from contracts with customers		
Forest products	365,049	375,550
Miscellaneous forests products	5,690	4,478
Permits and licence fees	3,358	2,242
Other forestry management services	3,920	4,374
	378,017	386,644
Other revenue		
Section 44 reimbursements	22,488	1,342
Other services rendered	3,029	3,878
Rent income from investment properties	379	266
Other rental	2,247	3,706
	28,143	9,192
Revenue	406,160	395,836

	30 June 2020 $'000	30 June 2019 $'000
Timing of sales revenue recognition		
Goods transferred at a point in time	370,739	380,028
Services transferred over time	7,278	6,616
	378,017	386,644

Note 6. Other income

	30 June 2020 $'000	30 June 2019 $'000
Amortisation - Premium on borrowings	321	247
Grants revenue - community service obligations	16,826	17,540
Net reversal of previous revaluation loss	-	1,251
Net gain on disposal of investment assets	350	28
Grants revenue - other state government grants	864	2,193
Net gain/(loss) on disposal of non-current assets	2,418	(1,098)
Other income	20,779	20,161

Community Service Obligations (CSO)

The Corporation incurred $17,461,000 (2019: $18,901,000) costs against grants revenue 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 7.

Note 7. Operating expenses

	30 June 2020 $'000	30 June 2019 $'000
Contract harvest and haulage	187,339	178,056
External contractor costs	50,756	52,534
Other operating expenses	9,463	11,333
Materials	13,549	11,492
Occupancy costs other than long term leases	1,727	2,515
Forest management and licence costs	538	912
Travel and accommodation	1,884	2,420
Communication and computer costs	3,780	3,551
Insurance and state taxes	1,013	1,106
	270,049	263,919

Note 8. Expenses

	30 June 2020 $'000	30 June 2019 $'000
Profit/(loss) before income tax includes the following specific expenses:		
Finance costs		
Government guarantee fee	1,667	1,769
Interest expenses	3,261	4,155
Lease interest	300	-
Other finance costs	88	97
Finance costs expensed	5,316	6,021
Superannuation expense		
Defined contribution superannuation expense	4,650	4,150
Defined benefit employer contributions	1,165	1,249
Total superannuation expense	5,815	5,399

Refer to note 40 for Defined benefit superannuation expense.

Note 9. Income tax expense/(benefit)

	30 June 2020 $'000	30 June 2019 $'000
Income tax expense/(benefit)		
Current tax	16,468	20,995
Deferred tax - origination and reversal of temporary differences	(105,992)	52,047
Aggregate income tax expense/(benefit)	(89,524)	73,042
Deferred tax included in income tax expense/(benefit) comprises:		
Increase/(decrease) in deferred tax liabilities (note 30)	(105,992)	52,047
Numerical reconciliation of income tax expense/(benefit) and tax at the statutory rate		
Profit/(loss) before income tax (expense)/benefit	(300,443)	239,429
Tax at the statutory tax rate of 30%	(90,133)	71,829
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Non-taxable expenses	100	21
Non-deductible loss on disposals	51	505
Non-deductible revaluation	260	563
Prior year adjustment	198	124
Income tax expense/(benefit)	(89,524)	73,042

	30 June 2020 $'000	30 June 2019 $'000
Amounts charged/(credited) directly to equity		
Deferred tax liabilities (note 30)	(1,498)	25,154

Note 10. Current assets - cash and cash equivalents

	30 June 2020 $'000	30 June 2019 $'000
Cash on hand	6	14
Cash at bank	90,805	14,015
NSW Treasury Corporation TCorpIM Cash Fund	7,851	40,918
	98,662	54,947

The NSW Treasury Corporation TCorp IM Cash Fund has been subject to floating interest rates between 1.14% and 1.82% (2019: 2.23% and 2.34%).

Note 11. Reconciliation of profit/(loss) after income tax to net cash from operating activities

	30 June 2020 $'000	30 June 2019 $'000
Profit/(loss) after income tax (expense)/benefit for the year	(210,919)	166,387
Adjustments for:		
Depreciation and amortisation	10,334	9,059
Impairment of non-current assets	22	1,666
Impairment of right-of-use assets	3,517	-
Revaluation decrement	2,496	-
Net gain on disposal of investment properties	(350)	-
Net (gain)/loss on disposal of property, plant and equipment	(2,418)	1,070
Change in fair value of biological assets	346,057	(177,338)
Other non-cash item	3,513	2,844
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	(12,138)	1,115
Decrease/(increase) in inventories	(789)	5
Increase in trade and other payables	6,257	3,750
Increase/(decrease) in provision for income tax	(2,564)	1,845
Increase/(decrease) in deferred tax liabilities	(107,490)	52,047
Increase/(decrease) in other provisions	920	(357)
Net cash from operating activities	36,448	62,093

Note 12. Changes in liabilities arising from financing activities

	Short-term borrowings $'000	Long-term borrowings $'000	Total $'000
Balance at 1 July 2018	21,413	86,770	108,183
Re-classified to Current	21,700	(21,700)	-
Loans repayment	(21,483)	-	(21,483)
Other changes	70	(317)	(247)
Balance at 30 June 2019	21,700	64,753	86,453
Other changes	(292)	(29)	(321)
Balance at 30 June 2020	21,408	64,724	86,132

Note 13. Current assets - trade and other receivables

	30 June 2020 $'000	30 June 2019 $'000
Trade receivables	48,771	41,786
Less: Allowance for expected credit losses	(290)	-
	48,481	41,786
Other debtors	10,077	4,796
Less: Allowance for expected credit losses	(443)	-
	9,634	4,796
Prepayments	3,742	3,137
	61,857	49,719

Allowance for expected credit losses

The ageing of the receivables and allowance for expected credit losses provided for above are as follows:

	30 June 2020 $'000	30 June 2019 $'000
0 to 3 months overdue	733	-

Movements in the allowance for expected credit losses are as follows:

	30 June 2020 $'000	30 June 2019 $'000
Opening balance	-	2
Additional provisions recognised	733	-
Unused amounts reversed	-	(2)
Closing balance	733	-

Note 14. Current assets - inventories

	30 June 2020 $'000	30 June 2019 $'000
Work in progress and finished goods	4,283	3,494

Note 15. Current assets - biological assets

	30 June 2020 $'000	30 June 2019 $'000
Biological assets at fair value	85,497	76,858

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 18 for reconciliation of movements in the current biological assets.

Refer to note 34 for further information on fair value measurement.

