



Statement of corporate intent

2022–23



SHAREHOLDER AGREEMENT



This 2022–23 Statement of Corporate Intent for the Forestry Corporation of NSW has been agreed between:

Stefanie Loader
Chair
Forestry Corporation of NSW

Anshul Chaudhary
Chief Executive Officer
Forestry Corporation of NSW

The Hon. Matt Kean MP
Treasurer, and Minister for Energy

The Hon. Damien Tudehope MLC
Minister for Finance, and Minister for
Employee Relations

OUR OBJECTIVES

The objectives of the Forestry Corporation of NSW as set out in the *Forestry Act 2012* are outlined below.

1. The principal objectives of the Corporation are as follows:
 - (a) to be a successful business and, to this end:
 - i. to operate at least as efficiently as any comparable business, and
 - ii. to maximise the net worth of the State's investment in the Corporation.
 - (b) to have regard to 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.
2. Each of the principal objectives of the Corporation is of equal importance.
3. The Corporation also has, in exercising its functions as the land manager of a forestry area, the objectives of a land manager under Part 5 of the *Forestry Act 2012*.
4. The provisions of section 20E of the *State Owned Corporations Act 1989* do not apply to the Corporation.



BUSINESS OVERVIEW

About us

Forestry Corporation of NSW sustainably grows and manages the ultimate renewable resource – our State forests.

State forests both contribute to and complement NSW's conservation estate, delivering a range of benefits to communities from access for tourism and recreation, to protection of cultural heritage, fire protection and renewable timber production.

We manage around two million hectares of multiple-use public native forests, including coastal native forests, cypress forests and red gum forests, approximately 225,000 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.

Timber is the most renewable building product available, storing carbon for the life of products, using less energy than other alternatives and continually regrowing, and we are expanding our investment in a renewable future by exploring new opportunities for renewable energy production across the estate.

NSW is a net importer of timber, and the renewable hardwood and softwood timber products we produce, play a critical role in meeting the community's increasing demand for timber and wood products. Our forest management is independently certified to the Australian Standard for Sustainable Forest Management Responsible Wood, 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.

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.

Strategic operating guidance is set out under in the Statement of Expectations and is found at www.forestrycorporation.com.au.



Major developments

Rebuilding resilience

Rebuilding resilience from fire and flood continues to be a major component on our investment in the estate. Post-fire salvage programs in recent years have exceeded expectations and we have continued to maximise value from salvageable products more than two years on from the 2019-20 fires. Record seedling crops have been planted to re-establish fire-affected areas and accelerated the replanting program ahead of schedule. Expenditure on road and infrastructure repairs increased post-fire and has remained higher than usual in response to multiple subsequent flooding events. Challenging weather conditions have also softened earnings and supply, due to access restrictions and environmental considerations limiting operations in wet periods.

A renewable future

Timber is the ultimate renewable and is managed carefully to ensure it is responsibly supplied over the long term. Timber yields have been recalculated in response to the 2019-20 fires to ensure we continue to supply renewable timber responsibly. A Ministerial direction facilitated the redistribution of sawlogs from Walcha to sawmills in Tumut and Tumbarumba, where post-fire supply has declined. In addition, new long-term contracts will be sought for the Grafton softwood resource, and long-term hardwood supply contracts on the north coast are being extended for five years. The passage of legislation during FY22 to facilitate renewable energy production in softwood plantations has also enabled market sounding to commence into opportunities

to produce renewable energy alongside renewable timber.

A safe and sustainable business

Forestry Corporation strive to maintain safe workplaces from which everyone returns home injury free, every day. Safe workplaces are underpinned by strong safety culture, where all staff and contractors are engaged, empowered and encouraged to stop, speak up and take action. We continue to work collaboratively with staff and contractors to drive a positive and proactive safety culture through a range of initiatives including a new CEO safety award, regular information sharing, and staff and contractor safety meetings and forums.





Compliance focus

Since the 2019-20 bushfires, environmental considerations have heightened and accordingly so has our investment in environmental compliance. While regulatory actions are underway, our focus has sharpened on compliance to maintain a balance between environmental considerations and ongoing supply of renewable timber. In native forestry operations in fire-affected areas, we continue to bolster the regulated

environmental prescriptions with additional voluntary measures.

