Forestry Corporation

ANNUAL REPORT 2018–19

Letter of submission

31 October 2019

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 2019 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

Nick Roberts
Chief Executive Officer

Contents

Forestry Corporation Annual Report 2018–19

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This year, both the State and Commonwealth governments reaffirmed the importance of the renewable timber industry by renewing the long-term Regional Forest Agreements for NSW.

CEO and Chairman overview

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

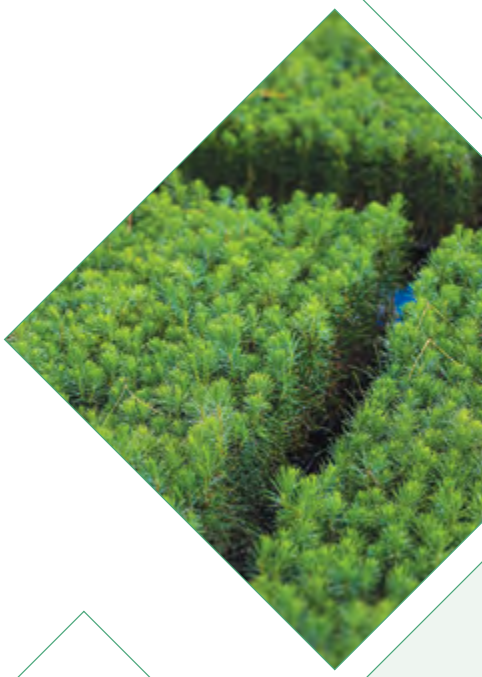
Forestry Corporation of NSW (Forestry Corporation) manages both a thriving forest estate and a profitable timber business that underpins the operations of processors, mills, contractors, suppliers and related businesses in regional communities throughout NSW.

Ongoing business improvements and strong markets continued to drive positive financial results. The year ended 30 June 2019 (FY19) also saw the role of the timber industry reaffirmed and set a new framework for sustainable forest operations into the future.

Strong markets drive record profits

High demand drove increased revenue and saw the business surpass expectations to deliver a record profit. Revenue[1] increased by nine per cent to $417 million (FY18: $384 million). Total comprehensive income for the year was $227.5 million (FY18: $73.9 million) and the normalised earnings[2] rose to $74.1 million (FY18: $66.4 million).

Positive market conditions saw both operating divisions deliver profits, while ongoing efforts to streamline business processes further drove down overhead costs. Both divisions exceeded expectations, but the Softwood Plantations Division recorded a particularly strong result, closing the accounts $11.7 million ahead of budget. This record result was driven by high demand from domestic markets, particularly for sawlogs, as well as continued exports out of Bombala, Walcha and Grafton.



Long-term certainty for hardwood operations

This year, both the State and Commonwealth governments reaffirmed the importance of the renewable timber industry by renewing the long-term Regional Forest Agreements for NSW. These agreements provide the framework for managing forests sustainably for both environmental protection and timber production. This re-commitment to sustainable forestry in NSW followed a thorough review and community consultation and provides the certainty the industry needs to plan for and invest in the future. It also demonstrates a high level of confidence in our operations and the renewable timber industry.

[1] *Revenue includes other income and interest.*
[2] *Reconciliation of normalised earnings is detailed in the table on page 18.*

Alongside this framework, new environmental regulations were enacted for coastal native forests following several years of research, scientific trials, expert input and community consultation. The new Coastal Integrated Forestry Operations Approval (IFOA) will enhance and modernise the environmental regulations we have been operating under for the past 20 years, making them clearer to implement and enforce, with a greater focus on environmental outcomes.

For more than a decade, the sustainability of our operations has also been independently verified by our certification to the Australian Standard for Sustainable Forest Management, Responsible Wood. Our systems, processes and operations are continually assessed to ensure compliance to this standard, with a full re-certification audit taking place every three years. This year, we had our certification renewed for both operating divisions, providing another endorsement of our world-class forest management practices.

Primed to meet new challenges

Following several years of high demand, in the second half of FY19 export markets weakened and the housing market softened. The effects were not felt immediately, but the change will impact the business in FY20. This downturn after a period of highly favourable markets was not unexpected and we have prepared by re-investing in the business, paying down debt and replanting harvested areas with genetically superior seedlings to ensure they deliver an even higher quality timber resource into the future.

Ensuring the safety of our people is a perpetual challenge and, while we made progress during FY19, we still have a long way to go. Our total recordable injury frequency rate was 13.6 injuries per million hours worked (FY18: 19.6). While representing a notable reduction in injuries, this was again disappointingly short of our target for the year of 12.3. This year we began implementing a new safety strategy, which was developed with the input of our staff and contractors following a thorough analysis and benchmarking exercise. The strategy prioritises critical risk, contractor management, leadership and performance, and health and wellbeing. Guided by our new strategy, we are focussed on delivering a step-change reduction in employee and contractor injuries.

In August 2019, the NSW Government announced a scoping study into the potential long-term lease of the softwood plantations managed by Forestry Corporation. While there is no immediate impact on our business or our operations, Forestry Corporation will closely engage in this study, along with other stakeholders, as it progresses into FY20.

While FY20 will bring a range of challenges, we will be facing these with a reinvigorated senior leadership team. Meredith Payne was appointed as the new General Manager of People and Safety during the year and Daniel Tuan was appointed as the new General Manager of the Hardwood Forests Division in September 2019, replacing long-serving General Manager Dean Anderson, who will take on a new role within the Softwood Plantations Division's leadership team. These new appointments bring a depth of skills and experience that stands us in good stead to meet the coming challenges.

Investing in the future

During FY19, we took advantage of the business' strong cash position to invest in our people and the tools they need to do their jobs safely and effectively.

Safety has been at the forefront of our investment in new innovations and technologies. This year, we invested $10 million in new fleet and equipment fitted with advanced safety features and monitoring equipment, in recognition that driving is one of our most critical risks. We are continuing to invest in drone technology, which is used alongside our mapping and modelling software and introduces opportunities to improve the safety of a range of processes. We are also working in partnership with haulage contractors to use monitoring technology and automated electronic trailer braking systems to improve safety throughout the supply chain.

In addition, we have prioritised investing in professional development of our people, with around 50 staff taking part in leadership programs for supervisors, managers and leaders during the financial year. The success of our business relies on the skills and expertise of our leaders and teams, and investing in our people will ensure we have a capable and well-managed workforce to meet the challenges of the future.

Importantly, we are continually reinvesting in the forests we manage and ensuring they are well-managed resources that conserve environmental values, provide a wide range of tourism and recreation opportunities, produce renewable timber and continue to regrow in perpetuity.

James M. Millar AM
Chairman

Nick Roberts
Chief Executive Officer

Sustainability has always been a core principle underpinning our forest management.

About us

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

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

Forestry Corporation produces around 14 per cent of the timber produced in Australia annually and is a major player in the Australian wood products industry, which employs 22,000 people in NSW and adds $2.4 billion a year to the economy. Our Softwood Plantations Division manages Australia's largest softwood plantation estate, responsible for around 230,000 hectares of pine plantations in the central west, south and north of NSW. Our Hardwood Forest Division manages around 34,000 hectares of hardwood timber plantations and has stewardship of approximately two million hectares of coastal native forests, cypress forests and red gum forests.

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

Sustainable business

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

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

Responsible Wood
RW/1-21-5

PEFC
PEFC/21-23-05

bsi.
ISO 14001
Environmental Management

High demand delivered record profits.

Operational overview

Softwood Plantations Division

Record profits

High demand delivered record profits for the Softwood Plantations Division. Revenue[1] increased by 10 per cent to $289 million (FY18: $262 million) and normalised earnings[2] rose 14 per cent to $73 million (FY18: $64 million). Profit growth over the past few years and continuing in FY19 has been driven by strong demand domestically and interaction with export markets out of Walcha, Bombala and Grafton.

New paths to market

The division invested in developing important new paths to market for timber coming from Walcha driving efficiencies and improving saefty. While exports out of Walcha have grown over the past few years, the distance to market has been an ongoing challenge. After investigating a range of options to improve timber transport out of the region over the past few years, the division partnered with an external logistics company to make up the baseload traffic for a new $8 million intermodal rail hub at Werris Creek.

The new facility and rail hub will handle up to 230,000 tonnes of timber from Walcha annually. The facility will drive a significant reduction in haulage costs, and will also improve safety by removing trucks from the hazardous road to Newcastle.

The division has also established a direct export channel through Brisbane to market timber surplus to domestic demand out of Grafton.

Maintaining strong domestic markets

While exports have increased in both volume and value in recent years, long-term domestic customers continue to be the division's primary market. The division entered into new contracts for 1.2 million tonnes of harvest capacity, being one third of the annual total, and 1.6 million tonnes of haulage capacity, which is half the annual total. Periodic price reviews were also completed with some major domestic customers, ensuring these important contracts continue to deliver mutual value into the future.

Ongoing expansion

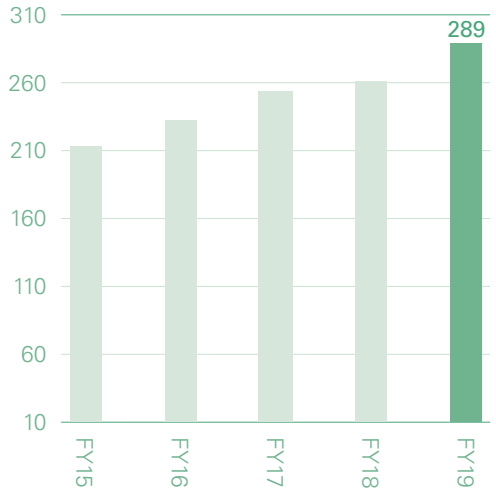
Around 350 hectares of new land was purchased as part of a four-year, $24 million equity injection from the NSW Government to acquire new land for establishing timber plantations. Capitalising on opportunities to expand the plantation estate, the business itself funded and purchased a further 435 hectares of plantable land near Bombala. The division also bolstered the Grafton district's plantation estate by 20 per cent by securing the timber rights to a 2,366-hectare southern pine plantation previously established under contract for a private company. All of these new acquisitions are strategically positioned near existing plantations and major processing hubs, allowing for economies of scale while augmenting timber and pulpwood production over the short and long term.

[1] *Revenue includes other income and interest.*
[2] *Divisional breakdown is detailed in the table on page 18.*

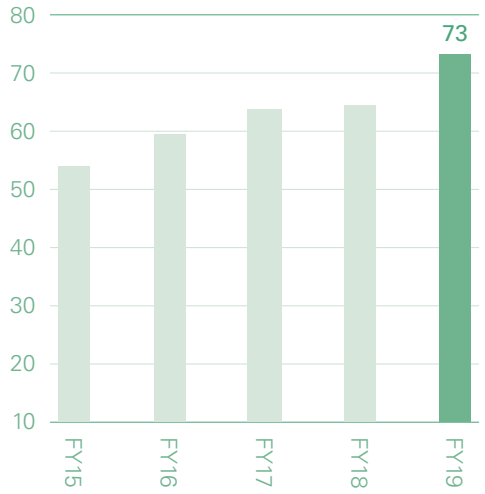
Softwood Plantations Division financial results

Year ended 30 June ($ millions)	FY15	FY16	FY17	FY18	FY19
Revenue[1]	214	232	254	262	289
Normalised earnings[2]	54	59	64	64	73

Softwood: Revenue[1] ($m)



Softwood: Normalised earnings[2] ($m)



[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

Positive financial results

The Hardwood Forests Division returned a positive result for the fifth consecutive year, underpinned by steady revenue growth and the ongoing impact of improvements to business structures and processes made in recent years. Revenue[1] increased by five per cent to $123 million (FY18: $117 million). Normalised earnings[2] for the year was $1.1 million (FY18: $3.6 million), which was ahead of budget, and the division continued to meet long-term timber supply contracts.

A new regulatory framework

A new regulatory framework for forestry operations in coastal native forests was introduced during the year. The Coastal Integrated Forestry Operations Approval (IFOA) replaces IFOAs for the Upper North Coast, Lower North Coast, South Coast and Eden with a more modern regulation that has a greater focus on using scientific data, such as habitat modelling, and long-term monitoring and assessment of environmental outcomes.