Note 16. Non-current assets - property, plant and equipment

	30 June 2020 $'000	30 June 2019 $'000
Land	989,671	989,623
Buildings	21,574	21,702
Less: Accumulated depreciation	(11,318)	(10,647)
	10,256	11,055
Plant and equipment	33,409	26,813
Less: Accumulated depreciation	(9,923)	(4,672)
	23,486	22,141
Roads and bridges	142,237	168,392
Less: Accumulated depreciation	(81,324)	(90,459)
Less: Impairment	(953)	-
	59,960	77,933
Property work in progress - at cost	335	147
	1,083,708	1,100,899

Reconciliation

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 2018	887,836	13,282	14,793	71,484	1,423	988,818
Additions	-	-	-	-	14,288	14,288
Disposals	(473)	-	(1,085)	-	-	(1,558)
Revaluation increments/(decrements)	101,541	(3,287)	3,561	10,129	-	111,944
Transfer from work in progress	2,405	2,214	10,521	424	(15,564)	-
Transfer to NSW State agencies	(1,686)	-	-	-	-	(1,686)
Impairment of assets	-	(695)	-	(1,396)	-	(2,091)
Transfers from investment properties	-	243	-	-	-	243
Depreciation expense	-	(703)	(5,648)	(2,708)	-	(9,059)
Balance at 30 June 2019	989,623	11,054	22,142	77,933	147	1,100,899
Additions	-	-	-	-	10,211	10,211
Disposals	(284)	-	(1,144)	-	-	(1,428)
Transfer from NSW State agencies	80	-	-	-	-	80
Revaluation decrements	-	-	-	(15,192)	-	(15,192)
Transfer from work in progress	252	241	9,030	-	(10,023)	(500)
Reclassification to intangibles	-	-	(21)	-	-	(21)
Impairment of assets	-	(22)	-	-	-	(22)
Transfers to investment properties	-	(77)	-	-	-	(77)
Depreciation expense	-	(940)	(6,521)	(2,781)	-	(10,242)
Balance at 30 June 2020	989,671	10,256	23,486	59,960	335	1,083,708

Refer to note 34 for further information on fair value measurement.

Note 17. Non-current assets - right-of-use assets

	30 June 2020 $'000	30 June 2019 $'000
Land and buildings - right-of-use	5,428	-
Less: Accumulated depreciation	(91)	-
Less: Impairment	(3,517)	-
	1,820	-

Reconciliation

Movements in the written down values for the current financial year is set out below:

	Right-of-use assets $'000
Balance at 1 July 2019	5,400
Revaluation increments	61
Adjustment	(33)
Impairment of assets	(3,517)
Depreciation expense	(91)
Balance at 30 June 2020	1,820

Note 18. Non-current assets - biological assets

	30 June 2020 $'000	30 June 2019 $'000
Biological assets at fair value	739,433	1,094,129

Reconciliation

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

	Biological assets $'000
Balance at 1 July 2018	983,492
Harvested timber recognised in profit or loss	(42,439)
Purchase of standing timber	10,157
Changes in fair value less estimated point of sale costs recognised in profit or loss due to:	-
- change in the discount	59,128
- changes in volumes, prices, and markets	160,649
Balance at 30 June 2019	1,170,987
Harvested timber recognised in profit or loss	(49,055)
Estimated loss due to bushfire	(371,390)
Changes in fair value less estimated point of sale costs recognised in profit or loss due to:	-
- change in the discount	(169,750)
- changes in volumes, prices, and markets	244,138
Balance at 30 June 2020	824,930

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 34 for further information on fair value measurement.

Note 19. Non-current assets - investment properties

	30 June 2020 $'000	30 June 2019 $'000
Investment properties	4,995	5,268

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	5,268	6,836
Net transfers (to)/from property, plant and equipment	77	(243)
Disposals	(350)	(146)
Revaluation decrements recognised in profit or loss	-	(1,179)
Closing fair value	4,995	5,268

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 2019 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 34 for further information on fair value measurement.

Lease commitments (income)

	30 June 2020 $'000	30 June 2019 $'000
Minimum lease commitments receivable but not recognised in the financial statements:		
Within one year	219	197
One to five years	387	332
	606	529

Amount disclosed as lease commitments includes GST of $54,000 (2019: $48,000) payable to the Australian Taxation Office.

Note 20. Non-current assets - intangibles

	30 June 2020 $'000	30 June 2019 $'000
Software - at cost	21	-
Less: Accumulated amortisation	(1)	-
	20	-
Right of access land easement	500	-
	520	-

Reconciliation

Movements of the written down values for the current financial year is set out below:

	Software $'000	Right of access land easement $'000	Total $'000
Balance at 1 July 2018	-	-	-
Balance at 30 June 2019	-	-	-
Additions	21	500	521
Amortisation expense	(1)	-	(1)
Balance at 30 June 2020	20	500	520

Note 21. Current liabilities - trade and other payables

	30 June 2020 $'000	30 June 2019 $'000
Trade creditors	38,163	31,002
Other current liabilities	6,525	6,999
	44,688	38,001

Refer to note 33 for further information for financial instruments.

Note 22. Current liabilities - contract liabilities

	30 June 2020 $'000	30 June 2019 $'000
Contract liabilities	12,573	13,003
Reconciliation		
Movements of the contract liabilities at the beginning and end of the current and previous financial year are set out below:		
Opening balance	13,003	12,112
Contract liabilities incurred in the current period	11,814	12,667
Revenue recognised from performance obligation satisfied	(12,244)	(11,776)
Closing balance	12,573	13,003

Note 23. Current liabilities - borrowings

	30 June 2020 $'000	30 June 2019 $'000
NSW Treasury Corporation loans	21,408	21,700

Refer to note 33 for further information on financial instruments.

Note 24. Current liabilities - dividend provided

	30 June 2020 $'000	30 June 2019 $'000
Dividend provided	-	32,592

The Board of Directors has recommended that no dividend be paid for the financial year ending 30 June 2020.

Note 25. Current liabilities - lease liabilities

	30 June 2020 $'000	30 June 2019 $'000
Lease liability	575	-

Refer to note 33 for further information on financial instruments.

Refer to note 28 for reconciliation of movements in the current lease liabilities.

Note 26. Current liabilities - provisions

	30 June 2020 $'000	30 June 2019 $'000
Employee benefits	29,518	27,926
Workers compensation	762	398
	30,280	28,324

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 2019	398
Additional provisions recognised	355
Amounts transferred from non-current	9
Balance at 30 June 2020	762

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 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 months is $5,748,828 (2019: $4,917,359).

Note 27. Non-current liabilities - borrowings

	30 June 2020 $'000	30 June 2019 $'000
NSW Treasury Corporation loans	64,724	64,753

Refer to note 33 for further information on financial instruments.

Note 28. Non-current liabilities - lease liabilities

	30 June 2020 $'000	30 June 2019 $'000
Lease liabilities	4,209	-

Reconciliation

Reconciliation of the lease liabilities (current and non-current):

	30 June 2020 $'000
Balance at 1 July 2019	5,400
Interest expense (included in finance cost)	300
Payments of lease liabilities	(977)
Revaluation increment	61
Balance at 30 June 2020	4,784

Refer to note 33 for further information on financial instruments.

