



Statement of Corporate Intent 2021–22

This 2021-22 Statement of Corporate Intent for the Forestry Corporation of NSW has been agreed between:



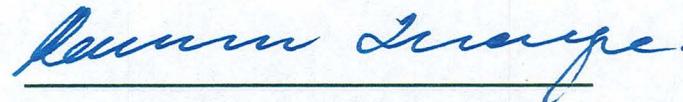
James M. Millar AM
Chairman
Forestry Corporation of NSW



Anshul Chaudhary
Chief Executive Officer
Forestry Corporation of NSW



The Hon. Matthew Kean, MP
Shareholder



The Hon. Damien Tudehope, MP
Shareholder

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.

About us

Forestry Corporation is a state-owned corporation managing over two million hectares of publicly owned forest for the benefit of the people of NSW. Our forest management is certified to the Australian Standard for Sustainable Forest Management and delivers a high level of environmental protection, access to the forest estate for local communities and tourists, and a long-term supply of renewable timber to regional industry. Forestry Corporation plays a significant role in the State's forest and wood products industry, which employs more than 20,500 people and contributes \$2.4 billion to the State's economy each year.

Forestry Corporation plays a significant part in regional NSW. The regional location of the forests provides employment for our staff and the many thousands employed through the operations of timber mills, forestry operation contractors, suppliers and related businesses.

The State Forest estate includes:

- approximately 230,000 hectares of fast-growing pine plantations producing sawlogs for conversion into predominantly structural lumber for the Australian housing market and pulpwood for production of paper and board products and
- approximately two million hectares of native forests and 34,000 hectares of hardwood plantations, producing a range of log products that are converted into a variety of timber products by the domestic hardwood processing industry.

We balance environmental conservation with timber production and access for other primary industries such as grazing and beekeeping to ensure our forests sustainably deliver multiple benefits to the community for the long term. We permanently protect a million hectares for wildlife and conservation and welcome millions of visitors to the forests each year. As the appointed land manager, we manage pests, weeds and importantly fire across the State forest estate.

Major Developments

The **2019/20 bushfires** had a significant impact on the Corporation. Approximately 25% of the softwood plantations estate and more than 50% of the hardwood forests were impacted by the fires. The loss of softwood biological assets value is approximately \$371 million. The Corporation also sustained substantial damage to its road network and other infrastructure assets. The north coast has since been subjected to further infrastructure damage from flooding in March 2021.

Salvage harvesting of the fire-affected softwood plantations has taken place with almost 5 million tonnes of timber salvaged, twice the normal volume.

The Corporation has worked to undertake some harvesting in fire affected native forests initially under site specific operating conditions issued by the Environment Protection Authority (EPA) and more recently, under the Coastal Integrated Forestry operations Approval (CIFOA) with **additional environmental safeguards**. The Corporation continues to engage with Government on cross tenure land management issues including the management of wildlife post the fires.

Timber supply modelling has been undertaken for both softwoods and hardwoods and the *Hardwoods Sustainable Yield Review* has been published. The impact on wood supply will be managed by the Corporation in conjunction with its customers.

The Corporation has completed the implementation of a 12-month *Fire Recovery Plan* immediately following the 2019-20 bushfires and has now developed a **three-year strategic plan** which focuses on **rebuilding the business and** ensuring a sustainable supply of timber in the long term.

Operations have been adjusted in response to the global pandemic COVID-19. The majority of key activities continued with the addition of appropriate control measures in the workplace.



#REBUILD 2024

What is our purpose?

Growing sustainably, managing commercially, supporting communities in a changing world.

What do we want to achieve?

Rebuild for a sustainable future and positively contribute to communities across NSW.

How will we achieve this?

Everyone home, injury free, everyday.



Enhance the effectiveness of our people.



Promote and grow the multiple-use values of State forests.



Increase our focus on compliance and risk.



Rebuild a financially resilient business.