The two-year transition to the new Coastal IFOA began in November, supported by a comprehensive training and accreditation program for staff and contractors who will be working under the new regulations. In recent years, substantial investments have been made in developing a custom mapping application and rolling out mobile technology to field staff and harvesting contractors, and the new regulation reflects and enables the use of emerging technology. A new online portal has also been developed to enhance the ease and comprehensiveness of community access to information about operations carried out under the new regulations.

The Coastal IFOA was developed drawing on a range of scientific research and, in line with the increased focus on environmental outcomes, work will continue into FY20 to develop and begin implementing long-term monitoring programs. These will complement ongoing research in State forests, which ranges from monitoring programs that have been in place for several decades to new studies such as the recently-commenced radio tracking program that monitors how koalas use forests.

Driving improvements through the supply chain

The introduction of a centralised scheduling system for timber haulage on the north coast in recent years is continuing to deliver savings, safety improvements and live supply chain management capabilities through the use of technology. Closer monitoring and planning has allowed haulage requirements to be met using fewer, safer, trucks. The haulage fleet is fitted with GPS equipment that monitors speed, fatigue and incidents, resulting in fewer speeding incidents and safer driver behaviour. This year also saw the completion of a program to install automated electronic braking in trailers across the entire haulage fleet, a mandatory rollover protection measure that will enhance safety across the supply chain.

Exceptional community facilities

Building on years of investment in renewing and upgrading visitor facilities, frequently in close partnership with local communities, Forestry Corporation was again recognised as one of NSW's premier tourism providers. Sealy Lookout in Orara East State Forest near Coffs Harbour won the gold award in the Tourism Attraction category at the NSW Tourism Awards in November and was also represented at the Australian Tourism Awards in March.

A number of other tourism ventures developed on State forests in partnership with Forestry Corporation were also recognised at the NSW Tourism Awards. The Giingay Gumbaynggirr Cultural Experience based out of the Sealy Lookout received a bronze in the Excellence in Aboriginal and Torres Strait Islander Tourism category and Tree Top Adventure Park, which has several sites on State forests, was a finalist in the Adventure Tourism category.

The division continues to invest in providing high quality, nature-based tourism opportunities and these awards acknowledge the key role State forests play in attracting tourists and supporting regional tourism.

[1] *Revenue includes other income and interest.*
[2] *Divisional breakdown is detailed in the table on page 18.*

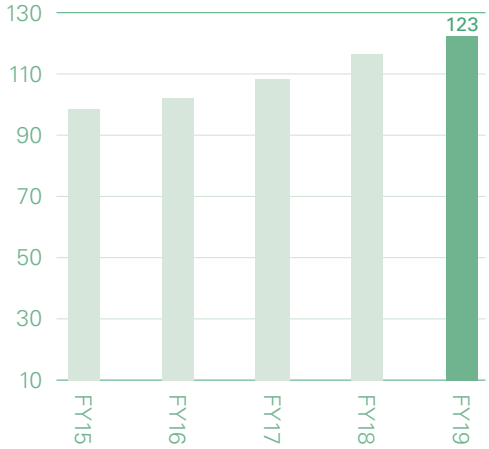
New leadership for the future

This year, the long-serving General Manager of the Hardwood Forests Division, Dean Anderson, stepped into a new role in the Softwood Plantations Division as the Regional Manager, Snowy. Dean led the division through significant changes including corporatisation and the business transformation that underpinned the division's financial turnaround. Daniel Tuan was appointed as the new General Manager of the Hardwood Forests Division in September 2019. Daniel has worked with Forestry Corporation for the past 15 years in various roles, most recently as the Senior Manager Production South, and his deep understanding of all aspects of the business and strong leadership will ensure the division continues to build financial resilience and deliver positive environmental and community outcomes, while producing a sustainable supply of renewable timber, into the future.

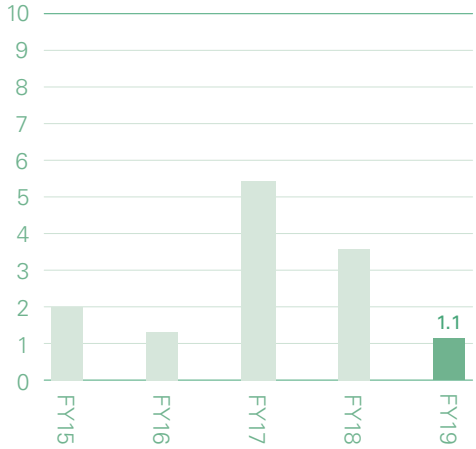
Hardwood Forests Division financial results

Year ended 30 June ($ millions)	FY15	FY16	FY17	FY18	FY19
Revenue[1]	99	102	109	117	123
Normalised earnings[2]	2.0	1.2	5.3	3.6	1.1

Hardwood: Revenue[1] ($m)



Hardwood: Normalised earnings[2] ($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 services

Prioritising health, safety and wellbeing

Work is continuing to embed the new health, safety and wellbeing strategy developed during FY18. Several projects were completed during the year to drive further safety improvements with a focus on critical risk, safety leadership, contractor management and health and wellbeing. These included analysing how the organisation can better identify, assess, control and review incidents with the potential to cause significant harm, developing standards of behaviour and accountability and further promoting the employee assistance program to help managers better support staff wellbeing. Work is also continuing on developing a contractor framework, which will set clear expectations and responsibilities and provide tools to support improving safety for our contractors, such as crews involved in harvest and haulage. Work will continue in all of these areas during FY20 to further reduce the risk of injury and improve health, safety and wellbeing.

Protecting forests and communities from fire

The FY19 fire season was long and dangerous, impacting native forests and plantations. Good preparation meant a record number of staff were trained or updated their skills in basic fire awareness, firefighting, advanced firefighting and as crew leaders. Potentially damaging fires around Tumut were contained rapidly with modest losses, attributable to sound planning and close collaboration with the Rural Fire Service (RFS) and other firefighting authorities.

In the north of the state, Forestry Corporation firefighters were involved in managing extensive fires impacting national parks, forest and private property as part of NSW's coordinated firefighting response. While around 300 hectares of established pine plantation were lost, Forestry Corporation firefighters made a substantial contribution to RFS efforts to protect private property and prevent those fires doing more damage to local communities.

The FY20 fire season has begun early, with significant resources deployed to large fires in the north of NSW as part of the state's combined firefighting efforts and the outlook is for another dry fire season. Again, substantial investment has been made into preparation, training, resourcing and firefighting technology and this will continue during the year with the ongoing objective of minimising the impact of fires on forests and surrounding communities.

Delivering safer fleet and equipment

During FY19, $10 million was invested in new fleet, including light vehicles, dozers, dump trucks, graders and trailers. Vehicles are an important tool supporting operations and the ongoing management of the two-million-hectare State forest estate and heavy plant is used for a range of forest operations including firefighting.

The new vehicles and equipment are fitted with the latest safety features and a range of custom features specifically designed to manage the forest conditions. Staff have contributed to the specifications for the new equipment to ensure it is fit for purpose.

The light and heavy vehicle fleet has also been fitted with telematic monitoring systems, which track speed, cornering, braking and trip length and produce a safety score, or risk rating, for each driver. By monitoring this data, drivers are able to track and adjust their driving behaviour to improve safety. During FY19, this resulted in an improvement in the average driver safety score and greater focus on safe driving behaviour.

Renewed focus on professional development

The new General Manager of People and Safety Meredith Payne joined the business during the year, bringing a renewed focus on process improvements and organisational development. Meredith led a reassessment of the roles and capability within the function and brought together a team of skilled practitioners who will continue to drive professional development and capability throughout the organisation.

During the year, around 50 supervisors, managers and professionals took part in the Leadership Excellence at Forestry Corporation of NSW (LEAF) program, a tailored leadership development program. In addition, new online training modules were developed for all staff to embed their understanding of fundamental policies such as the code of conduct. Investments are also being made in streamlining and enhancing the talent management processes, which will be supported by the introduction of a clearly defined set of underpinning behaviours and improved digital platforms.

Increasing long-term productivity of plantations

An Australian-based seed orchard has been developed and will start to provide improved genetic material for Forestry Corporation's radiata pine plantations. This is expected to boost growth rates for radiata pine by three per cent, improve the quality of timber and reduce exposure to biosecurity risks associated with importing seed. Around eight and a half million radiata pine seedlings are grown and planted to restock plantations each year and this new seed orchard will contribute to incremental improvements in the growth and quality of these trees over the long term.

Continued investment in technology

Technological improvements are continuing to drive better decision making by enhancing the organisation's ability to capture, analyse and distribute data. In native forests, the Map App has been used for several years to improve the accuracy and efficiency of planning, operations and monitoring. The use of digital mapping technology is now embedded in the new Coastal IFOA and has become a crucial tool in the implementation of the new regulations as well as in monitoring compliance.

Drones are also becoming increasingly important forest management tools. This year the organisation purchased 16 unmanned aerial vehicles, including 12 with thermal sensing capability, and trained 16 drone pilots. Drones improve ease of assessment of growth and stocking, allowing the development of more targeted forest management strategies. Drones have also proven particularly useful in firefighting, where they can assist with early fire detection and allow safe assessment of fire lines and detection of hot spots.

Financial results

Record profits

Forestry Corporation reported outstanding financial performance during FY19, with both operating divisions returning strong financial results and overheads coming in under budget.

Normalised earnings[1] was $74 million, which was $8 million higher than last year and surpassed the targets in the Statement of Corporate Intent (SCI) agreed with shareholders by $14 million. At $417 million, revenue[2] was up nine per cent on last year and 10 per cent higher than the SCI target.

The Softwood Plantations Division outperformed its financial targets, posting normalised earnings[1] of $73 million, which was 14 per cent higher than last year and 19 per cent above SCI targets. Export sales from the Bombala and Walcha management areas were strong contributors to the outstanding result, with the domestic housing market supporting the underlying business. The housing market began to soften mid-year and the effects of that will be felt in FY20.

The Hardwood Forests Division also surpassed expectations. The division delivered normalised earnings[1] of $1.1 million which was the fifth consecutive year of positive normalised earnings.

Quality earnings mixed with cost improvements lifted the underlying performance, reflected in an overall normalised earnings margin of 18 per cent.

Capital and shareholder return

During FY19, $25 million was returned to shareholders in the form of dividends relating to the previous year. On the back of record financial results, Forestry Corporation declared its highest ever dividend of $33 million (FY18: $25 million), which surpassed the SCI projection by $7 million. This will be paid in FY20.

During the financial year the NSW Government injected $24 million in equity to expand the plantation estate by acquiring new land over four years. Around 350 hectares of net plantable area has been purchased using the equity injection.

Solid profits boosted operating cash flows and Forestry Corporation maintains a strong cash balance allowing re-investment in the business.

Balance sheet

Forestry Corporation continues to maintain a strong balance sheet. Key financial ratios such as Gross Debt to normalised earnings before depreciation and amortisation (at 1.0 times), Interest Cover (at 11.8 times) and Liquidity Ratio (at 1.4 times) indicate that the business is well positioned for further growth.

Other items

During the financial year, property, plant and equipment were revalued in line with Treasury guidelines and applicable accounting standards. The revaluation resulted in an increment of $74 million (net of tax), supported by increases in land prices. Improvement in export prices over the year coupled with a reduction in the discount rate led to a net gain in the fair value of biological assets of $124 million (net of tax).

Normalised earnings is used as an alternative measure in this financial commentary section. Normalised earnings reflects actual profits from trading activities, rather than the profits reported for regulatory purposes. The business uses normalised earnings to manage its day to day activities, which exclude the effects of biological assets, defined benefit and asset revaluations, which are subject to actuarial calculations or periodic revaluation.

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 table overleaf.