Note 29. Non-current liabilities - provisions

	30 June 2020 $'000	30 June 2019 $'000
Employee benefits	890	620
Onerous contracts	343	1,640
Workers compensation	751	760
	1,984	3,020

Employee benefits

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

Onerous contracts

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

Workers compensation

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

Movements in provisions

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

	Onerous contracts $'000	Workers compensation $'000
30 June 2020		
Carrying amount at the start of the year	1,640	760
Amounts transferred to current	-	(9)
Reversal during the year	(1,297)	-
Carrying amount at the end of the year	343	751

Note 30. Non-current liabilities - deferred tax

	30 June 2020 $'000	30 June 2019 $'000
Deferred tax liability comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Investment properties	-	(117)
Biological assets	234,235	338,052
Provisions	(7,863)	(14,857)
Others	(218)	(37)
	226,154	323,041
Amounts recognised in equity:		
Revaluation of property, plant and equipment	281,468	293,917
Retirement benefit obligations	(25,658)	(27,504)
	255,810	266,413
Deferred tax liability	481,964	589,454
Movements:		
Opening balance	589,454	512,253
Charged/(credited) to profit or loss (note 9)	(105,992)	52,047
Charged/(credited) to equity (note 9)	(1,498)	25,154
Closing balance	481,964	589,454

Note 31. Equity - contributed equity

	30 June 2020 $'000	30 June 2019 $'000
Capital contribution	491,706	445,706

Ordinary shares

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

- The Minister for Finance and Small Business; 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. In March 2020, the NSW Government announced $46,000,000 of equity funding as part of a wider stimulus package to repair bushfire damaged infrastructure assets, along with replanting and nursery expansion activities. In the prior financial year, the NSW Government contributed $24,000,000 to expand the Softwood plantations.

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 monitor 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 32. Equity - reserves

	30 June 2020 $'000	30 June 2019 $'000
Asset revaluation reserve	657,155	666,596
Reserve for deferred tax assets	50,092	50,092
	707,247	716,688

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 33. 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. 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 (2019: 3 years).

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

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

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

Interest rate sensitivity

The NSW TCorp. TCorpIM Cash Fund has been subject to floating interest rates between 1.14% and 1.82% (2019: 2.23% and 2.34%). An official increase/decrease in interest rate of 1% (2019: 0.3%) would have an adverse/favourable effect on profit after tax of $603,000 (2019: $259,000).

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.

The Corporation has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables through the use of a provisions matrix using fixed rates of credit loss provisioning. These provisions are considered representative across all customers of the Corporation based on recent sales experience, historical collection rates and forward-looking information that is available.

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 expected credit loss.

Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than 1 year.

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.

During the current year, credit risk has been heightened due to the bushfire and COVID-19 events. Customer financial standing has been reappraised considering the changed environment, over and above the various contractual measures and frequent credit control checks to ensure the credit risk exposure is managed. A substantial majority of our trade receivables are derived from sales to timber sawmills. Our 10 largest customers in each of the operating divisions, accounted for 83% of forests sales revenue for 2020 (2019: 78%). Additionally, these customers accounted for 83% of our accounts receivable as of 30 June 2020 (2019: 75%).

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.

As part of its plan to mitigate the impact of the 2019/20 bushfires, the Corporation has increased its borrowing limit and is working with the NSW Government to secure additional funding. As at 30 June 2020, the Corporation has not drawn down additional funds from the increased borrowing limit.

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 2020	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	-	44,688	-	-	-	44,688
Interest-bearing - fixed rate						
Lease liabilities	5.90%	847	732	1,736	3,914	7,229
NSW TCorp. loans	3.43%	24,225	23,382	28,768	17,516	93,891
Total non-derivatives		69,760	24,114	30,504	21,430	145,808

30 June 2019	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	-	38,001	-	-	-	38,001
Interest-bearing - variable						
NSW Tcorp loans	4.11%	24,905	23,768	45,371	-	94,044
Total non-derivatives		62,906	23,768	45,371	-	132,045

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 $90,478,000 (2019: $91,380,000) 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 2020		30 June 2019	
	Carrying amount $'000	Fair value $'000	Carrying amount $'000	Fair value $'000
Liabilities				
Borrowings	86,132	90,478	86,453	91,380
Lease liabilities	4,784	4,784	-	-
	90,916	95,262	86,453	91,380

Note 34. 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 2020	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Land (including Crown and Freehold land)	-	989,671	-	989,671
Building	-	-	10,256	10,256
Plant and equipment	-	22,221	1,265	23,486
Roads and bridges	-	-	59,960	59,960
Investment properties	-	4,995	-	4,995
Intangible assets	-	-	520	520
Biological assets	-	-	824,930	824,930
Total assets	-	1,016,887	896,931	1,913,818

30 June 2019	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Land (including Crown and Freehold land)	-	989,623	-	989,623
Building	-	-	11,054	11,054
Plant and equipment	-	20,516	1,626	22,142
Roads and bridges	-	-	77,933	77,933
Investment properties	-	5,268	-	5,268
Biological assets	-	-	1,170,987	1,170,987
Total assets	-	1,015,407	1,261,600	2,277,007

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 a land and property valuer, covering land, roads, and building structures. 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 2019 financial year, a fair value assessment was performed where depreciated replacement cost (DRC) is used for building, roads and bridges assets. The calculation for roads and bridges is based on forestry operation requirements. Key inputs for DRC are:

- Estimated construction cost for each type of structure.
- Estimated useful life for each type of structure.
- Assets condition as at date of valuation.

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)

Softwood

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:

- Current and expected future timber market prices per tonne or square metre.
- Estimated yield per hectare or estimated timber projections.
- Current and industry benchmark direct and indirect costs.
- Discount rate of 9.08%

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

- the current and expected future timber market price was higher/(lower).
- the estimated yield per hectare or estimated timber projections were higher/(lower).
- the current and industry benchmark direct and indirect costs were lower/(higher).
- the discount rate was lower/(higher).

Level 3 assets

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

	Plant and equipment $'000
Balance at 1 July 2018	1,871
Transfers into level 3	100
Disposals	(3)
Revaluation gain recognised to other comprehensive income	9
Depreciation charged to profit or loss	(609)
Transfer from work in progress	258
Balance at 30 June 2019	1,626
Reclassification to intangibles	(21)
Depreciation charged to profit or loss	(575)
Transfer from work in progress	235
Balance at 30 June 2020	1,265

Movements in level 3 assets for Buildings and Roads and bridges are provided in note 16.

Movements in level 3 assets for Intangible assets are provided in note 20.

Movements in level 3 assets for Biological assets are provided in note 18.

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

Description	Unobservable inputs	Range (weighted average)	Sensitivity ($000)
2020			
a. Biological assets	(i) Discount rate	+/-1%	1% change would (decrease)/increase fair value by (54,912)/64,059
	(ii) Expected future sales values	+/- 5%	5% change would increase/(decrease) the fair value by 99,808/(99,886)
	(iii) Expected future costs	+/- 5%	5% change would (decrease)/increase the fair value by (69,897)/71,813
	(iv) Expected future changes in volume	+/- 5%	5% change would increase/(decrease) the fair value by 67,393/(65,837)
2019			
a. Biological assets	(i) Discount rate %	+/-1%	1% change would (decrease)/increase fair value by (114,232)/136,201
	(ii) Expected future sales values	+/- 5%	5% change would increase/(decrease) the fair value by 157,463
	(iii) Expected future costs	+/- 5%	5% change would (decrease)/increase the fair value by 98,914
	(iv) Expected future changes in volume	+/- 5%	5% change would increase/(decrease) the fair value by 82,649

Note 35. 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 (resigned: 31 August 2019)	Board Member (Non-Executive)
Wendy Machin (resigned: 10 May 2020)	Board Member (Non-Executive)
Nick Roberts (resigned: on leave from 05 May 2020)	Chief Executive Officer
Anshul Chaudhary (appointed in acting position on 06 May 2020)	Acting 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:

Grant Steen (appointed in acting position on 29 May 2020)	Acting Chief Financial Officer
Dean Anderson (transferred on 29 September 2019)	General Manager Hardwood Forests Division
Daniel Tuan (appointed on 14 October 2019)	General Manager Hardwood Forests Division
Mike Beardsell	General Manager Softwood Plantation Division
Ross Dickson	Chief Forester and Company Secretary
Meredith Payne	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 2020 $	30 June 2019 $
Short-term employee benefits	2,547,731	2,412,283
Post-employment benefits	149,531	149,272
Long-term benefits	84,034	102,285
	2,781,296	2,663,840

Note 36. 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 2020 $	30 June 2019 $
Audit services - The Audit Office of New South Wales		
Audit of the financial statements (excluding GST)	323,043	284,686

Note 37. Commitments

	30 June 2020 $'000	30 June 2019 $'000
Lease commitments - operating		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	14	970
One to five years	8	2,711
More than five years	-	6,084
	22	9,765
Capital commitments		
Committed at the reporting date but not recognised as liabilities, payable:		
Property, plant and equipment	919	3,981

Amount disclosed as operating lease commitments includes GST of $2,000 (2019: $888,000) recoverable from the Australian Taxation Office.

Amount disclosed as capital commitments includes GST of $84,000 (2019: $362,000) recoverable from the Australian Taxation Office.

Note 38. Contingent liabilities\assets

As at 30 June 2020, 757,887 hectares (2019: 810,564 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. The Corporation has declared force majeure on contracts that have been affected by the 2019/20 bushfires.

The Corporation may be entitled to receive insurance recoveries for the incremental cost of working due to the bushfires under its insurance policy. The existence of the asset will be confirmed and quantified upon claim acceptance or part thereof by the insurance assessor.

Note 39. Events after the reporting period

No matter or circumstance has arisen since 30 June 2020 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 40. 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 2020 $'000	30 June 2019 $'000
Present value of the defined benefit obligation	290,820	305,786
Fair value of defined benefit plan assets	(205,293)	(214,106)
Net liability in the statement of financial position	85,527	91,681

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 2018. The next actuarial investigation will be performed at 30 June 2021.

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

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

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

Description of risks

There are several 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)

	SASS		SANCS		SSS		Total	
Financial Year to 30 June	2020 $000	2019 $000	2020 $000	2019 $000	2020 $000	2019 $000	2020 $000	2019 $000
Net Defined Benefit Liability/(Asset) at start of year	7,302	3,277	(1,555)	(1,779)	85,933	63,702	91,681	65,200
Current service cost	636	766	220	233	51	89	907	1,088
Net Interest on the net defined benefit liability/(asset)	195	113	(47)	(76)	2,448	2,565	2,596	2,602
Actual return on Fund assets less Interest income	360	(2,559)	37	(291)	699	(5,646)	1,096	(8,496)
Actuarial (gains)/losses arising from changes in demographic assumptions	(0)	42	(0)	8	(0)	(26)	(0)	24
Actuarial (gains)/losses arising from changes in financial assumptions	(795)	6,315	57	418	(8,422)	27,148	(9,160)	33,882
Actuarial (gains)/losses arising from liability experience	850	297	70	131	(1,348)	(1,799)	(428)	(1,370)
Employer contributions	(924)	(949)	(188)	(199)	(54)	(100)	(1,165)	(1,249)
Net Defined Benefit Liability/(Asset) at end of year	7,623	7,302	(1,405)	(1,555)	79,309	85,933	85,527	91,681

Reconciliation of the Fair Value of Fund Assets

Financial Year to 30 June	SASS		SANCS		SSS		Total	
	2020 $000	2019 $000	2020 $000	2019 $000	2020 $000	2019 $000	2020 $000	2019 $000
Fair value of Fund assets at beginning of the year	64,721	64,947	7,433	7,770	141,952	140,823	214,106	213,540
Interest income	1,780	2,515	202	297	3,873	5,435	5,856	8,247
Actual return on Fund assets less Interest income	(360)	2,559	(37)	290	(699)	5,646	(1,096)	8,495
Employer contributions	924	950	188	199	54	100	1,165	1,249
Contributions by participants	460	508	0	-	49	62	509	570
Benefits paid	(3,154)	(6,884)	(393)	(1,113)	(11,586)	(11,331)	(15,133)	(19,328)
Taxes, premiums & expenses paid	(510)	126	(110)	(10)	507	1,217	(113)	1,333
Fair value of Fund assets at end of the year	63,861	64,721	7,282	7,433	134,150	141,952	205,293	214,106

Reconciliation of the Defined Benefit Obligation

Financial Year to 30 June	SASS		SANCS		SSS		Total	
	2020 $000	2019 $000	2020 $000	2019 $000	2020 $000	2019 $000	2020 $000	2019 $000
Present value of defined benefit obligations at beginning of the year	72,023	68,224	5,878	5,990	227,885	204,525	305,786	278,739
Current service cost	636	766	220	232	51	89	907	1,087
Interest cost	1,975	2,628	155	221	6,322	8,000	8,452	10,849
Contributions by participants	460	508	0	-	49	62	509	570
Actuarial (gains)/losses arising from changes in demographic assumptions	(0)	42	(0)	8	(0)	(26)	(0)	24
Actuarial (gains)/losses arising from changes in financial assumptions	(795)	6,315	57	418	(8,422)	27,148	(9,160)	33,881
Actuarial (gains)/losses arising from liability experience	850	297	70	131	(1,348)	(1,799)	(428)	(1,371)
Benefits paid	(3,154)	(6,883)	(393)	(1,113)	(11,586)	(11,331)	(15,133)	(19,327)
Taxes, premiums & expenses paid	(510)	126	(110)	(9)	507	1,217	(113)	1,334
Present value of defined benefit obligations at end of the year	71,484	72,023	5,877	5,878	213,459	227,885	290,820	305,786

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 2020				As at 30 June 2019			
	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	4,096,298	1,889,511	2,206,787	0	4,042,116	2,135,561	1,906,555	-
Australian Fixed Interest	1,066,448	0	1,066,448	0	2,294,672	4,993	2,289,679	-
International Fixed Interest	1,909,424	30,408	1,879,015	0	1,968,093	6,827	1,952,396	8,871
Australian Equities	7,294,211	6,901,927	392,284	0	8,368,928	7,818,302	547,571	3,055
International Equities	11,950,330	11,487,308	463,022	0	11,387,439	8,795,299	2,592,132	8
Property	3,352,466	644,805	16,266	2,691,395	3,588,230	698,607	717,079	2,172,544
Alternatives	10,522,833	23,408	4,337,075	6,162,350	10,558,181	327,329	5,758,095	4,472,758
Total	40,192,010	20,977,368	10,360,897	8,853,745	42,207,659	19,786,917	15,763,506	6,657,236

Fund assets

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

As at 30 June	2020 %	2019 %
Short Term Securities	10.2%	9.6%
Australian Fixed Interest	2.7%	5.4%
International Fixed Interest	4.8%	4.7%
Australian Equities	18.1%	19.8%
International Equities	29.7%	27.0%
Property	8.3%	8.5%
Alternatives	26.2%	25.0%
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.
- 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 2020 include $36.9 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 $340 million (30 June 2019: $316 million).
- Health Administration Corporation occupies part of a property 50% owned by the Pooled Fund with a fair value (100% interest) of $343 million (30 June 2019: $331 million).