A diverse and engaged workforce

Forestry Corporation is committed to improving diversity and has increased female representation across the business over recent years. New appointments to the Board have increased female representation at Board level to 50 per cent, while also bringing a depth of forestry expertise

and breadth of experience. The Diversity and Inclusion Strategy has been reviewed and renewed to build on this progress with targeted initiatives to drive a more diverse and inclusive workforce. The Enterprise Agreement, which sets employment conditions for most employees, is also being collaboratively renegotiated with staff and unions to ensure it continues to reflect current conditions and responsibilities.



STRATEGY 2025

Our strategic goal:

To be recognised as a **VALUED FOREST MANAGER** and **GROW** the business in all areas.



CARE

Halve the number of injuries and eliminate serious injuries by 2025



CONNECT

Reposition the business so the community recognises our delivery of balanced and sustainable outcomes for all

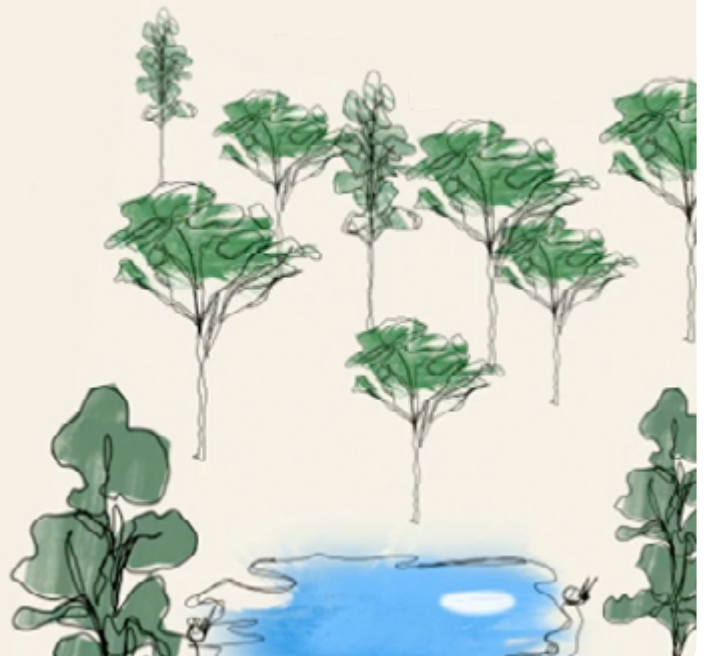


GROW

Grow the value of the hardwood and softwood estates

This will be supported by our enabling strategies of:

- Build and agile workforce
- Secure and simplify our systems
- Embed good governance