[1] *Reconciliation of normalised earnings appears in the table on page 18.*

[2] *Revenue includes other income and interest.*

FY19 Divisional breakdown ($ millions)	Softwood	Hardwood	Corporate	Total
Revenue[1]	289	123	6	417
Normalised Earnings[2]	73	1	0	74

Reconciliation of Normalised Earnings to Statutory Results ($ millions)	2018	2019
Total Comprehensive Income / (Loss) per the Financial Statements	74	228
Impact of actuarial assessment on the defined benefit superannuation liabilities (net of tax)	(38)	17
Impact of valuation of standing timber (net of tax)	6	(124)
Impact of revaluation and related impairment of property, plant and equipment (net of tax)	–	(74)
Normalised Earnings After Tax	42	47
Interest and tax on normalised earnings	25	27
Normalised Earnings	66	74

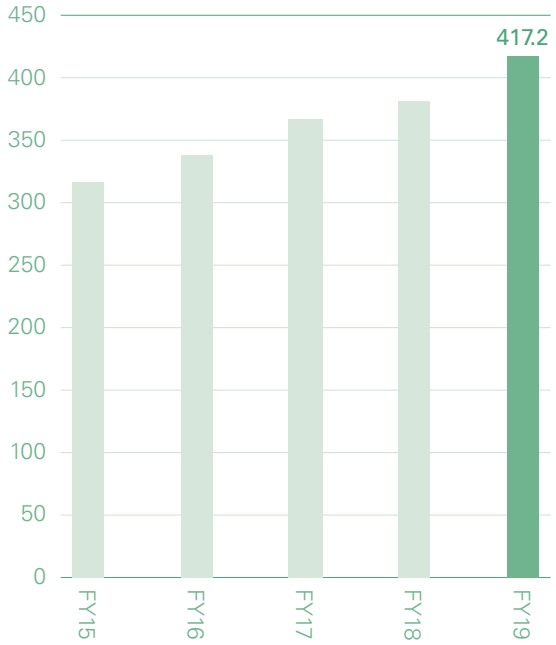
Financial highlights

Key financial data							2019 SCI targets		
Year ended 30 June		**2015**	**2016**	**2017**	**2018**	**2019**	**SCI**	**Variance**	
Revenue[1]	$m	317	339	369	384	417	380	38	●
Normalised earnings[2]	$m	52	57	67	66	74	60	14	●
Dividend payable	$m	19	22	30	25	33	26	7	●
Borrowings	$m	89	64	108	108	87	108	(22)	●
Biological assets	$m	858	858	992	983	1,171	992	179	●
Key ratios									
Return on equity	%	4.2	4.9	5.4	5.2	4.9	4.7	0.2	●
Normalised earnings margin[2]	%	16.4	16.9	18.1	17.3	17.7	16.0	1.7	●
Liquidity ratio	times	1.4	1.3	1.3	1.4	1.4	1.9	(0.6)	●
Gross debt to normalised earnings before depreciation and amortisation	times	1.5	1.0	1.5	1.5	1.0	1.6	(0.6)	●
Interest cover	times	7.1	9.0	12.0	9.9	11.8	3.8	8.0	●

[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)



9% ON LAST YEAR

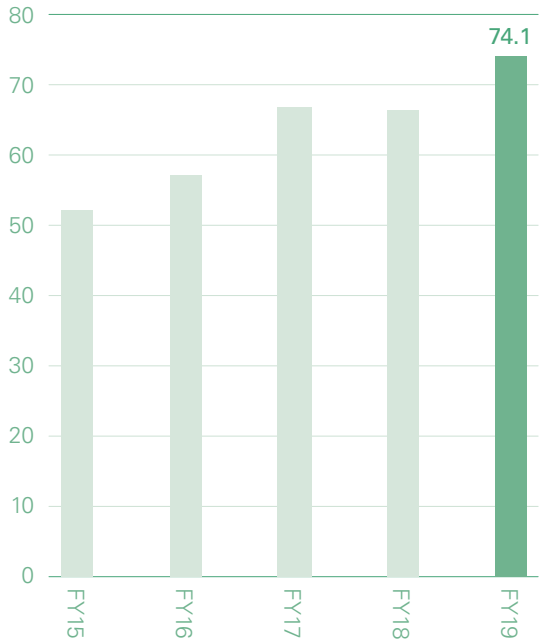
10% ON BUDGET

Dividend ($m)

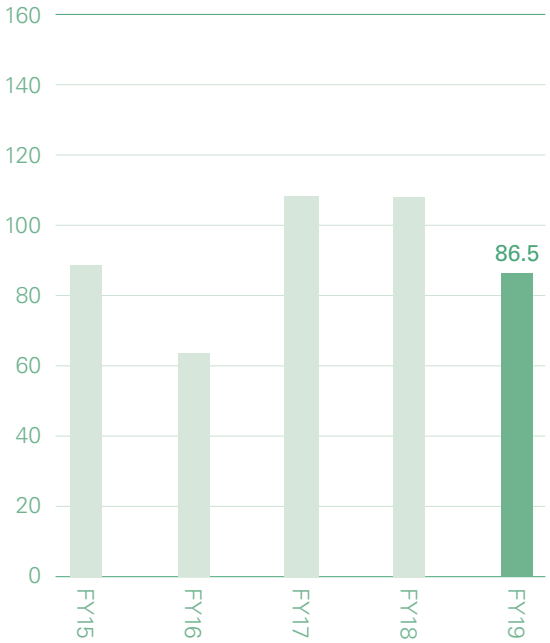
30% ON LAST YEAR

27% ON BUDGET

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.

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

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

a. to be a successful business and, to this end:

   i. to operate at least as efficiently as any comparable businesses
   ii. to maximise the net worth of the State's investment in the corporation

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

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

d. to contribute towards regional development and decentralisation

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

Forestry Corporation Board

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

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

Two independent members of the Board were re-appointed on 19 February 2019 for three-year terms. The Chief Executive Officer, the executive member of the Board, was re-appointed on 1 January 2019 for a three-year term.

Dr Lyndall Bull resigned from the Board effective 31 August 2019 to take up an international role.

Board of Directors

- **Mr James M. Millar AM** – Director and Chairman
  BCom, FCA, FAICD

  James is the former Chief Executive Officer and Oceania Area Managing Partner of Ernst & Young and was a director on their Global Board. James commenced his career with Ernst & Young in their insolvency and reconstruction practice, and was involved in the reconstruction of some of Australia's largest businesses. He is an experienced corporate executive and advisor, and is a director, trustee or member of a number of public and private companies, and charitable organisations.

- **Ms Sarah Kearney** – Director and Chair Human Resources Committee
  BSc (Psychology)

  Sarah is a Director of Performance Insights and is a former Managing Director of global HR consulting organisation SHL Australia and New Zealand (now known as Gartner Group). She has extensive experience working with companies across a broad range of industry sectors to develop frameworks and 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

  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
  BSc (Met), MEngSc, FAICD

  Noel has extensive business management experience both in Australia and overseas. He is the former National President of Ai Group, Chief Executive of BlueScope Steel Limited's Australian and New Zealand steel businesses and President of Northstar BHP LLC in Ohio, USA. Noel is a director of a number of companies and organisations in the government, education, finance and energy sectors. He currently chairs two Boards.

- **Wendy Machin**
  B.A. (UTS), M.Comm, GAICD

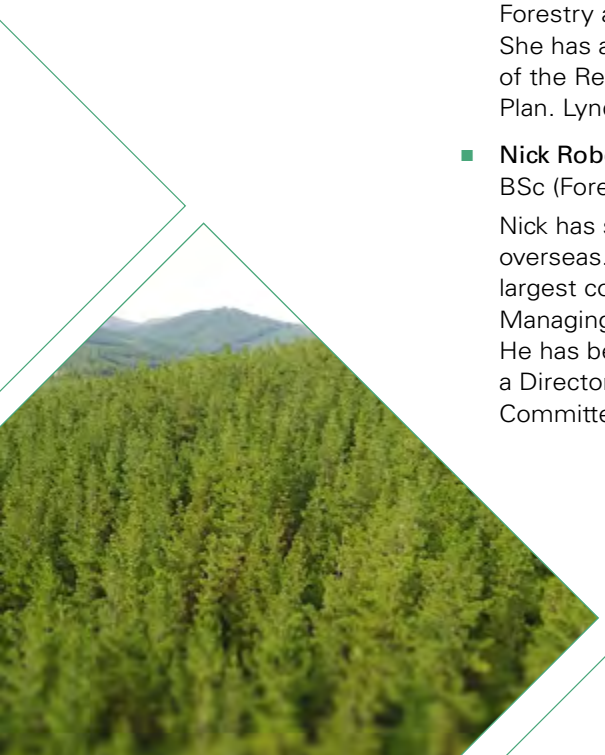
  Wendy has served on a number of Boards over the past fifteen years in the government, not-for-profit and private sectors. She is currently Chair of Reflection Holiday Parks and the Australasian New Car Assessment Program (ANCAP). She previously served a twelve-year term as an NRMA Director, including six years as President. Wendy was elected to the NSW Legislative Assembly in 1985, where she served until 1996, and maintains a strong interest in disability and social services.

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

  Lyndall has extensive global experience in the forest sector, including in strategic management, innovation and product development, market analysis and research management. Lyndall has served on a range of Boards including the CRC for Forestry and as Chair of the South Australian Forest Industry Development Board. She has also served on the Board of Sustainable Timber Tasmania and as the Chair of the Reference Panel for the Western Australian Timber Industry Development Plan. Lyndall is the founder and Principal of Lynea Advisory.

- **Nick Roberts** – CEO and Executive Director
  BSc (Forestry) (Hons), MSc (Forestry), GAICD

  Nick has significant forestry and timber industry experience in Australia and overseas. He has been the Chief Executive Officer of Forestry Corporation, NSW's largest commercial forest manager, for more than ten years and was previously Managing Director of Weyerhaeuser Australia, a position he held for five years. He has been actively involved in industry associations, chairing A3P and serving as a Director for Forest and Wood Products Australia. He currently chairs the Safety Committee for the Australian Forest Products Association.



Board meetings

There were six Board meetings held during the reporting year. The attendance by directors at Board meetings is detailed below:

Member	Number of meetings attended
Mr James Millar AM	6
Ms Sarah Kearney	6
Ms Wendy Machin	5
Dr Lyndall Bull	5
Mr Geoffrey Applebee	6
Mr Noel Cornish AM	5
Mr Nick Roberts	6

Board committees

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

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

During the reporting period there were four meetings of the Audit and Risk Committee, four meetings of the People Committee and two meetings of the Safety Committee.

Environmental regulations

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

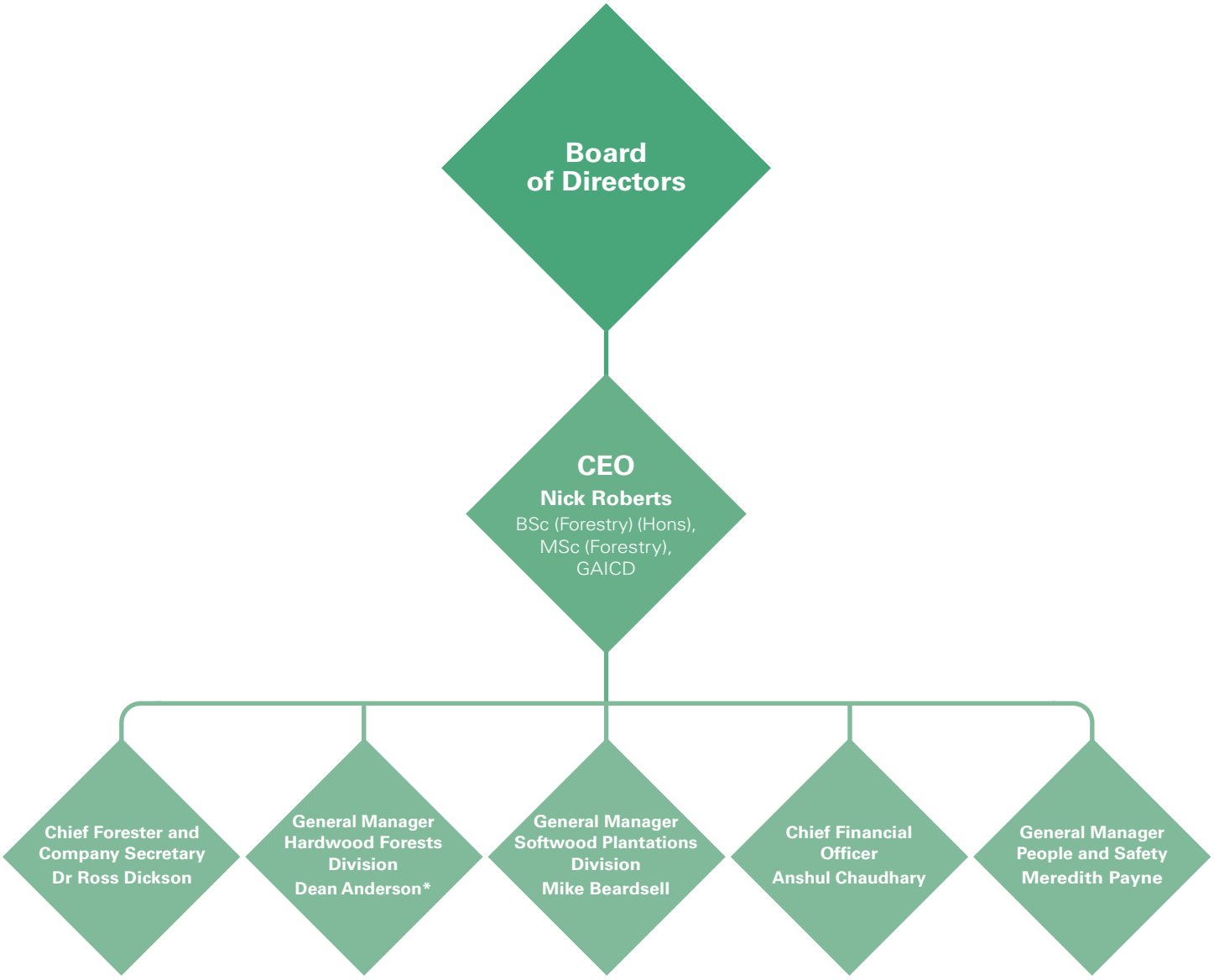
Further instruments that govern Forestry Corporation's forestry operations include the NSW Forest Agreements and the Regional Forest Agreements.