Significant Actuarial Assumptions at the Reporting Date

As at 30 June	2020	2019
Discount rate	2.71%	2.85%
Salary increase rate (excluding promotional increases)	3.2% pa	3.2% pa
Rate of CPI increase	1.00% for 2019/20; 0.25% for 2020/21; 1.50% for 2021/22; 1.25% for 2022/23; 1.75% for 2023/24; 2.00% for 2024/25 and 2025/26; 2.25% pa to 2029/30; 2.50% pa thereafter.	1.75% pa for 2018/19 and 2019/20; 2.00% for 2020/21; 2.25% for 2021/22 and 2022/23; 2.50% pa thereafter.
Pensioner mortality	The pensioner mortality assumptions are as per the 2018 Actuarial Investigation of the Pooled Fund. These assumptions are disclosed in the actuarial investigation report available from the trustee's website. The report shows the pension mortality rates for each age.	The pensioner mortality assumptions are as per the 2018 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 2020 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 2020.

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	2020			2019		
	Base Case	Scenario A -0.5% discount rate	Scenario B +0.5% discount rate	Base Case	Scenario A -1.0% discount rate	Scenario B +1.0% discount rate
Discount rate	as above	as above -0.5% pa	as above +0.5% 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	290,820	307,980	275,136	305,786	345,035	273,111

As at 30 June	2020			2019		
	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	as above +0.5% pa	as above -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	290,820	307,276	275,669	305,786	323,619	289,390

As at 30 June	2020			2019		
	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	as above +0.5% pa	as above -0.5% pa	as above	above rates plus 0.5% pa	above rates less 0.5% pa
Defined benefit obligation $'000	290,820	291,804	289,871	305,786	306,892	304,719

As at 30 June	2020			2019		
	Base Case	Scenario G Lower mortality*	Scenario H Higher mortality**	Base Case	Scenario G Lower mortality*	Scenario H Higher mortality**
Defined benefit obligation $'000	290,820	294,828	287,682	305,786	309,810	302,562

**Assumes the short-term pensioner mortality improvement factors for years 2020-2023 also apply for years after 2023*
***Assumes the long-term pensioner mortality improvement factors for years post 2023 also apply for years 2020 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 2020 financial position of the Fund calculated in accordance with AASB 1056 Accounting Standard "Superannuation Entities":

Financial Year to 30 June	SASS		SANCS		SSS		Total	
	2020 $000	2019 $000	2020 $000	2019 $000	2020 $000	2019 $000	2020 $000	2019 $000
Accrued benefits*	56,061	54,650	5,236	5,120	135,747	136,439	197,044	196,209
Net market value of Fund assets	(63,861)	(64,721)	(7,282)	(7,432)	(134,150)	(141,952)	(205,293)	(214,105)
Net (surplus)/deficit	(7,800)	(10,071)	(2,046)	(2,312)	1,597	(5,513)	(8,249)	(17,896)

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

Contribution recommendations

Recommended contribution rates for the entity are:

	SASS		SANCS		SSS	
	2020	2019	2020	2019	2020	2019
multiple of member contributions	1.9	1.9	-	-	1.6	1.6
% member salary	-	-	2.50%	2.50%	-	-

Economic assumptions

In light of the current environment due to Covid-19, there is increased volatility in terms of expected outcomes especially in the short to medium term. The information on sensitivities for Paragraph 145 under AASB 119 provides a guide to how this could affect the defined benefit obligation.

For AASB 1056, separate sensitivities are not included. However, we note that the assumptions for CPI, Salary and demographics are broadly the same under both reporting standards. While the underlying liability amounts for AASB 1056 are lower than for AASB 119, the sensitivity of results under AASB 119 gives an indication to the directional and proportional impact of the changes in these assumptions.

Scenarios A and B relate to sensitivity of the Total Accrued Benefits figure shown in the AASB 1056 results.

As at 30 June 2020	Base Case %	Scenario A -0.5 % Discount rate	Scenario A +0.5 % Discount rate
Expected rate of return on Fund assets backing current pension liabilities (discount rate)	7.0% pa	6.5% pa	7.5% pa
Expected rate of return on Fund assets backing other liabilities (discount rate)	6.0% pa	5.5% pa	6.5% pa
Rate of CPI increase	2.0% pa	as base case	as base case
Salary inflation rate	3.2% pa	as base case	as base case
Accrued Benefits $'000	197,044	204,212	190,367

As at 30 June 2019	Base Case %	Scenario A -0.5 % Discount rate	Scenario A +0.5 % Discount rate
Expected rate of return on Fund assets backing current pension liabilities (discount rate)	7.4% pa	6.9% pa	7.9% pa
Expected rate of return on Fund assets backing other liabilities (discount rate)	6.4% pa	5.9% pa	6.9% pa
Rate of CPI increase	2.2% pa	as base case	as base case
Salary inflation rate	3.2% pa	as base case	as base case
Accrued Benefits $'000	196,209	203,424	189,492

Expected contributions

Financial Year to 30 June	SASS		SANCS		SSS		Total	
	2021 $000	2020 $000	2021 $000	2020 $000	2021 $000	2020 $000	2021 $000	2020 $000
Expected employer contributions for the following year	871	874	170	178	33	78	1,074	1,130

Maturity profile of defined benefit obligation

The weighted average duration of the defined benefit obligation is 11.1 years.

Profit and Loss Impact

For the year ended 30 June	SASS		SANCS		SSS		Total	
	2020 $000	2019 $000	2020 $000	2019 $000	2020 $000	2019 $000	2020 $000	2019 $000
Current service cost	636	766	220	233	51	90	907	1,089
Net interest	195	113	(47)	(76)	2,448	2,565	2,596	2,602
Profit or loss component of the Defined Benefit Cost	831	879	173	157	2,500	2,655	3,503	3,691

Other Comprehensive Income

For the year ended 30 June	SASS		SANCS		SSS		Total	
	2020 $000	2019 $000	2020 $000	2019 $000	2020 $000	2019 $000	2020 $000	2019 $000
Actuarial (gains) losses on liabilities	54	6,655	128	557	(9,770)	25,323	(9,588)	32,536
Actual return on Fund assets less Interest income	360	(2,559)	37	(290)	699	(5,646)	1,096	(8,496)
Total remeasurement in Other Comprehensive Income	414	4,096	165	(267)	(9,071)	19,677	(8,492)	(24,040)

End of audited financial statements

Director's declaration

30 June 2020

- 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 2020 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

Anshul Chaudhary
Acting Chief Executive Officer

18 September 2020

INDEPENDENT AUDITOR'S REPORT

Forestry Corporation of New South Wales

To Members of the New South Wales Parliament

Opinion

I have audited the accompanying financial statements of Forestry Corporation of New South Wales (the Corporation), which comprises the Statement of Comprehensive Income for the year ended 30 June 2020, the Statement of Financial Position as at 30 June 2020, 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 and the Directors' declaration.