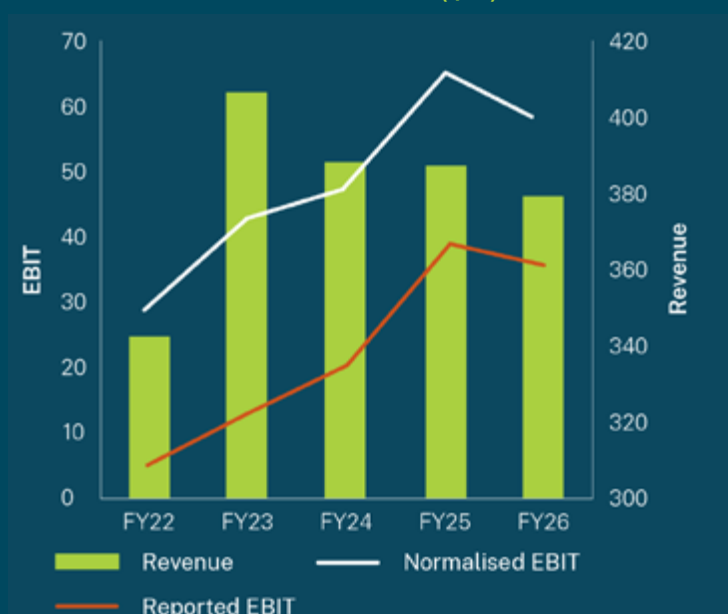


FINANCIAL PERFORMANCE TARGETS

	Measure	Forecast		Budget		
		FY22	FY23	FY24	FY25	FY26
Financials						
Revenue	\$ mil	342.8	407.3	387.7	387.4	379.6
EBITDA	\$ mil	15.1	23.0	30.6	49.4	46.4
EBITDA on Sales	%	4%	6%	8%	13%	12%
Normalised EBIT	\$ mil	28.8	43.0	47.5	65.4	57.6
Reported EBIT	\$ mil	4.7	12.9	20.3	38.9	35.7
Operating Profit Before Tax	\$ mil	0.9	10.1	16.9	32.7	26.5
NPAT ¹	\$ mil	0.6	7.1	11.8	22.9	18.5
Dividend	\$ mil	0.4	13.5	16.8	24.5	21.5
Return on Equity (excl. Land Assets)	%	1%	2%	3%	5%	5%

¹ Excludes statutory adjustments such as define benefit retirement obligations, changes in biological assets and impairments.

FY22 to FY26 revenue and EBIT (\$m)



Dividend policy note:

Forestry Corporation has budgeted a return to shareholders of:

- 70% NPAT
- additional dividends to achieve the target capital structure, consistent with Treasury's Financial Distributions and Capital Structure Policy.

- Normalised earnings (EBIT) is presented to demonstrate underlying performance. Normalised EBIT excludes the abnormal costs of rebuild and recovery from the Black Summer fires in 2019-20 and subsequent floods. The normalised EBIT trend over the budget years shows a progressive and marked improvement.
- Revenue growth is achieved through price growth across both operating divisions, but especially the Softwood

Plantations Division, reflecting supply shortage and strong market demand. The economic outlook for future market conditions is expected to remain supportive for the budget period. A secondary source of revenue increase is grant income, the most notable being funding for flood relief repairs and environmental work.

- Expenses will be managed closely. For current key strategic imperatives such as safety and compliance, additional

resources will be allocated to provide for the outcomes sought. Both operating divisions will also continue to target higher operating expenditure than normal to rebuild the business through investments in replanting and infrastructure repair activities. Cost optimisation measures continue to be pursued with the main impacts incorporated into the back half of the budget.

NON-FINANCIAL PERFORMANCE TARGETS – SAFETY



Forestry Corporation LTIFR (R12) including contractors

LTIFR	FY21	FY22 Target	FY22
Forestry Corporation of NSW Total	9.5	8.0	9.3

Forestry Corporation TRIFR (R12) including contractors

TRIFR	FY21	FY22 Target	FY22
Forestry Corporation of NSW Total	14.6	11.0	17.6

LTIFR refers to lost time injuries and TRIFR refers to total recordable injuries. R12 refers a rolling 12-month measurement period. Both measures are expressed as a function of one million hours worked.

- Forestry Corporation is committed to providing a safe work environment that protects and promotes the physical and psychological health and wellbeing of workers, contractors, visitors and communities. Our goal is to provide an adaptive governance framework for Work Health and Safety that is integrated into all aspects of the business.
- During FY22, Forestry Corporation has continued to work collaboratively with staff and contractors to drive a positive and proactive safety culture through a range of initiatives. Our ongoing coordinated response to the COVID-19 pandemic continues to provide leadership and structure for the organisation to support business continuity while minimising infection risk. Implementation of safety leadership initiatives continue and included the introduction of a new CEO safety award, regular information sharing and staff and contractor safety meetings and forums, trialing preventative on-site physiotherapy programs to prevent soft-tissue injuries and intervene early to treat minor injuries. Training opportunities were also identified and developed for key issues including supporting mental health in the workplace and managing challenging interactions with stakeholders and the management of end-to-end incident cycle was also further refined.
- Note that FY20 LTIFR and TRIFR rates were much lower and reflect incidents incurred during the 2019-20 bushfires.
- Management remains committed to driving a strong safety culture and building on its earlier program of 360 SAFE which is reflected in our new strategy. Forestry Corporation has an Executive Safety Committee which meets quarterly to review performance and support continuous improvement across the organisation.