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

Organisational structure

Forestry Corporation's senior management team consists of the CEO and five divisional general managers. The management team structure and responsibilities are listed on page 24.

Organisational structure



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 and internal audit
- corporate governance and executive support
- legal services.

BSc (Forestry), GAICD

- 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.

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.

BCom (Accounting), CA

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

BA (Psychology) DipEd Post Grad Diploma (HR)

- human resources
- safety
- organisational development
- learning.

** Dean Anderson took up a new role in the Softwood Plantations Division and Daniel Tuan was appointed as the new General Manager Hardwood Forests Division in September 2019.*


Forestry Corporation

Financial statements

Start of audited financial statements

Statement of profit or loss and other comprehensive income

For the year ended 30 June 2019

	Note	30 June 2019 $'000	Restated 30 June 2018 $'000
Revenue	5	396,083	365,162
Other income	6	19,914	17,790
Interest revenue calculated using the effective interest method		1,240	868
Change in fair value of biological assets	17	177,338	(8,861)
Expenses			
Operating expenses	7	(263,919)	(241,954)
Employee benefits expense		(73,051)	(70,286)
Depreciation and amortisation expense		(9,059)	(7,975)
Impairment of assets		(1,666)	(221)
Revaluation decrement		(1,179)	-
Finance costs	8	(6,272)	(7082)
Profit before income tax expense		239,429	47,441
Income tax expense	9	(73,042)	(14,239)
Profit after income tax expense for the year attributable to the owners of Forestry Corporation of New South Wales		166,387	33,202
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Gain on the revaluation of land and buildings, net of tax		77,907	31
Actuarial (loss)/ gain on defined benefit plans, net of tax		(16,828)	40,641
Other comprehensive income for the year, net of tax		61,079	40,672
Total comprehensive income for the year attributable to the owners of Forestry Corporation of New South Wales		227,466	73,874

Refer to note 3 for detailed information on Restatement of comparatives - adoption of AASB 15 'Revenue from Contracts with Customers'.

Statement of financial position

For the year ended 30 June 2019

	Note	30 June 2019 $'000	Restated 30 June 2018 $'000
Assets			
Current assets			
Cash and cash equivalents	10	54,947	37,515
Trade and other receivables	13	49,719	50,834
Inventories	14	3,494	3,499
Biological assets	15	76,858	72,001
Total current assets		185,018	163,849
Non-current assets			
Property, plant and equipment	16	1,100,899	988,818
Biological assets	17	1,094,129	911,491
Investment properties	18	5,268	6,836
Total non-current assets		2,200,296	1,907,145
Total assets		2,385,314	2,070,994
Liabilities			
Current liabilities			
Trade and other payables	19	38,001	35,142
Contract liabilities	20	13,003	12,112
Borrowings	21	21,700	21,413
Dividend provided	22	32,592	25,051
Provisions	23	28,324	27,370
Income tax		2,871	1,026
Total current liabilities		136,491	122,114
Non-current liabilities			
Borrowings	24	64,753	86,770
Provisions	25	3,020	3,617
Retirement benefit obligations	36	91,681	65,199
Deferred tax	26	589,454	512,253
Total non-current liabilities		748,908	667,839
Total liabilities		885,399	789,953
Net assets		1,499,915	1,281,041
Equity			
Contributed equity	27	445,706	421,706
Reserves	28	716,688	641,181
Retained profits		337,521	218,154
Total equity		1,499,915	1,281,041

Refer to note 3 for detailed information on Restatement of comparatives - adoption of AASB 15 'Revenue from Contracts with Customers'.

Statement of changes in equity

For the year ended 30 June 2019

	Contributed equity $'000	Reserve for deferred tax asset $'000	Asset revaluation reserve $'000	Retained profits $'000	Total equity $'000
Balance at 1 July 2017	421,706	50,092	591,606	169,045	1,232,449
Adjustment for change in accounting policy (note 3)	-	-	-	(465)	(465)
Balance at 1 July 2017 - restated	421,706	50,092	591,606	168,580	1,231,984
Profit after income tax expense for the year	-	-	-	33,202	33,202
Other comprehensive income for the year, net of tax	-	-	31	40,641	40,672
Total comprehensive income for the year	-	-	31	73,843	73,874
Transactions with owners in their capacity as owners:					
Transfer of asset revaluation reserves to retained profits	-	-	(782)	782	-
Reversal of deferred tax liability on disposal of assets	-	-	234	-	234
Dividend	-	-	-	(25,051)	(25,051)
Balance at 30 June 2018	421,706	50,092	591,089	218,154	1,281,041

Refer to note 3 for detailed information on Restatement of comparatives - adoption of AASB 15 'Revenue from Contracts with Customers'.

	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

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 2019

	Note	30 June 2019 $'000	Restated 30 June 2018 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		447,523	414,526
Payments to suppliers and employees (inclusive of GST)		(360,807)	(348,755)
Interest received		989	616
Interest and other finance costs paid		(6,467)	(6,343)
Income taxes paid		(19,145)	(19,028)
Net cash from operating activities	11	62,093	41,016
Cash flows from investing activities			
Payments for property, plant and equipment	16	(14,288)	(8,820)
Payments for standing timber	17	(10,157)	-
Proceeds from disposal of property, plant and equipment		2,320	1,655
Net cash used in investing activities		(22,125)	(7,165)
Cash flows from financing activities			
Dividends paid		(25,051)	(29,543)
Repayment of borrowings		(21,485)	(231)
Equity injection	27	24,000	-
Net cash used in financing activities		(22,536)	(29,774)
Net increase in cash and cash equivalents		17,432	4,077
Cash and cash equivalents at the beginning of the financial year		37,515	33,438
Cash and cash equivalents at the end of the financial year	10	54,947	37,515

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

Notes to the financial statements

For the year ended 30 June 2019

Note 1. General information

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

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

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

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

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 10 September 2019.

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 an 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 allocated when or as each separate performance obligation is satisfied.

Sale of timber and related activities

Revenue from the sale of timber is recognised at the point in time when timber is delivered to the customer 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.

Forest management services

Revenue from 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 occur. Estimates of revenues, costs or extent of progress toward 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 Office of State Revenue. The NTER closely mirrors the Commonwealth Income Tax Assessment Acts of 1936 and 1997 (as amended) and is administered by the Australian Taxation Office (ATO).

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

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

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

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

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

Current and non-current classification

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

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

A liability is classified as current when: it is either expected to be settled in a normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right

Notes to the financial statements cont.

to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

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

Cash and cash equivalents

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

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

Trade and other receivables

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

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

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

Inventories

Inventories including work in progress (WIP) are stated at the lower of cost and net realisable value. In the case of materials and parts, cost comprises purchase price and incidental expenses. The valuation of WIP and finished goods is based on direct costs and an appropriate proportion of production overheads.

Seeds harvested from biological assets are measured at fair value less estimated point of sale costs at the time of harvest. If market determined prices are not available, seeds are measured at value in use.

Investment properties

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

Investment properties are initially recognised at cost, including transaction costs, and are subsequently measured at fair value. Movements in fair value are recognised directly in the statement of profit or loss.

Investment properties are derecognised when disposed of or when there is no future economic benefit expected.

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

Property, plant and equipment

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

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

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

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

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

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

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

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

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

Biological assets

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

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

Plantation timber

The Corporation manages approximately 230,000 (2018: 221,000) hectares of softwood plantations and 34,000 (2018: 34,000) hectares of hardwood plantations.

Native forest timber

The Corporation manages approximately 1,884,000 (2018: 1,910,000) hectares of native forests.

Valuation of biological assets

NPV is calculated as the net of the future cash inflows and outflows associated with forest production activities discounted back to current values at the appropriate discount rate. The discount rate applied in the calculation is 7.00% (2018: 7.50%) real, pre-tax, and reflects the specific risk profile of the Corporation. The risk is derived using the weighted average cost of capital (WACC) and benchmarked against industry data.

Assumptions underpinning the NPV calculation are:

- Forest valuations are based on the expected volumes of merchantable timber that will be realised from existing stands, given current management strategies and timber recovery rates;
- Only the current crop (standing timber) is valued. The cash flow analysis is based on the anticipated timing of the harvest of existing stands, which has been developed in the context of sustained yield management;

Notes to the financial statements cont.

- Volume increments/decrements are determined both by periodic re-measurement of forest samples and by modelling growth from the date of the most recent measurement to date of harvest;
- Prices used in the NPV calculation are based on the CPI adjusted average prices achieved over the previous year, current year, and next year's budget. The use of prior year averages reduces the impact of significant annual pricing variations;
- Ancillary income earned from activities such as the leasing of land for grazing and other occupancy rights is added to the net harvest revenues;
- Costs used in the NPV calculation are based on the CPI adjusted average costs of the previous year, current year's, and next year's budget. These costs are unadjusted for any increases in operational efficiency which might occur in the future.

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

Impairment of non-financial assets

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

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

Trade and other payables

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

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.

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

Guarantee fee

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

This guarantee fee is expensed in the period in which they are incurred.

Finance costs

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

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

Provisions

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

Employee benefits

Short-term employee benefits

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

Other long-term employee benefits

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

Notes to the financial statements cont.

Termination benefits

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

Fair value measurement

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

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

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

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

Contributed equity

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

Dividends

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

Goods and Services Tax (GST) and other similar taxes

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

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

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

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

Rounding of amounts

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

New and amended accounting and Interpretations adopted by Forestry Corporation

The following Australian Accounting Standards and Interpretations that have been published have been applied in preparing these financial statements:

i) AASB 9 Financial instruments, addresses the classification, measurement and derecognition of financial assets and liabilities, as well as introduces new rules for hedging and an impairment model for financial assets.

The Corporation has adopted AASB 9 from 1 July 2018. The Corporation has reviewed the impact and found that there is no impact because:

a) The financial assets and liabilities are recognised as amortised costs and do not meet the criteria for measurement of fair value through profit and loss (FVPL) or other comprehensive income (FVOCI), and

b) There is no need to apply hedge accounting to financial instruments, and

c) The impairment model has been applied but the expected credit loss (ECL) is nil.

ii) AASB 15 Revenue from contracts with customers, introduces a new model for revenue recognition based upon the transfer of control rather than the transfer of risks and rewards, and replaces AASB 118 Revenue and AASB 111 Constructions contracts.

The Corporation has adopted AASB 15 from 1 July 2018 using the full retrospective approach and practical expedients in accordance with the NSW Treasury TC 19-04. The Corporation has reviewed the impact and found that:

a) Timber sales revenue would not be significantly impacted, and

b) Non-timber long term contracts would include a significant financing component and discounting would have to be applied to recognise the corresponding interest revenue and interest expense over the term of the contracts. However, as non-timber contracts are a minor component of total revenue, the interest recognition would not be significant. Refer to note [3] for the effects of adoption.

New accounting standards and interpretations not yet mandatory or early adopted

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

AASB 16 Leases, requires all non-cancellable operating leases to be recognised as right of use assets and corresponding lease liabilities. However, low-value and short-term leases are excluded. The new standard requires the recognition of a right of use asset and a lease liability, which is forecast to be $5,400,000.