In my opinion, the financial statements:

- give a true and fair view of the financial position of the Corporation as at 30 June 2020, 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
- are in accordance with section 24A of the *State Owned Corporations Act 1989* (SOC Act).

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 (including Independence Standards)' (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.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial statements for the year ended 30 June 2020. These matters were addressed in the context of my audit of the financial statements as a whole and in forming my opinion thereon, I do not provide a separate opinion on these matters. For each matter below, my description of how my audit addressed the matter is provided in that context.

Key Audit Matter	How my audit addressed the matter
Fair value measurement of biological assets	
At 30 June 2020, the Corporation reported $825 million in biological assets in the softwood division measured at fair value, which represents a net reduction of $346 million compared with the prior year. During the year, biological assets worth $371 million were written off due to the damage caused by bushfires. I considered this to be the matter of most significance in the audit due to the following reasons: • biological assets are financially significant to the financial statements • the valuation of the biological assets is complex and certain inputs and assumptions require the application of professional judgement • the impairment loss is material to the financial statements because of the severity and extent of the bushfires. Refer to Notes 2,4,15,18 and Note 34 in the financial statements for the related disclosures.	Management engaged a forestry valuation expert to measure the fair value of its softwood biological assets. I engaged an auditor's expert to assist with my evaluation of management's approach, their valuation methodology and the key assumptions and inputs to the forestry valuation. My audit procedures over valuation of biological assets in the softwood division included: • assessing the competence, capability and objectivity of management's experts • understanding and evaluating the approach and methodology adopted by management and its compliance with Australian Accounting Standard requirements • assessing whether the wood flow assumptions, including planting, timber growth and yield assumptions, that were used in the valuation model were reasonable • assessing whether the key financial assumptions, including timber selling price, harvest and haulage costs and overheads, were reasonable • assessing whether certain market observable inputs, such as sales comparisons and discount rates were reasonable • evaluated and tested a sample of controls used by management to assess whether the data compilation process was appropriate • testing the mathematical accuracy of the valuation model. Specifically, in relation to impairment due to bushfires, my audit procedures included the following: • assessing the process used by management to identify the forest areas damaged by fire and evaluating the extent of the damage • selecting, on a sample basis, a number of damaged areas to determine whether appropriate impairment adjustments had been recorded • agreeing valuation decrements to those recorded in the Corporation's ledgers. I reviewed the biological assets disclosures in the financial statements for compliance with the requirements of the Australian Accounting Standards.

Valuing of defined benefit superannuation liabilities	
At 30 June 2020, the Corporation's statement of financial position reported defined benefit net superannuation liabilities totalling $86 million. This liability balance was provided to the Corporation by the Administrator of the SAS Trustee, based on an independent actuarial assessment. I consider this to be a key audit matter because: • the defined benefit superannuation liability is financially significant to the statement of financial position • the underlying liability valuation model (the model) is complex due to the significant degree of judgement required to determine key assumptions used to value the liability • the value of the liability is sensitive to minor changes in valuation inputs. Further information on the significant actuarial assumptions and sensitivity analysis is disclosed in Note 40.	Key audit procedures included the following: • obtained an understanding of the processes and key controls in place supporting the defined benefit superannuation liability calculation • assessed the completeness and accuracy of the membership data used in the model • with the assistance of actuarial experts, reviewed the methodology and key assumptions for reasonableness • assessed qualifications, competence and objectivity of actuarial experts • evaluated the adequacy of financial statement disclosures against the requirements of applicable Australian Accounting Standards and Treasury Directions.

Other information

The Corporation's annual report for the year ended 30 June 2020 includes other information in addition to the financial statements and my Independent Auditor's Report thereon. The directors of the Corporation are responsible for the other information.

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:

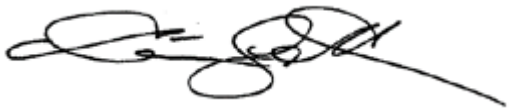
- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

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: https://www.auasb.gov.au/auditors_responsibilities/ar6.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.



Alison Gatt
Assistant Auditor-General

Delegate of the Auditor-General for New South Wales

22 September 2020
SYDNEY

STATUTORY INFORMATION

Consultants

More than $50,000 (per engagement)

Vendor and subject area	Amount $
GHD PTY LTD (Bushfire review)	103,808

$50,000 or less (per engagement)

Forestry Corporation employed 34 consultants for engagements costing less than $50,000 at a total cost of $339,838.

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.

Cost of Annual Report

The total external costs incurred in the production of the Forestry Corporation Annual Report for FY20 were $5081.78 excluding GST. The Annual Report is available at www.forestrycorporation.com.au.

Finance information

Debt management

At 30 June 2020, Forestry Corporation's total borrowings were $86 million (2019: $86 million). The debt portfolio was sourced almost entirely through NSW Treasury Corporation (TCorp) and is actively managed to limit the cost of funds.

Debt portfolio performance

	Forestry Corporation	Benchmark
Market valuation 30 June 2020*	$90,478 million	N/A
Generalised cost of funds	3.43%	2.68%

* *Market valuation 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 2020, Forestry Corporation's debt was subject to interest charges at fixed rates from TCorp.

Investment management performance

At 30 June 2020, Forestry Corporation's financial investments totalled $91.9 million (FY19: $40.1 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.

Returns of $509,560 (FY19: $833,737) at a yearly rate of 1.07 per cent (FY19: 2.34 per cent) were received from the Treasury Corporation on amounts lodged on their TCorpIM Cash Fund.

Implementation of price determination

Forestry Corporation has implemented the recommendations of the 2013 Independent Pricing and Regulatory Tribunal (IPART) Review of Rental Arrangements for Communication Towers on Crown Land for forest permits, with all permittees invited to enter into new permits on terms consistent with the recommendations. Telecommunications permits are administered through a streamlined management database.

In November 2018 the NSW Government requested IPART undertake a new review of rental arrangements for Communication Towers on Crown Land, and the Government is currently considering IPART's final report. Until the NSW Government's response to the IPART report is provided, Forestry Corporation will continue to apply Forest Permit fees under existing arrangements with a CPI adjustment (where applicable) until any agreed changes are implemented.

Budget and forward outlook

Detailed budgets are published annually in the Statement of Corporate Intent agreed with shareholders. An outline budget for FY21 is provided below:

	Financial year to 30 June 2021 budget	
	Measure	Target
Revenue	$m	428.3
EBITDA	$m	78.6
EBITDA on sales	%	18.4
EBIT	$m	68.5
Operating profit before tax	$m	63.2
NPAT	$m	44.2
Dividend payout ratio	%	70
Return on assets	%	3.3
Return on equity (excl.land asset)	%	9.7

Government Information Public Access

There were 13 valid Government Information Public Access (GIPA) applications received between 1 July 2019 and 30 June 2020. Two applications were received prior to 30 June 2019 but decisions were made after 30 June 2020 and are included in this report. The decisions on two applications were pending as at 30 June 2020 and will be included in next year's report. Three applications were withdrawn and so no decisions were made in regard to these. Two requests for internal reviews of decisions were also received.

Thirteen applications were decided during FY20 in relation to applications for information or review, including a new decision made following the recommendations of an external review.

The applications predominantly sought information on the management of State forests, timber supply, joint venture arrangements and commercial activities taking place on State forests by third parties.