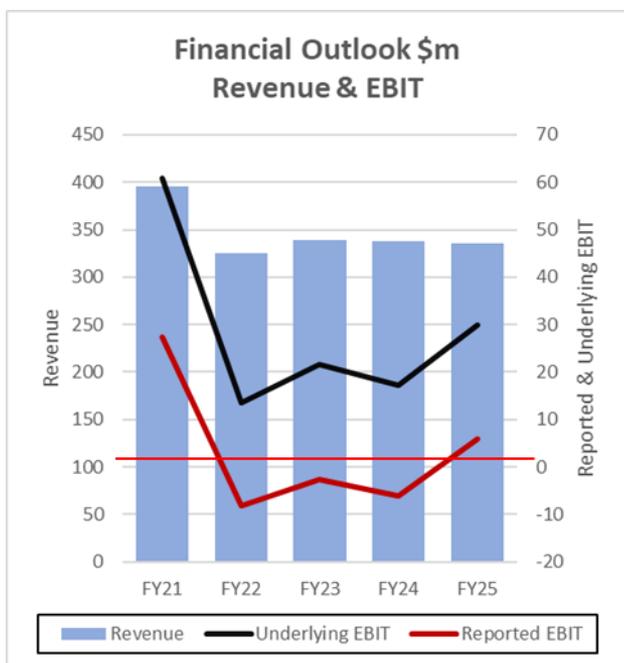
Underpinned by our values and behaviours



Financial Performance Targets

	Measure	Budget				
		FY21	FY22	FY23	FY24	FY25
Financials						
Revenue	\$mil	395.6	325.1	338.7	338.1	335.3
EBITDA	\$mil	37.3	2.1	7.6	4.3	16.1
EBITDA on Sales	%	9%	1%	2%	1%	5%
Underlying EBIT	\$mil	60.8	13.6	21.6	17.3	30.0
Reported EBIT	\$mil	27.3	(8.3)	(2.7)	(6.0)	5.8
Operating Profit Before Tax	\$mil	22.9	(12.7)	(7.0)	(10.3)	1.5
NPAT ¹	\$mil	16.0	(12.7)	(7.0)	(10.3)	1.0
Dividend	\$mil	0.0	0.0	0.0	0.0	0.7
Return on Equity (excl. Land Assets)	%	2%	(1%)	(0%)	(1%)	1%

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

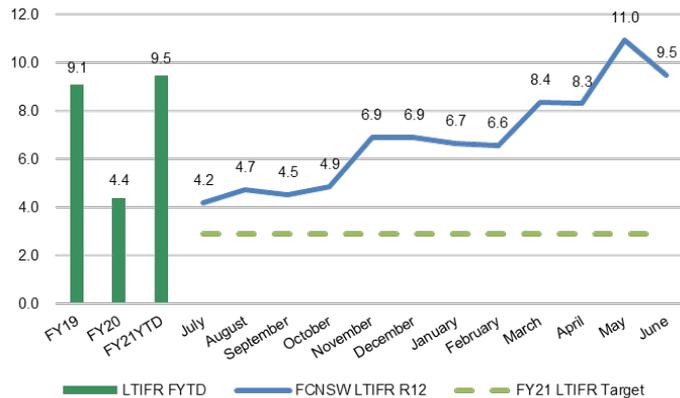


Dividend Policy Note:

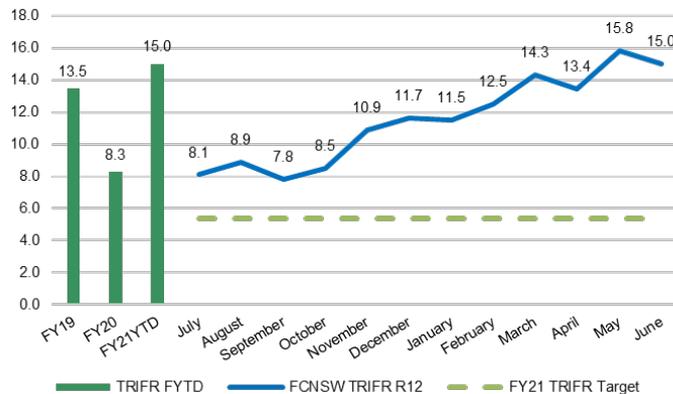
Forestry Corporation has a dividend policy which pays out dividends to its shareholders at a 70% NPAT ratio. Historically the Corporation has been meeting its dividend policy. However, due to the devastating bushfires of 2019-20, dividend exemption was granted to enable the business to fund reinvestment in the bushfire recovery program of replanting repairs of the road network. The dividend payment over the budget years is projected to be nil or minimal due to the forecast earnings.