The new lease model replaces operating lease payment expense in the financial statements with depreciation of the recognised right-of-use asset and interest expense that will be incurred on the lease liability.

The Corporation has reviewed the impact and found that there will not be a material impact on initial adoption. However, subsequent to adoption, the Corporation is required to review the recoverability of new assets for impairment purposes. Given that the current Hardwood Forests Division business is impaired from a cash generating unit (CGU) perspective, new right of use assets associated with asset classes already impaired, also require impairment. The estimated impairment of lease right of use assets is expected to be $3,500,000 as at 1 July 2019.

Notes to the financial statements cont.

Note 3. Restatement of comparatives - adoption of AASB 15 'Revenue from Contracts with Customers'

The Corporation has adopted AASB 15 from 1 July 2018, using the full retrospective method of adoption, resulting in the following restatement of comparatives for the statement of profit and loss and other comprehensive income for the year ended 30 June 2018 and the statements of financial position as at 1 July 2017 and 30 June 2018:

- Revenue decreased by $616,000 (reclassified to Interest revenue)
- Interest revenue increased by $868,000 (reclassified from Revenue $616,000 and as a result of the gross-up of implied interest expense to revenue on customer contracts with advanced payment terms $252,000)
- Finance costs increased by $357,000 (as a result of the recognition of interest expense to reflect the Corporation's implied borrowing from the customer on contracts with advanced payment terms)
- Profit before income tax decreased by $105,000 (as a result of implied significant finance interest income and expenses)
- Income tax expense decreased by $31,000 (calculated as 30% notional tax on the profit before income tax)
- Trade and other payables decreased by $11,342,000 for 30 June 2018 and $12,015,000 for 1 July 2017 (reclassified to Contract liabilities)
- Contract liabilities increased by $12,112,000 for 30 June 2018 and $12,680,000 for 1 July 2017 (reclassified from Trade and other payables and as a result of deferred implied significant finance interest income and expense)
- Deferred tax decreased by $231,000 (calculated as 30% notional tax on the implied significant financing portion of Contract liabilities to 30 June 2018)

Statement of profit or loss and other comprehensive income

Extract	30 June 2018 $'000 Reported	$'000 Adjustment	30 June 2018 $'000 Restated
Revenue	365,778	(616)	365,162
Interest revenue calculated using the effective interest method	-	868	868
Expenses			
Finance costs	(6,725)	(357)	(7,082)
Profit before income tax expense	47,546	(105)	47,441
Income tax expense	(14,270)	31	(14,239)
Profit after income tax expense for the year attributable to the owners of Forestry Corporation of New South Wales	33,276	(74)	33,202
Other comprehensive income for the year, net of tax	40,672	-	40,672
Total comprehensive income for the year attributable to the owners of Forestry Corporation of New South Wales	73,948	(74)	73,874

Statement of financial position at the end of the earliest comparative period

Extract	30 June 2018 $'000 Reported	$'000 Adjustment	30 June 2018 $'000 Restated	30 June 2017 $'000 Reported	$'000 Adjustment	30 June 2017 $'000 Restated
Liabilities						
Current liabilities						
Trade and other payables	46,484	(11,342)	35,142	49,475	(12,015)	37,460
Contract liabilities	-	12,112	12,112	-	12,680	12,680
Total current liabilities	121,344	770	122,114	123,475	665	124,140
Non-current liabilities						
Deferred tax	512,484	(231)	512,253	498,476	(200)	498,276
Total Non-current liabilities	668,070	(231)	667,839	717,829	(200)	717,629
Total liabilities	789,414	539	789,953	841,304	465	841,769
Net assets	1,281,580	(539)	1,281,041	1,232,449	(465)	1,231,984
Equity						
Retained profits	218,693	(539)	218,154	169,045	(465)	168,580
Total equity	1,281,580	(539)	1,281,041	1,232,449	(465)	1,231,984

Note 4. Critical accounting judgements, estimates and assumptions

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

Allowance for expected credit losses

The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss, grouped based on days overdue, and makes assumptions to allocate an overall expected credit loss rate for each group. These assumptions include recent sales experience and historical collection rates.

Fair value measurement hierarchy

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

The fair value of assets and liabilities classified as level 3 is determined by the use of valuation models. These include discounted cash flow analysis or the use of observable inputs that require significant adjustments based on unobservable inputs. The fair values are sensitive to various assumptions (refer to note [30]).

Notes to the financial statements cont.

Estimation of useful lives of assets

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

Impairment of property, plant and equipment

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

Employee benefits provision

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

Superannuation deferred benefit liability

As discussed in note [2], the liability for the defined benefit superannuation plans is measured at the present value of the defined benefit obligation at the reporting date less the fair value of the superannuation fund's assets at that date and any unrecognised past service cost as determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. The actuarial valuations are sensitive to these assumptions (refer to note [36]).

Note 5. Revenue

	30 June 2019 $'000	30 June 2018 $'000
Sales Revenue		
Forests sales revenue from contracts with customers	375,550	344,593
Other revenue		
Other services rendered	16,561	16,617
Rent income from investment properties	266	295
Other rental	3,706	3,657
	20,533	20,569
Revenue	396,083	365,162

Note 6. Other income

	30 June 2019 $'000	30 June 2018 $'000
Grants revenue - community service obligations	17,540	15,901
Net reversal of previous revaluation loss	1,251	-
Net gain on disposal of investment assets	28	-
Grants revenue - other state government grants	2,193	1,183
Net gain/(loss) on disposal of non-current assets	(1,098)	706
Other income	19,914	17,790

Community Service Obligations (CSO)

The Corporation incurred $18,091,000 (2018: $15,901,000) costs for services which included provision of recreation facilities, education and advisory services, government liaison and regulatory services, community fire protection and research. Any unspent CSO grants are carried forward to the next financial year for on-going projects. The costs are included in operating expenditure in Note [7].

Note 7. Operating expenses

	30 June 2019 $'000	30 June 2018 $'000
Contract harvest and haulage	178,056	163,195
External contractor costs	52,534	44,024
Other operating expenses	11,333	10,319
Materials	11,492	14,707
Occupancy costs	2,515	2,320
Forest management and licence costs	912	170
Travel and accommodation	2,420	2,520
Communication and computer costs	3,551	3,518
Insurance and state taxes	1,106	1,181
	263,919	241,954

Note 8. Expenses

	30 June 2019 $'000	Restated 30 June 2018 $'000
Profit before income tax includes the following specific expenses:		
Finance costs		
Government guarantee fee	1,769	1,991
Interest expenses	4,503	5,091
Finance costs expensed	6,272	7,082
Superannuation expense		
Defined contribution superannuation expense	4,150	3,837
Defined benefit employer contributions	1,249	1,431
Total superannuation expense	5,399	5,268

Refer to note [36] for Defined benefit superannuation expense.

Notes to the financial statements cont.

Note 9. Income tax expense

	30 June 2019 $'000	Restated 30 June 2018 $'000
Income tax expense		
Current tax	20,995	17,430
Deferred tax - origination and reversal of temporary differences	52,047	(3,191)
Aggregate income tax expense	73,042	14,239
Deferred tax included in income tax expense comprises:		
Increase/(decrease) in deferred tax liabilities (note 26)	52,047	(3,191)
Numerical reconciliation of income tax expense and tax at the statutory rate		
Profit before income tax expense	239,429	47,441
Tax at the statutory tax rate of 30%	71,829	14,232
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Non-taxable expenses	21	7
Non-deductible loss on disposals	505	-
Non-deductible revaluation	563	-
Prior year adjustment	124	-
Income tax expense	73,042	14,239

	30 June 2019 $'000	30 June 2018 $'000
Amounts charged directly to equity		
Deferred tax liabilities (note 26)	25,154	17,389

Note 10. Current assets - cash and cash equivalents

	30 June 2019 $'000	30 June 2018 $'000
Cash on hand	14	16
Cash at bank	14,015	12,368
NSW Treasury Corporation TCorpIM Cash Fund	40,918	25,131
	54,947	37,515

The NSW Treasury Corporation TCorpIM Cash Fund has been subject to floating interest rates between 2.23% and 2.34% (2018: 1.99% and 2.28%).

Note 11. Reconciliation of profit after income tax to net cash from operating activities

	30 June 2019 $'000	30 June 2018 $'000
Profit after income tax expense for the year	166,387	33,202
Adjustments for:		
Depreciation and amortisation	9,059	7,975
Impairment of non-current assets	1,666	-
Net (gain)/loss on disposal of property, plant and equipment	1,070	(706)
Net fair value (gain)/loss on biological assets	(177,338)	8,861
Other non-cash items	2,844	2,669
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	1,115	(1,849)
Decrease/(increase) in inventories	5	(457)
Increase/(decrease) in trade and other payables	3,750	(2,221)
Increase/(decrease) in provision for income tax	1,845	(1,599)
Increase/(decrease) in deferred tax liabilities	52,047	(3,191)
Decrease in other provisions	(357)	(1,668)
Net cash from operating activities	62,093	41,016

Note 12. Changes in liabilities arising from financing activities

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

Notes to the financial statements cont.

Note 13. Current assets - trade and other receivables

	30 June 2019 $'000	30 June 2018 $'000
Trade receivables	44,915	46,816
Less: Allowance for expected credit losses	-	(2)
	44,915	46,814
Other debtors	1,667	1,659
Prepayments	3,137	2,361
	49,719	50,834

Allowance for expected credit losses

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

	30 June 2019 $'000	30 June 2018 $'000
Over 3 months overdue	-	2

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

	30 June 2019 $'000	30 June 2018 $'000
Opening balance	2	31
Additional provisions recognised	-	2
Unused amounts reversed	(2)	(31)
Closing balance	-	2

Note 14. Current assets - inventories

	30 June 2019 $'000	30 June 2018 $'000
Work in progress and finished goods	3,494	3,499

Note 15. Current assets - biological assets

	30 June 2019 $'000	30 June 2018 $'000
Biological assets at fair value	76,858	72,001

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 [17] for reconciliation of movements in the current biological assets.

Refer to note [29] for further information on fair value measurement.

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

	30 June 2019 $'000	30 June 2018 $'000
Land	989,623	887,836
Buildings	21,702	23,916
Less: Accumulated depreciation	(10,647)	(10,634)
	11,055	13,282
Plant and equipment	26,813	23,986
Less: Accumulated depreciation	(4,672)	(9,193)
	22,141	14,793
Roads and bridges	168,392	141,904
Less: Accumulated depreciation	(90,459)	(70,420)
	77,933	71,484
Property work in progress - at cost	147	1,423
	1,100,899	988,818

Reconciliations

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

	Land $'000	Buildings $'000	Plant and equipment $'000	Roads and bridges $'000	Capital work in progress $'000	Total $'000
Balance at 1 July 2017	887,790	14,431	13,552	73,439	64	989,276
Additions	165	59	6,513	724	1,359	8,820
Disposals	(259)	-	(690)	-	-	(949)
Revaluation increments	65	-	-	-	-	65
Impairment of assets	-	(231)	-	(10)	-	(241)
Transfers from/(to) investment properties	75	(253)	-	-	-	(178)
Depreciation expense	-	(724)	(4,582)	(2,669)	-	(7,975)
Balance at 30 June 2018	887,836	13,282	14,793	71,484	1,423	988,818
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 of Assets to NSW State Agencies	(1,686)	-	-	-	-	(1,686)
Impairment of Assets	-	(695)	-	(1,396)	-	(2,091)
Transfers from/(to) 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

Refer to note 30 for further information on fair value measurement.

Notes to the financial statements cont.

Note 17. Non-current assets - biological assets

	30 June 2019 $'000	30 June 2018 $'000
Biological assets at fair value	1,094,129	911,491

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

	Biological assets $'000
Balance at 1 July 2017	992,353
Harvested timber recognised in profit or loss	(40,192)
Changes in fair value less estimated point of sale costs recognised in profit or loss due to: changes in volumes, prices and markets	31,331
Balance at 30 June 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 fair value less estimated point of sale costs recognised in profit or loss due to: changes in volumes, prices and markets	160,649
Balance at 30 June 2019	1,170,987

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 [29] for further information on fair value measurement and reconciliations of biological assets.