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	Withdrawn
Media				
Members of Parliament				
Private sector businesses				1
Not-for-profit organisations or community groups	2	2	2	
Members of the public (application by legal representative)	2	3		1
Members of the public (other)	3	4		1
Total	7	9	2	3

** 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.*

Human Resources

At the close of FY20, Forestry Corporation employed 534 full-time equivalent (FTE) staff. Of these staff, 316 were primarily involved in management, administration and technical roles, whilst 218 were engaged in field contractor management, road construction and maintenance, tree planting and pruning, nursery work, forest conservation and fire protection. Staff figures are compiled at the end of each financial year and do not include all seasonal and casual staff engaged during the course of the year, such as seasonal firefighters engaged over the summer months.

The majority of Forestry Corporation staff are employed under an Enterprise Agreement. Senior staff are employed under common law contracts, which set out their terms and conditions of employment including movements in wages, salaries and allowances. The Code of Conduct and supporting policies provide staff with a clear and consistent understanding of what is expected of them. In addition, a Values and Behaviours Framework was introduced in FY20 to guide the decisions and actions of staff in shaping the culture of Forestry Corporation.

Employee numbers – trend (full-time equivalent)

Year ended 30 June	Office-based	Field-based	Total
2017	305	234	539
2018	308	212	520
2019	315	217	532
2020*	316	218	534

** at 2 August 2020*

Diversity

Forestry Corporation is committed to building a diverse and inclusive organisation that leverages different perspectives to innovate and solve problems. Over the past 12 months, the primary focus and effort has been on driving gender and age diversity across all levels of the organisation. A People Business Partner has been appointed to lead the Diversity and Inclusion Strategy and a committee has been established to identify and sponsor key diversity and inclusion initiatives. Initiatives underway include the development of a flexible working framework, a female peer support program and a transition to retirement engagement program to support those planning to retire in the coming years. Inclusivity intiviatives are designed to increase engagement and diversity across the workforce, including multiculturalism and disability, and the impact these intiatives have on workforce diversity is continuing to be monitored through engagement surveys.

Female representation in the workforce has continued trending upwards, with females representing 22 per cent of the workforce at the end of FY20 (FY19: 21 per cent). Initiatives to attract female talent have resulted in females being appointed to 32 per cent of newly advertised roles.

Forestry Corporation also became a signatory to the Australian Forest Industries Diversity & Inclusion Charter developed by the Australian Forest Products Association (AFPA) to share ideas and approaches through the broader industry to develop diverse, supportive and inclusive workforces.

Key diversity trends

Trends in the representation of Equal Employment Opportunity groups

Equal Employment Opportunity (EEO) group Year ended 30 June	Benchmark or target	2017	2018	2019	2020
Women	50%	18.7%	19.6%	21%	22%
Aboriginal and Torres Strait Islander peoples	2.6%	3.8%	4.1%	4.2%	4.7%
People whose first language is not English	19%	5.2%	5.5%	6.4%	6.4%
People with a disability	N/A	5%	7.1%	12.7%	19.1%
People with a disability requiring work-related adjustment	1.5%	1%	0.8%	0.6%	0.3%

Gender distribution of senior executives

Band	Gender			
	Female		Male	
	FY19	FY20	FY19	FY20
Band 4 or above	–	-	1	1
Band 3	–	-	1	1
Band 2	–	-	3	3
Band 1	1	1	1	–

Average remuneration of senior executives

Band	FY19 $	FY20 $
Band 4 or above	577,826	599,875**
Band 3	350,995*	379,580
Band 2	302,210	296,840
Band 1	198,785*	267,613

** Partial year figure*
*** Band 4 increase accounts for remuneration of the Acting CEO during a significant period of paid leave taken by the former CEO*

Approximately three per cent (FY19: 3 per cent) of total employee-related expenditure during the reporting year related to senior executives.

Work health and safety

Forestry Corporation's priority is to provide a safe work environment that protects and promotes the physical and psychological health of its workers and ensures worksites are safe.

Forestry Corporation has continued to focus on critical risks and has a structured response to critical incidents, all of which are reviewed at an executive level. Following the 2019-20 fire season, a fire support program was developed to engage frontline staff in wellbeing debriefs to support the mental health of workers. The COVID-19 pandemic required a rapid and coordinated response to support business continuity while minimising infection risk in the workplace. Forestry Corporation also furthered its commitment to Chain of Responsibility transport initiatives with the goal of being a leader in the industry.

Continuing efforts have seen a further decline in injury rates, with the total recordable injury frequency rate for FY20 at 8.3 per million hours worked (FY19:13.6) against a target of nine. Managers and staff remain firmly committed to preventing significant injuries and promoting early intervention for all workers.

Public interest disclosures

Forestry Corporation has a Public Interest Disclosures (PID) policy, which is available on the website. Procedures for making and dealing with PIDs are also provided to assist staff. The policy and procedures were made available to staff during FY20 via the intranet. No PIDs were received during FY20.

Legislation and legal issues

No significant changes to the legislation relevant to Forestry Corporation's core activities passed during FY20. Forestry Corporation was not subject to any court prosecutions during this financial year.

Overseas visits

- In August 2019, Bruce Chadderton, Bombala District Manager, travelled to New Zealand to interview forestry students for seasonal firefighting roles and identify and develop a pipeline of talent for future roles in the business.
- Chief Forester and Company Secretary, Ross Dickson travelled to New Zealand on three occasions in August, October and November 2019 to attend meetings of the Radiata Pine Breeding Company (RPBC). Dr Dickson was re-appointed as Chair of the RPBC, requiring him to chair meetings and attend technical meetings. Forestry Corporation is a major shareholder of the RPBC, which invests in research and trials and provides genetically superior seeds to support Forestry Corporation's ongoing plantation establishment program.
- In November 2019, Mike Sutton, Manager, Innovation and Research, travelled to Rotorua to present at the ForestTech conference, meet with Scion Research and Interpine and attend a Terrestrial Laser Scanning workshop. Mike Sutton also took two self-funded international research trips in August and December while on study leave.

Research and development

The Forest Science unit within the NSW Department of Primary Industries Forest Science branch (DPI – Forestry) provides technical advice and research and development services to Forestry Corporation under an ongoing Service Level Agreement (SLA). Forestry Corporation invested $1.5 million (excluding GST) in research and development under this SLA during FY20. DPI – Forestry has scientific and technical expertise 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. Completed and continuing projects are outlined below. DPI – Forestry also represented the forestry sector on the NSW Scientific Committee, provided secretarial services for Forestry Corporation's Animal Care and Ethics Committee and represented Forestry Corporation on the National Sirex Coordinating Committee and the National Forest Health and Biosecurity Subcommittee.

Forest ecology

- Radio-tracking GPS collared koalas in forests regenerating after harvest. Preliminary results show koalas (including breeding females) living in post-harvest landscapes and using both regeneration and harvest exclusion zones.
- Annual monitoring of koala occupancy in north-east forests based on male koala bellows using acoustic sensors. Calls collected between 2015 and 2018 were analysed, showing stable occupancy through that time.
- Evaluation of timber harvesting and koala densities based on data collected using acoustic grids.
- Response of a threatened bat species to management burning based on radio-tracking to assess roost selection in the post-burn landscape in the Pilliga.
- Data analyses from the first five years of biodiversity monitoring in State forests in the Pilliga.
- Occupancy analyses of Yellow-bellied Gliders at Bago and Maragle State forests.
- Data collation on Hastings River Mouse monitoring since 2015 for occupancy analyses.