NON-FINANCIAL PERFORMANCE TARGETS – FOREST MANAGEMENT

Forest management and environmental performance

Number of fines (penalty infringement notices) issued to Forestry Corporation by regulators

	FY18	FY19	FY20	FY21	FY22
<i>Biodiversity Conservation Act 2016 (formerly Threatened Species Conservation Act 1995)</i>	0	0	3	4	0
<i>Protection of the Environment Operations Act 1997</i>	0	2	0	0	0
<i>Plantation and Reafforestation Act 1999</i>	0	0	0	0	0
<i>National Parks and Wildlife Act 1974</i>	0	0	0	0	0
<i>Fisheries Management Act 1994</i>	0	0	0	0	0
<i>Forestry Act 2012</i>	0	0	0	3	4

Number of convictions recorded against Forestry Corporation

	FY18	FY19	FY20	FY21	FY22
<i>Biodiversity Conservation Act 2016 (formerly Threatened Species Conservation Act 1995)</i>	1	0	0	0	4
<i>Protection of the Environment Operations Act 1997</i>	0	0	0	0	0
<i>Plantation and Reafforestation Act 1999</i>	0	0	0	0	0
<i>National Parks and Wildlife Act 1974</i>	0	0	0	0	0
<i>Fisheries Management Act 1994</i>	0	0	0	0	0
<i>Forestry Act 2012</i>	0	0	0	0	3

FY23 TARGET = 0

- Environmental sustainability is core to responsible forest management. Forestry Corporation works in line with strict environmental frameworks and places environmental compliance at the core of both forestry operations and land management.
- Forestry is managed within a broader public forest landscape, which sets aside most public forests for conservation and makes a small proportion available for renewable timber production. Operations within the native forests available for timber production must adhere to specific conditions developed by expert scientific panels to deliver environmental protections during sustainable

timber production. Timber plantations are independently authorised and managed in line with detailed environmental regulations. Land management activities deliver on obligations and commitments under biosecurity regulations and regional pest, weed and fire strategies.

- Forestry Corporation's operations are independently regulated, with ongoing external audit and oversight. Each operating division also maintains independent certification to the internationally recognised Australian Standard for Sustainable Forest Management (AS4708), with external audits taking place on a nine-monthly cycle.

- A number of convictions were recorded in FY22 relating to four incidents that occurred in prior years. Forestry Corporation continues to increase its focus on environmental compliance through:
 - » bolstering on-ground staff resources and training
 - » increasing management oversight with new senior compliance management roles
 - » building closer working relationships with regulators
 - » enhancing investigation of non-conformances and implementation of corrective actions.
- Contractors and employees are regularly trained in Forestry Corporation's Forest Management System and the requirements of the various regulations.

REPRESENTATION AND COMMITMENT STATEMENT

1. The Board of Forestry Corporation confirms that:

- (a) performance targets within the 2022-23 Statement of Corporate Intent (SCI) are based on and supported by the Corporation's Business Plan;
- (b) voting Shareholders will be provided with financial and other information, including information on major capital expenditure projects, on a quarterly basis to assess the performance against commitments in this SCI and to assess the value of the Shareholders' investment in the business;
- (c) asset maintenance policies and processes are adequate and appropriate to manage and control risks associated with physical assets;
- (d) all known 'key risks' and 'major emerging contingent liabilities' which could materially impact the current and future results of the Corporation for the coming year have been disclosed;

- (e) internal audit and risk management practices are consistent with standards recommended for Australian Securities Exchange (ASX) listed companies and where appropriate, the Corporation has applied any additional requirements that are set out in NSW TPP20-08 Internal Audit and Risk Management Policy; and
- (f) the Chief Executive Officer (CEO) has an employment contract and performance agreement which is appraised annually.

The Corporation adheres to Commercial Policy Framework policies, as listed in State Owned Corporations Applicable TPPs under the Commercial Policy Framework.

The Corporation complies with NSW Treasury accounting

circulars and policies applicable for SOCs, as listed in the State Owned Corporations Mandatory Accounting Policies – NSW Treasury Circulars and Treasury Policy Papers.

2. Forestry Corporation has agreed to comply with the requirements of:

- (a) Premier's Memoranda M2012-08 Application of Biofuels.
- (b) Premier's Memoranda M2013-04 Implementation guidelines for procurement of publicly funded construction services.