Note 18. Non-current assets - investment properties

	30 June 2019 $'000	30 June 2018 $'000
Investment properties	5,268	6,836
Reconciliation		
Reconciliation of the fair values at the beginning and end of the current and previous financial year are set out below:		
Opening fair value	6,836	6,658
Net transfers from property, plant and equipment	(243)	178
Disposals	(146)	-
Revaluation decrements recognised in profit or loss	(1,179)	-
Closing fair value	5,268	6,836

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 30 for further information on fair value measurement.

Lessor commitments

	30 June 2019 $'000	30 June 2018 $'000
Minimum lease commitments receivable but not recognised in the financial statements:		
Within one year	197	117
One to five years	690	394
More than five years	-	105
	887	616

Note 19. Current liabilities - trade and other payables

	30 June 2019 $'000	Restated 30 June 2018 $'000
Trade creditors	31,002	29,494
Other current liabilities	6,999	5,648
	38,001	35,142

Refer to note 29 for further information on financial instruments.

Note 20. Current liabilities - contract liabilities

	30 June 2019 $'000	Restated 30 June 2018 $'000
Contract liabilities	13,003	12,112
Reconciliation		
Reconciliation of the written down values at the beginning and end of the current and previous financial year are set out below:		
Opening balance	12,112	11,471
Contract liabilities incurred in the current period	12,667	8,667
Revenue recognised from performance obligation satisfied	(11,776)	(8,026)
Closing balance	13,003	12,112

Notes to the financial statements cont.

Note 21. Current liabilities - borrowings

	30 June 2019 $'000	30 June 2018 $'000
NSW Treasury Corporation loans	21,700	21,413

Refer to note 29 for further information on financial instruments.

Note 22. Current liabilities - dividend provided

	30 June 2019 $'000	30 June 2018 $'000
Dividend provided	32,592	25,051

Note 23. Current liabilities - provisions

	30 June 2019 $'000	30 June 2018 $'000
Employee benefits	27,926	26,835
Workers compensation	398	535
	28,324	27,370

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:

30 June 2019	Workers compensation $'000
Carrying amount at the start of the year	535
Additional provisions recognised	10
Amounts used	(147)
Carrying amount at the end of the year	398

Amounts not expected to be settled within the next 12 months

The current provision for employee benefits includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount is presented as current, since the Corporation does not have an unconditional right to defer settlement. However, based on past experience, the Corporation does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months. Employee benefits obligation expected to be settled within the next 12 month is $4,917,359 (2018: $4,891,000).

Note 24. Non-current liabilities - borrowings

	30 June 2019 $'000	30 June 2018 $'000
NSW Treasury Corporation loans	64,753	86,770

Refer to note 29 for further information on financial instruments.

Note 25. Non-current liabilities - provisions

	30 June 2019 $'000	30 June 2018 $'000
Employee benefits	620	530
Onerous contracts	1,640	2,097
Workers compensation	760	990
	3,020	3,617

Employee benefits

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

Onerous contracts

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

Workers compensation

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

Movements in provisions

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

30 June 2019	Onerous contracts $'000	Workers compensation $'000
Carrying amount at the start of the year	2,097	990
Reversal during the year	(457)	(230)
Carrying amount at the end of the year	1,640	760

Notes to the financial statements cont.

Note 26. Non-current liabilities - deferred tax

	30 June 2019 $'000	Restated 30 June 2018 $'000
Deferred tax liability comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Investment properties	(117)	-
Biological assets	338,052	284,851
Provisions	(14,857)	(14,160)
Others	(37)	35
	323,041	270,726
Amounts recognised in equity:		
Revaluation of property, plant and equipment	293,917	261,087
Retirement benefit obligations	(27,504)	(19,560)
	266,413	241,527
Deferred tax liability	589,454	512,253
Movements:		
Opening balance	512,253	498,277
Charged/(credited) to profit or loss (note 9)	52,047	(3,191)
Charged to equity (note 9)	25,154	17,389
Recognised directly in equity	-	(222)
Closing balance	589,454	512,253

Note 27. Equity - contributed equity

	30 June 2019 $'000	30 June 2018 $'000
Capital contribution	445,706	421,706

Ordinary shares

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

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

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

Capital contributions

Contributed equity represents the NSW Government's investment in the Corporation. The Government injected $24,000,000 in financial year 2019 for the Corporation to acquire land to expand its plantation estate.

Capital management policy

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

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

Note 28. Equity - reserves

	30 June 2019 $'000	30 June 2018 $'000
Asset revaluation reserve	666,596	591,089
Reserve for deferred tax assets	50,092	50,092
	716,688	641,181

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 29. Financial instruments

Financial risk management objectives

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

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

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

Market risk

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

Interest rate risk

Exposure to interest rate risk arises primarily through the Corporation's interest bearing liabilities. This risk is minimised by undertaking mainly fixed rate borrowings, primarily with The NSW Treasury Corporation (NSW TCorp.). The Corporation does not account for any fixed rate financial instruments at fair value through the Statement of Comprehensive Income or

Notes to the financial statements cont.

as available for sale. Therefore for these financial instruments, a change in interest rates would not affect the Statement of Comprehensive Income or equity. The agency exposure to interest rate risk is set out below.

The Corporation only holds units in the TCorpIM Funds trust. This trust only invests in Cash and money market instruments that have an investment horizon up to 3 years (2018: 3 years).

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

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

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

Interest rate sensitivity

The NSW TCorp. TCorpIM Cash Fund has been subject to floating interest rates between 2.23% and 2.34% (2018: 1.99% and 2.28%). An official increase/decrease in interest rate of 0.3% (2018: 0.3%) would have an adverse/favourable effect on profit after tax of $259,000 (2018: $227,000).

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 doubtful debts.

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.

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 78% of forests sales revenue for 2019 (2018: 74%). Additionally, these customers accounted for 75% of our accounts receivable as of 30 June 2019 (2018: 76%). The Corporation has various contractual measures as well as frequent credit control checks to ensure the credit risk exposure is managed.

Liquidity risk

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

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

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

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

Remaining contractual maturities

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

	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
30 June 2019						
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

	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
30 June 2018						
Non-derivatives						
Non-interest bearing						
Trade creditors	-	35,142	-	-	-	35,142
Interest-bearing - fixed rate						
NSW TCorp. loans	4.20%	26,128	24,905	60,846	8,294	120,173
Total non-derivatives		61,270	24,905	60,846	8,294	155,315

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

Notes to the financial statements cont.

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 $94,044,000 (2018: $112,733,000) 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 2019		30 June 2018	
	Carrying amount $'000	Fair value $'000	Carrying amount $'000	Fair value $'000
Liabilities				
Borrowings	86,453	94,044	108,183	112,733
	86,453	94,044	108,183	112,733

Note 30. 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

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
30 June 2019				
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

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

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

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

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

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

Land (includes Crown and freehold land), investment properties and plant and equipment (level 2)

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

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

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

Buildings, roads and bridges and other plant and equipment (level 3)

For the 2019 financial year, a fair value assessment was performed where depreciated replacement cost (DRC) is used for building, roads and bridges assets. Key inputs for DRC are:

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

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

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

Biological assets: current standing timber (level 3)

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

The key inputs used:

- Estimated three years average timber market prices per tonne or square metre.
- Estimated yield per hectare or estimated timber projections.
- Estimated three years average direct and indirect costs.
- Discount rate of 7.00%

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

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

Notes to the financial statements cont.

Level 3 assets and liabilities

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

	Buildings $'000	Plant and equipment $'000	Roads and bridges $'000	Total $'000
Balance at 1 July 2017	14,431	1,611	73,439	89,481
Additions	59	861	724	1,644
Disposals	-	(15)	-	(15)
Transfers to investment properties	(253)	-	-	(253)
Impairment of assets and reversal of impairment loss charged to profit or loss	(231)	-	(10)	(241)
Depreciation charged to profit or loss	(724)	(586)	(2,669)	(3,979)
Balance at 30 June 2018	13,282	1,871	71,484	86,637
Transfers into level 3	-	249	-	249
Revaluation gain/(loss) charged to profit or loss	(3,170)	-	2,254	(916)
Revaluation gain/(loss) charged to other comprehensive income	(117)		7,875	7,758
Transfers from investment properties	243	-	-	243
Impairment of assets charged to profit or loss	(695)	-	(1,396)	(2,091)
Depreciation charged to profit or loss	(703)	(609)	(2,708)	(4,020)
Transfer from work in progress	2,214	260	424	2,898
Balance at 30 June 2019	11,054	1,771	77,933	90,758

Movements in level 3 assets for Biological assets are provided in note [17].

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

Description	Unobservable inputs	Range (weighted average)	Sensitivity ($000)
2019			
a. Biological assets	(i) Discount rate	+1%	1% increase would decrease fair value by $114,232
		-1%	1% decrease would increase fair value by $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 increase/(decrease) the fair value by $98,914
	(iv) Expected future changes in volume	+/- 5%	5% change would increase/(decrease) the fair value by $82,649
2018			
a. Biological assets	(i) Discount rate%	+1%	1% increase would decrease fair value by $90,183
		-1%	1% decrease would increase fair value by $107,197
	(ii) Expected future sales values	+/- 5%	5% change would increase/(decrease) the fair value by $134,759
	(iii) Expected future costs	+/- 5%	5% change would increase/(decrease) the fair value by $85,584
	(iv) Expected future changes in volume	+/- 5%	5% change would increase/(decrease) the fair value by $70,396

Note 31. Key management personnel disclosures

Directors

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

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

Other key management personnel

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

Anshul Chaudhary	Chief Financial Officer
Dean Anderson	General Manager Hardwood Forests Division
Mike Beardsell	General Manager Softwood Plantations Division
Ross Dickson	Chief Forester and Company Secretary
Meredith Payne (appointed 14 January 2019)	General Manager Human Resources
Bernadette Cavanagh (resigned 7 September, 2018)	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 2019 $	30 June 2018 $
Short-term employee benefits	2,412,283	2,492,425
Post-employment benefits	149,272	150,768
Long-term benefits	102,285	81,743
	2,663,840	2,724,936

Note 32. 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 2019 $	30 June 2018 $
Audit services - The Audit Office of New South Wales		
Audit of the financial statements (excluding GST)	284,686	274,000

Notes to the financial statements cont.

Note 33. Commitments

	30 June 2019 $'000	30 June 2018 $'000
Lease commitments - operating		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	970	628
One to five years	2,711	1,706
More than five years	6,084	5,495
	9,765	7,829
Capital commitments		
Committed at the reporting date but not recognised as liabilities, payable:		
Property, plant and equipment	3,981	3,698
Biological assets	-	1,439
	3,981	5,137

Note 34. Contingent liabilities/assets

At 30 June 2019, 810,564 hectares (2018: 837,065 hectares) of operational timber reserves were subject to claims under the *Native Title Act*. The impact of these claims cannot be quantified at this time.

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

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

At 30 June 2019, the Corporation has no contingent assets.

Note 35. Events after the reporting period

On 29 August 2019, the NSW Government announced that it will undertake a scoping study to understand the viability of a long-term lease of the Corporation's softwood plantations business. The possible impact of such a lease transaction on the future financial statements is not known at this stage. No other matter or circumstance has arisen since 30 June 2019 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 36. Retirement benefit obligations

Statement of financial position amounts

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

	30 June 2019 $'000	30 June 2018 $'000
Present value of the defined benefit obligation	305,786	278,739
Fair value of defined benefit plan assets	(214,106)	(213,540)
Net liability in the statement of financial position	91,681	65,199

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

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

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

Notes to the financial statements cont.