- The 2019-20 bushfires have severely impacted the earning potential of the Corporation.
- In FY21, the Corporation carried out fire-salvage operations to recover timber from the burnt trees. With this program largely completed, the budget years show a sharp decline in timber production and revenue.
- At the same time, the Corporation is seeing increased expenditure in replanting the fire-affected estate and rebuilding the damaged road network.
- In FY21, the Corporation expanded both of its production nurseries to ensure replanting activities at an increased rate can take place to restock the estate after the bushfires to meet future wood flow demands.
- To better understand the underlying performance, the fire recovery expenditure relating to replanting and repairs to the infrastructure, have been recorded separately. The EBIT (excl. Bushfire Recovery) line in the table depicts the underlying performance.
- The full cost of repairing the road network has not been factored in the budget as work is underway to prioritise and estimate the impact. The forecast will be adjusted as this information becomes available.
- The Reported EBIT (after accounting for all the expenditure) shows a deficit position, with a plan to return to positive earnings in FY25 through innovation, efficiencies and cost savings.

FCNSW - LTIFR (R12) Inc Contractors



FCNSW - TRIFR (R12) Inc Contractors



R12 LTIFR and TRIFIR stand for Rolling 12 months Lost Time Injury Frequency Rate and Total Recordable Injury Frequency Rate. The rates are expressed as a function of 1 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 its workers, contractors, visitors and the broader communities we engage.
- Our goal is to provide an adaptive governance framework for Work Health and Safety that is integrated into all aspects of the business.
- During FY21, Forestry Corporation has made progress in a number of areas, including:
 - Rapid and coordinated response to a pandemic event providing leadership and structure for the organisation to support business continuity while minimising infection risk.
 - Review of safety management system procedures to ensure a robust system is in place
 - Implementation of safety leadership initiatives from the CEO and senior management team
 - Development and implementation of training opportunities for key issues including supporting mental health in the workplace and managing challenging interactions with stakeholders
 - Further refinement of the management of end-to-end incident cycle
- Regrettably, during FY21, the Corporation has seen a number of soft-tissue injuries, such as slips, trips, falls, and cuts which has resulted in an increase in the LTIFR and TRIFR rates. Management is addressing this through the implementation of targeted initiatives focused on raising safety awareness, increasing accountability and recognising exceptional safety leadership in the workplace.
- Note that FY20 LTIFR and TRIFR rates were much lower and reflect incidents across a significant number of additional hours 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 the #REBUILD 2024 Strategic Plan.
- The Corporation has an Executive Safety Committee which meets to review performance and support continuous improvement across the organisation.



Forest Management & Environmental Performance

Number of fines (penalty infringement notices) issued to Forestry Corporation by regulators	F17	F18	F19	F20	F21
Biodiversity Conservation Act 2016 (formerly Threatened Species Conservation Act 1995)	0	0	0	3	4
Protection of the Environment Operations Act 1997	0	0	2	0	0
Plantations and Reafforestation Act 1999	0	0	0	0	0
National Parks and Wildlife Act 1974	0	0	0	0	0
Fisheries Management Act 1994	0	0	0	0	0
Forestry Act 2012	0	0	0	0	3

Number of convictions recorded against Forestry Corporation	F17	F18	F19	F20	F21
Biodiversity Conservation Act 2016 (formerly Threatened Species Conservation Act 1995)	0	1*	0	0	0
Protection of the Environment Operations Act 1997	0	0	0	0	0
Plantations and Reafforestation Act 1999	0	0	0	0	0
National Parks and Wildlife Act 1974	0	0	0	0	0
Fisheries Management Act 1994	0	0	0	0	0
Forestry Act 2012	0	0	0	0	0

* Conviction related to failure to identify or protect a rocky outcrop prior to logging operations in 2013.

- The Corporation places a high level of importance on managing the environment both in respect of the impact of its operations and land management duties and the impact of factors like biosecurity and forest health on its business.
- Operations adhere to strict environmental standards and regulations, and the Corporation continues to maintain its independent certification to internationally recognised standards of forest management.
- The Corporation tracks the number of non-conformances and complaints, which are followed up with the required corrective actions. Post the Black Summer fires, the regulator has informed of a heightened regulatory focus on the operations. The Corporation has also increased its focus on environmental protection through additional conditions, resources and training.
- The Corporation's operations are audited by external parties on a nine-month cycle.

Operational compliance

- Hardwood Forests Division and Softwood Plantations Division are both certified under ISO14001 and the internationally recognised Australian Standard for Sustainable Forest Management (AS4708).
- The Corporation is subject to intense regulation through the CIFOA and Western IFOAs administered by the EPA and Plantation and Reafforestation Regulations overseen by the Department of Primary Industries.
- Contractors and employees are regularly trained in the Corporation's Forest Management System and the requirements of the various regulations.
- The Corporation has made further investments in compliance, such as additional staff members, to provide continuous improvement in this important area.

1. The Board of Forestry Corporation confirms that:

- a) performance targets within the 2021-22 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.