Forest health and biosecurity

- Annual aerial and ground surveys of the softwood plantation estate for detection of pests, diseases, weeds and nutrient deficiencies.
- Monitoring for bark beetles and bluestain in fire-affected pine plantations in the Grafton, Tumut and Bombala districts.
- Surveys targeting phytophthora dieback, myrtle rust in native forest regeneration stands.
- Trails evaluating the use of airborne photogrammetry and spatial modelling to improve efficiencies of data capture of forest health issues in softwood plantations (e.g. Sirex wood wasp) and native forest (dieback and drought).
- Biosecurity surveillance around Port Botany and Port Kembla.

Forest carbon

- Evaluating productivity of various tree species managed on short rotation cycles for the supply of biomass for bioenergy markets.
- Investigating the impact of bushfires on radiata pine wood properties in a collaborative project.
- Evaluating the acoustic device Hitman ST300 to measure wood stiffness in standing trees in Bondi State Forest by contributing to collaborative study.

Forest resource assessment, modelling and biometrics

- Assessing the effectiveness of fuel reduction burning in reducing fire severity.
- Using high resolution remotely acquired data for commercial forestry applications.
- Using real-time measurements at harvest in pine plantations to increase value recovery.
- Developing models to estimate both product and residue biomass for rotation age radiata stands.
- Conducting a literature review on the impact of fires on the growth of eucalypt forests.
- Evaluating the effectiveness of mechanical fuel reduction in reducing the impact of bushfires.

During the year Forestry Corporation collaborated in the National Institute for Forest Product Innovation (NIFPI) research project "Solutions for the optimal use of dense, remotely acquired data by forest growers" as well as a number of Forest and Wood Products Australia (FWPA) multi-year projects including:

- Advanced real-time measurements at harvest to increase value recovery
- Enhanced forest inventory practice using immersive visualisation and measurement of dense point cloud data
- Improved tools to predict fertiliser response and profitability in softwood plantations.

Forestry Corporation has continued invest in technology and is increasingly using drones for forest and fire management. During the year, Forestry Corporation purchased three additional drones, including two with thermal capability, and trained nine pilots to CASA Remote Pilot accreditation level. Nine Portable Communications Boxes, which can display live video feed from drones, were developed for use in fire command vehicles.

Responding to community concerns

Forestry Corporation's stakeholder engagement policy can be viewed on our website. This policy outlines our commitment to facilitating opportunities for engagement with stakeholders. Stakeholder engagement was undertaken in FY20 as part of routine operational planning across all aspects of the business. A complaints process is also outlined on the website.

During the year, Forestry Corporation engaged with the community on a range of issues including the impact of the bushfires, protection of the environment, neighbour relations, recreation and tourism, land management, weed control and timber supply. Forestry Corporation welcomes feedback and continuously improves operations and accommodates community concerns where practical.

Risk management and internal audit

Forestry Corporation's Board has an Audit and Risk Committee, 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 and Guidelines Paper 19-04, and Australian/New Zealand Standard Risk Management Guidelines (AS/NZS ISO 31000:2018 Risk Management).

The Audit and Risk Manager prepares an internal audit plan, linked to Forestry Corporation's risks. The plan is approved by the Audit and Risk Committee, and the audits are undertaken by external service providers, selected from a shortlist of preferred providers, based on a tendering process.

Audit reports and any required remedial actions are reviewed by the Audit and Risk Committee.

Four internal audits were initiated during the year, on fraud prevention, after action review following fires, biosecurity and environmental management. Two were underway at 30 June 2020, being the timber sales system and safety management system. The audit plan was approved by the Audit and Risk Committee of the Board in June 2020.

Risk management

Forestry Corporation implements a risk management framework which allocates the responsibility for risk management and includes a defined criteria for the assessment of likelihood and the consequence of different risk types within a risk assessment matrix.

Risk management software enables consistent reporting, an assessment of incidents and hazards, risk identification, follow up of audit actions and risk mitigation measures.

Reviews of Forestry Corporation's risks are incorporated into the design and operation of the risk management framework. Business-wide (or enterprise) risks are assessed by the senior management team annually before being submitted to the Audit and Risk Committee for review and approval.

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

Significant health, safety or wellbeing incident or fatality

A range of training, tools, system resources, planning and operational practices are in place, aimed at minimising the risk of harm to employees and contractors.

The audit into the safety management system underway at 30 June 2020 will identify further areas for improvement.

Forestry Corporation also plays an active role in safety leadership in the industry as part of the Australian Forest Products Association's national industry council on safety and participates in a number of industry forums to maintain best practice.

Serious bushfires

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. Staff are trained to the highest standard and are available for deployment across the State.

A hazard reduction burning program and grazing minimise fuel loads and an extensive network of roads and fire trails is maintained.

Pests and diseases

Forestry Corporation completes systematic surveys of the forest estate, using industry experts, 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

Thinning programs are designed to reduce susceptibility to windthrow, which is the bending, breaking or uprooting of trees due to wind damage. Forestry Corporation also maintains capacity for quick action to salvage damaged plantations and repair roads and other infrastructure damaged by storms.

Meeting supply commitments

Complex planning and review processes are undertaken over the long and medium term to ensure Forestry Corporation can meet customer agreements.

Significant downturn in timber demand

Forestry Corporation has 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

Forestry Corporation has an information technology steering group reporting to the senior management team on information security matters, including IT infrastructure and disaster recovery. Further details are provided in the attestation below.

Cyber security attestation

Governance is in place to manage the cyber security maturity and initiatives of Forestry Corporation of NSW. Risks to the information and systems of Forestry Corporation have been assessed and are managed. There exists a current cyber incident response plan for Forestry Corporation which is tested annually, or more frequently as required. Forestry Corporation has an Information Security Management System (ISMS) or Cyber Security Framework (CSF) in place.

Forestry Corporation is doing the following to continuously improve the management of cyber security governance and resilience:

- The latest anti-virus and firewall software are used to protect all in-house systems and security protocols are in place for cloud-based systems.
- Security of 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.
- The security settings of Forestry Corporation's systems were assessed by Ernst & Young against the Australian Signal Directorate's 'Essential Eight' mitigation strategies as part of the audit program in recent years and new technologies and software solutions are continually being explored.

Insurance

Forestry Corporation maintains extensive insurance coverage. Policies in place for the year were for Worker's Compensation as per current NSW Legislation, Public Liability, Professional Indemnity, Product Liability, Directors & Officers, Personal Accident (volunteers, travel domestic and abroad) Property and Motor vehicle.

As at 30 June 2020, 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.

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

** 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

Major regional offices are listed on the Forestry Corporation website.

Contact us

www.forestrycorporation.com.au

info@fcnsw.com.au

Enquiries about visiting forests: 1300 655 687

Forestry Corporation's enquiry line and head office are staffed Monday-Friday between 9am and 5pm. Information about opening hours for regional offices is available on Forestry Corporation's website.

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

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