Description of significant events

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

Reconciliation of the Net Defined Benefit Liability/(Asset)

Financial Year to 30 June	SASS		SANCS		SSS		Total	
	2019 $000	2018 $000	2019 $000	2018 $000	2019 $000	2018 $000	2019 $000	2018 $000
Net Defined Benefit Liability/(Asset) at start of year	3,277	11,918	(1,779)	(822)	63,702	109,066	65,200	120,162
Current service cost	766	930	233	259	89	179	1,088	1,368
Net Interest on the net defined benefit liability/(asset)	113	298	(76)	(23)	2,565	2,855	2,602	3,130
Actual return on Fund assets less Interest income	(2,559)	(3,574)	(291)	(434)	(5,646)	(8,042)	(8,496)	(12,050)
Actuarial (gains)/losses arising from changes in demographic assumptions	42	955	8	(111)	(26)	1,086	24	1,930
Actuarial (gains)/losses arising from changes in financial assumptions	6,315	(8,422)	418	(524)	27,148	(38,395)	33,882	(47,341)
Actuarial (gains)/losses arising from liability experience	297	2,223	131	98	(1,799)	(2,890)	(1,370)	(569)
Employer contributions	(949)	(1,052)	(199)	(222)	(100)	(157)	(1,249)	(1,431)
Net Defined Benefit Liability/(Asset) at end of year	7,302	3,276	(1,555)	(1,779)	85,933	63,702	91,681	65,199

Reconciliation of the Fair Value of Fund Assets

Financial Year to 30 June	SASS		SANCS		SSS		Total	
	2019 $000	2018 $000	2019 $000	2018 $000	2019 $000	2018 $000	2019 $000	2018 $000
Fair value of Fund assets at beginning of the year	64,947	62,350	7,770	7,547	140,823	139,232	213,540	209,129
Interest income	2,515	1,571	297	187	5,435	3,493	8,247	5,251
Actual return on Fund assets less Interest income	2,559	3,573	290	434	5,646	8,042	8,495	12,049
Employer contributions	950	1,052	199	222	100	157	1,249	1,431
Contributions by participants	508	532	-	-	62	113	570	645
Benefits paid	(6,884)	(4,237)	(1,113)	(553)	(11,331)	(11,626)	(19,328)	(16,416)
Taxes, premiums & expenses paid	126	106	(10)	(67)	1,217	1,412	1,333	1,451
Fair value of Fund assets at end of the year	64,721	64,947	7,433	7,770	141,952	140,823	214,106	213,540

Reconciliation of the Defined Benefit Obligation

Financial Year to 30 June	SASS		SANCS		SSS		Total	
	2019 $000	2018 $000	2019 $000	2018 $000	2019 $000	2018 $000	2019 $000	2018 $000
Present value of defined benefit obligations at beginning of the year	68,224	74,268	5,990	6,726	204,525	248,297	278,739	329,291
Current service cost	766	930	232	259	89	179	1,087	1,368
Interest cost	2,628	1,868	221	162	8,000	6,349	10,849	8,379
Contributions by participants	508	532	-	-	62	113	570	645
Actuarial (gains)/losses arising from changes in demographic assumptions	42	955	8	(111)	(26)	1,086	24	1,930
Actuarial (gains)/losses arising from changes in financial assumptions	6,315	(8,422)	418	(524)	27,148	(38,395)	33,881	(47,341)
Actuarial (gains)/losses arising from liability experience	297	2,223	131	98	(1,799)	(2,890)	(1,371)	(569)
Benefits paid	(6,883)	(4,237)	(1,113)	(553)	(11,331)	(11,626)	(19,327)	(16,416)
Taxes, premiums & expenses paid	126	107	(9)	(67)	1,217	1,412	1,334	1,452
Present value of defined benefit obligations at end of the year	72,023	68,224	5,878	5,990	227,885	204,525	305,786	278,739

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 2019				As at 30 June 2018			
	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	4,042,116	2,135,561	1,906,555	-	4,401,164	2,185,469	2,215,695	-
Australian Fixed Interest	2,294,672	4,993	2,289,679	-	2,234,921	41,854	2,193,068	-
International Fixed Interest	1,968,093	6,827	1,952,396	8,871	1,396,107	8,116	1,387,991	-
Australian Equities	8,368,928	7,818,302	547,571	3,055	9,271,405	8,719,442	548,908	3,055
International Equities	11,387,439	8,795,299	2,592,132	8	10,891,350	8,499,476	2,391,501	373
Property	3,588,230	698,607	717,079	2,172,544	3,711,287	788,018	608,934	2,314,335
Alternatives	10,558,181	327,329	5,758,095	4,472,758	9,894,828	420,898	5,332,818	4,141,113
Total	42,207,659	19,786,917	15,763,506	6,657,236	41,801,063	20,663,272	14,678,915	6,458,876

Notes to the financial statements cont.

Fund assets

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

As at 30 June	2019 %	2018 %
Short Term Securities	9.6%	10.5%
Australian Fixed Interest	5.4%	5.3%
International Fixed Interest	4.7%	3.3%
Australian Equities	19.8%	22.2%
International Equities	27.0%	26.1%
Property	8.5%	8.9%
Alternatives	25.0%	23.7%
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 2019 include $99.5 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 $316 million (30 June 2018: $280 million).
- Health Administration Corporation occupies part of a property 50% owned by the Pooled Fund with a fair value (100% interest) of $331 million (30 June 2018: $287 million).

Significant actuarial assumptions at the reporting date

As at 30 June	2019	2018
Discount rate	2.85%	4.03%
Salary increase rate (excluding promotional increases)	3.2% pa	2.7% pa for 2018/19; 3.2% pa thereafter.
Rate of CPI increase	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.	2.25% pa for 2018/19 and 2019/20; 2.5% 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 those to be used for the 2018 actuarial investigation of the Pooled Fund. These assumptions will be disclosed in the actuarial investigation report which will be available on the Trustee's website when the investigation is complete. The report will show the pension mortality rates for each age. Alternatively, the assumptions are available on request from the Trustee.

Sensitivity analysis

The entity's total defined benefit obligation as at 30 June 2019 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 2019.

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	2019			2018		
	Base Case	Scenario A	Scenario B	Base Case	Scenario A	Scenario B
		-1.0% discount rate	+1.0% discount rate		-1.0% discount rate	+1.0% discount rate
Discount rate	as above	as above -1.0% pa	as above +1.0% pa	as above	as above -1.0% pa	as above +1.0% pa
Rate of CPI increase	as above	as above	as above	as above	as above	as above
Salary inflation rate	as above	as above	as above	as above	as above	as above
Defined benefit obligation $'000	305,786	345,035	273,111	278,739	312,422	250,511

As at 30 June	2019			2018		
	Base Case	Scenario C	Scenario D	Base Case	Scenario C	Scenario D
		+0.5% rate of CPI increase	-0.5% rate of CPI increase		+0.5% rate of CPI increase	-0.5% rate of CPI increase
Discount rate	as above	as above	as above	as above	as above	as above
Rate of CPI increase	as above	above rates plus 0.5% pa	above rates less 0.5% pa	as above	above rates plus 0.5% pa	above rates less 0.5% pa
Salary inflation rate	as above	as above	as above	as above	as above	as above
Defined benefit obligation $'000	305,786	323,619	289,390	278,739	294,072	264,605

As at 30 June	2019			2018		
	Base Case	Scenario E	Scenario F	Base Case	Scenario E	Scenario F
		+0.5% salary increase rate	-0.5% salary increase rate		+0.5% salary increase rate	-0.5% salary increase rate
Discount rate	as above	as above	as above	as above	as above	as above
Rate of CPI increase	as above	as above	as above	as above	as above	as above
Salary inflation rate	as above	above rates plus 0.5% pa	above rates less 0.5% pa	as above	above rates plus 0.5% pa	above rates less 0.5% pa
Defined benefit obligation $'000	305,786	306,892	304,719	278,739	279,850	277,666

As at 30 June	2019			2018		
	Base Case	Scenario G	Scenario H	Base Case	Scenario G	Scenario H
		Lower mortality*	Higher mortality**		Lower mortality*	Higher mortality**
Defined benefit obligation $'000	305,786	309,810	302,562	278,739	281,756	276,204

*Assumes the short-term pensioner mortality improvement factors for years 2019-2023 also apply for years after 2023

**Assumes the long-term pensioner mortality improvement factors for years post 2023 also apply for years 2019 to 2023

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

Notes to the financial statements cont.

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 2019 financial position of the Fund calculated in accordance with AASB 1056 Accounting Standard "Superannuation Entities":

Financial Year to 30 June	SASS		SANCS		SSS		Total	
	2019 $000	2018 $000	2019 $000	2018 $000	2019 $000	2018 $000	2019 $000	2018 $000
Accrued benefits*	54,650	56,752	5,120	6,042	136,439	136,662	196,209	199,456
Net market value of Fund assets	(64,721)	(64,947)	(7,432)	(7,770)	(141,952)	(140,823)	(214,105)	(213,540)
Net (surplus)/deficit	(10,071)	(8,195)	(2,312)	(1,728)	(5,513)	(4,161)	(17,896)	(14,084)

* 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	
	2019	2018	2019	2018	2019	2018
Multiple of member contributions	1.9	1.9	-	-	1.6	1.6
% member salary	-	-	2.50%	2.50%	-	-

Economic assumptions

The economic assumptions adopted for 30 June 2019 AASB 1056 Accounting Standard "Superannuation Entities":

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

Expected contributions

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
Expected employer contributions for the following year	874	965	178	200	78	99	1,130	1,264

Maturity profile of defined benefit obligation

The weighted average duration of the defined benefit obligation is 10.9 years.

Profit and Loss Impact

For the year ended 30 June	SASS		SANCS		SSS		Total	
	2019 $000	2018 $000	2019 $000	2018 $000	2019 $000	2018 $000	2019 $000	2018 $000
Current service cost	766	930	233	259	90	179	1,089	1,368
Net interest	113	299	(76)	(24)	2,565	2,855	2,602	3,130
Profit or loss component of the Defined Benefit Cost	879	1,229	157	235	2,655	3,034	3,691	4,498

Other Comprehensive Income

For the year ended 30 June	SASS		SANCS		SSS		Total	
	2019 $000	2018 $000	2019 $000	2018 $000	2019 $000	2018 $000	2019 $000	2018 $000
Actuarial (gains) losses on liabilities	6,655	(5,244)	557	(537)	25,323	(40,199)	32,536	(45,980)
Actual return on Fund assets less Interest income	(2,559)	(3,574)	(290)	(434)	(5,646)	(8,042)	(8,496)	(12,050)
Total remeasurement in Other Comprehensive Income	4,096	(8,818)	(267)	(971)	19,677	(48,241)	(24,040)	(58,030)

End of the audited financial statements.

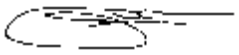
Directors' declaration

30 June 2019

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 2019 and of its performance for the financial year ended on that date; and
- There are reasonable grounds to believe that the Corporation will be able to pay its debts as and when they become due and payable.

On behalf of the Directors



James M. Millar AM
Chairman

Nick Roberts
Chief Executive Officer

10 September 2019

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 2019, the Statement of Financial Position as at 30 June 2019, the Statement of Changes in Equity and the Statement of Cash Flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information.

In my opinion, the financial statements:

- give a true and fair view of the financial position of the Corporation as at 30 June 2019, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (PF&A Act) and the Public Finance and Audit Regulation 2015.

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

Basis for Opinion

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

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

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

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

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

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

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

Other information

The Corporation's annual report for the year ended 30 June 2019 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:

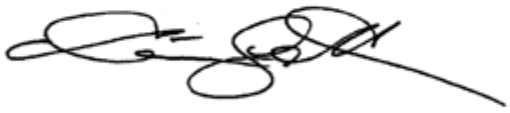
- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

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: www.auasb.gov.au/auditors_responsibilities/ar4.pdf. The description forms part of my auditor's report.

My opinion does not provide assurance:

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



Alison Gatt
Assistant Auditor-General

Delegate of the Auditor-General for New South Wales

Statutory information

Consultants

More than $50,000 (per engagement)

Vendor and subject area	Amount $
CBRE Valuations Pty Ltd - Valuation services	133,550
Scotwork Negotiating Skills - Training	63,891
Telstra Corporation Limited - Operational Management	54,600

$50,000 or less (per engagement)

Forestry Corporation employed 51 consultants for engagements costing less than $50,000, at a total cost of $465,821.

Cost of Annual Report

The total external costs incurred in the production of the Forestry Corporation Annual Report for FY19 were $4749.03 excluding GST. The Annual Report is available at www.forestrycorporation.com.au.

Finance information

Debt management

At 30 June 2019, Forestry Corporation's total borrowings were $86 million (2018: $108 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
Market valuation 30 June 2019*	$94 million
Generalised cost of funds	4.11%

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

At 30 June 2019, Forestry Corporation's debt was subject to interest charges at fixed rates from TCorp.

Investment management performance

As at 30 June 2019, Forestry Corporation's financial investments totalled $40.9 million (FY18: $25.1 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 $866,737 (FY18: $465,418) at a yearly rate of 2.34 per cent (FY18: 1.99 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 this review is currently in progress.

Budget and forward outlook

Detailed budgets are published annually in the Statement of Corporate Intent agreed with shareholders. An outline budget for FY20 is provided below:

	Financial year to 30 June 2020 budget	
	Measure	Target
Revenue	$m	428.3
EBITDA	$m	78.7
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 equity	%	5.1

Government Information Public Access

There were 15 valid Government Information Public Access (GIPA) applications received between 1 July 2018 and 30 June 2019. Two applications were received prior to 30 June 2018 but decisions were made after 30 June 2018 and are included in this report. The decision on three applications were pending as at 30 June 2019 and will be included in next year's report. 14 applications were decided during FY19. Internal and external reviews were also undertaken as appropriate.

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

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

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

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

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

Human Resources

During FY19, Forestry Corporation employed 532 full-time equivalent (FTE) staff. Of the 532 FTE staff, 315 were primarily involved in management, administration and technical roles, whilst 217 staff were engaged in field contractor management, road construction and maintenance, tree planting and pruning, nursery work, forest conservation and fire protection.

The majority of Forestry Corporation staff are employed under an Enterprise Agreement with senior staff employed under common law contracts, which identify their terms and conditions of employment as well as movements in wages, salaries and allowances. Forestry Corporation has a number of policies in place relating to the management of personnel and industrial relations. The Code of Conduct, which is the guiding framework for staff, is published online.

Employee numbers – trend (full-time equivalent)

Year end 30 June	Office-based	Field-based	Total
2015	315	267	582
2016	307	237	544
2017	305	234	539
2018	308	212	520
2019*	315	217	532

**at 1 August 2019*

Diversity

Forestry Corporation is committed to building an inclusive environment that embraces a diverse range of skills, backgrounds and experiences. Forestry Corporation aims to increase diversity in all aspects of the workplace, including multiculturalism, age and ability, but the primary focus in recent years has been on increasing gender diversity. Diversity and inclusion efforts have resulted in a 1.4 per cent increase in females across the workforce in the past 12 months, driven by initiatives such as gender balanced selection panels, the promotion of family-friendly workplaces and a zero-tolerance workplace bullying program.

Leadership programs have also been designed to lift capability, develop female leadership networks and increase visibility of future female leaders. Female participation at the Leadership Excellence at Forestry Corporation (LEAF) programs was 14 per cent higher than the overall Forestry Corporation female representation.

Over the next 12 months efforts to increase the proportion of females in leadership positions will continue and initiatives to support mature workers' transition to retirement will be developed.

Key diversity trends

Trends in the representation of Equal Employment Opportunity groups

Equal Employment Opportunity (EEO) group Financial year to 30 June	Benchmark or target	2016	2017	2018	2019
Women	50%	18.1%	18.7%	19.6%	21%
Aboriginal and Torres Strait Islander peoples	2.6%	4%	3.8%	4.1%	4.2%
People whose first language is not English	19%	6%	5.2%	5.5%	6.4%
People with a disability	N/A	4.8%	5%	7.1%	12.7%
People with a disability requiring work-related adjustment	1.5%	1%	1%	0.8%	0.6%

Gender distribution of senior executives

Band	Gender			
	Female		Male	
	FY18	FY19	FY18	FY19
Band 4 or above	–	–	1	1
Band 3	–	–	–	1
Band 2	–	–	3	3
Band 1	1	1	1	–

Average remuneration of senior executives

Band	FY18 $	FY19 $
Band 4 or above	582,799	577,826
Band 3	–	350,995*
Band 2	230,320*	302,210
Band 1	265,040	198,785*

** Partial year figure.*

Approximately three per cent (FY18: 3%) of total employee-related expenditure during the reporting year related to senior executives.

Work health and safety

The health, safety and wellbeing of staff, contractors, visitors and others on Forestry Corporation worksites is a priority. Forestry Corporation has a detailed safety management system supported by standard operating procedures and underpinned by a range of regularly reviewed policies and procedures and staff training to promote health, safety and wellbeing in all of our workplaces.

The total recordable injury frequency rate for FY19 was 13.6 per million hours worked (FY18:19), which was short of the target of 12.3. The health, safety and wellbeing strategy delivered during FY19 focuses on the four pillars of critical risk, contractor management, leadership and performance and health and wellbeing. This aims to improve health, safety and wellbeing performance across the business by deepening and maturing the safety culture and continuing implementation of targeted initiatives right across the organisation.

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 FY19 via the intranet. No PIDs were received during FY19.

Legislation and legal issues

There have been no significant changes to the legislation relevant to the Forestry Corporation's core activities passed during FY19. Forestry Corporation was not subject to any court prosecutions during this financial year.

Overseas visits

- September 2018: Acting Softwood Sales and Procurement Manager, Peter Stiles, and Sales and Procurement Coordinator, Nick Firth, travelled to China to attend the Global Wood Trade Conference. The conference focused on Chinese market dynamics and meetings were held with key customers. Tours of logistics parks, sawmills and processing plants were also held in conjunction with the conference.
- November 2018: Aboriginal Partnerships Liaison, Sharon Hodgetts, travelled to New Zealand to attend the joint New Zealand and Australian Archaeological Conference. The conference and associated workshops covered best practice and new developments in archaeology, including Indigenous archaeology.
- December 2018: General Manager, Hardwood Forests Division, Dean Anderson, travelled to Japan as part of an industry visit coordinated by the Australian Forest Products Association relating to the certification scheme applied to NSW State forests. Mr Anderson also met with forestry contacts.
- March 2019: Senior Manager Western (Hardwoods) Andrew O'Brien, Harvesting and Roading Manager (Softwoods), Daniel Kirby, Harvesting and Roading Manager (Softwoods) Louise Bourke and Grafton District Manager (Softwoods) Peter Walters travelled to New Zealand to attend the Forest Industry Safety Conference. Visits were also arranged to Timberlands in Rotorua and to view operations at the Port of Tauranga.
- March 2019: Grafton Nursery Manager, Kathryn French, and Plantation Improvement Coordinator, Phil Green travelled to New Zealand for the Australian Forest Nurseries Association Annual General Meeting and a tour of four major nurseries. This provided an opportunity to network with other nursery industry peers and exchange knowledge and experience particularly around innovation and latest technologies.
- April 2019: Applied Research Analyst, Tree Improvement, Rochelle Kenna, travelled to New Zealand to attend the Radiata Pine Breeding Company (RPBC) Technical Committee Meeting.
- April 2019: Manager, Forest Information and Planning, Mike Sutton, travelled to New Zealand to present at the Mobile TECH conference and to meet with Timberlands to inspect mechanised planting.
- May 2019: Softwood Sales and Procurement Manager, Peter Stiles, and District Manager Bombala, Bruce Chadderton, travelled to Canada to attend the FEA/Wood Markets Global Softwood Log and Lumber Conference and meet with Forest Safety Council and contractors. The conference provides insights into current and future global markets and innovations.
- June 2019: Softwoods Sales and Procurement Co-ordinator, Jack Cotterill, Harvest Coordinator—Bathurst, Euan Scott and Forest Operations Supervisor—Walcha, Colin Williamson, travelled to New Zealand to attend the Harvest Tech 19 Conference, which provided exposure to industry best practice in specialised areas of harvesting.

- Company Secretary, Dr Ross Dickson, travelled to New Zealand on six occasions (July, August, October and November 2018 and February and May 2019) to attend meetings of the RPBC. Dr Dickson was re-appointed as Chair of the RPBC requiring him to travel to New Zealand to chair meetings and attend technical meetings. Forestry Corporation is a major shareholder of the company.
- In August 2018, following a request from the United States for assistance with a fire emergency, two Forestry Corporation staff members were deployed to the United States as part of an Australian contingent organised by the National Resource Sharing Centre administered by AFAC, the Australian and New Zealand National Council for fire, emergency services and land management.

Research and development

The Forest Science Unit within the NSW Department of Primary Industries – Forestry provided technical advice, and research and development services to Forestry Corporation under a Service Level Agreement (SLA). Forestry Corporation invested $1.8 million in research and development under this SLA during FY19. The Forest Science Unit has scientific and technical expertise in forest ecology and sustainability, forest health and biosecurity, forest resource assessment and spatial modelling, carbon in forests, wood products and bioenergy, and biometric and cost-benefit analytical services. DPI Forest Science also represented forestry on the NSW Scientific Committee, provided secretarial services for Forestry Corporation's Animal Care and Ethics Committee and assisted in the compilation of scientific papers and reports that have been produced by Forestry Corporation.

Forest ecology

- Published passive acoustic and sound recognition results for monitoring koalas in native forests with a history of timber harvesting.
- Published results demonstrating an overall positive increase in biodiversity in Cypress stands that had been thinned, although responses of specific taxa was variable.
- Analysed five years of bat data collected for the Pilliga Biodiversity Monitoring Program.
- Tracked individual koalas using GPS collars to monitor their movements in several compartments with differing harvesting histories.
- Advanced habitat modelling of several threatened frog species, i.e. for *Assa darlingtoni* (Pouched Frog); *Philoria loveridgei* (Loveridge's Frog); *Philoria pughi* (Pugh's Sphagnum Frog); *Philoria spagnicola* (Sphagnum Frog).
- Provided results and advice to the NSW Natural Resources Commission in relation to the Integrated Forestry Operations Approval (IFOA) monitoring program.

Forest health and biosecurity

- Completed the annual aerial and ground surveys of the softwood and eucalypt plantation estate for detection of pests and diseases.
- Continued a series of studies examining mycorrhizae in pine nurseries and plantations.
- Advised on and supported the Sirex Wood Wasp management program, including training for Forestry Corporation staff.
- Produced a new forest health Field Guide, with a process for staff to capture forest health issues using the Forestry Corporation MapApp.
- Continued trials evaluating the use of airborne photogrammetry for detecting forest health issues, specifically Sirex Wood Wasp.
- Advised on the impact and salvage of plantation pine trees near Grafton killed by drought and attack by *Ips grandicollis* and *Xyleborus ferrugineus* beetles.
- Provided advice on the national transition to management phase for the exotic pest of pines – giant pine scale (*Marchalina hellenica*).
- Contributed to the drafting of the Myrtle Rust in Australia – Action Plan.
- Provided advice on biosecurity procedures to reduce the potential spread of Phytophthora from old Bondo nursery site near Tumut.
- Commenced biosecurity surveillance around Port Botany and Port Kembla as part of a national high risk site surveillance pilot study.

Forest resource assessment and remote sensing

- Conducted a literature review of the growth, habitat and volume differences between *P. radiata* seedlings.
- Developed overbark and underbark stem profiles for individual pine trees to improve taper and bark thickness models.
- Published a model developed for predicting total tree height using harvester data.
- Published yield estimates derived from LiDAR and aerial photogrammetric point-cloud data with cut-to-length harvester data in a *P. radiata* plantation.
- Remeasured and analysed data from Eden regrowth thinning experiment.
- Produced a preliminary report on the use of acoustic and IML-RESI drilling resistance measurements on standing trees and logs to predict structural grade outturn of slash and hybrid pines.
- Contributed to a project optimising remotely acquired, dense point cloud data for plantation inventory.
- Contributed to a project enhancing forest inventory practice using immersive visualisation and measurement of dense point cloud data.

Forest carbon

- Completed a Forest and Wood Products Australia funded project developing forestry methodologies for the Emissions Reduction Fund.
- Completed a biomass residue study based in native forests on NSW north coast.
- Completed field work in Burrawan State Forest as part of the national Mechanical Fuel Load Reduction trials.
- Commenced the Biomass for Bioenergy project funded by the NSW Climate Change Fund.

Responding to community concerns

Forestry Corporation's stakeholder engagement policy can be viewed on our website, outlining our commitment to facilitating opportunities for engagement with stakeholders. Stakeholder engagement was undertaken in FY19 as part of routine operational planning across all aspects of the business. A complaints procedure is also available on the website.

During FY19 Forestry Corporation invited and considered public submissions on the Forest Management Plans for Western Region and Cumberland State Forest. Summaries of the feedback received were made available on the website.

Broader stakeholder engagement on the renewal of the Regional Forest Agreements and the remake of the coastal IFOA was undertaken by the NSW Government during FY19.

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

Risk management, internal audit and insurance

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).

An internal audit plan, linked to Forestry Corporation's risks, is built by the Audit and Risk Manager. 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.

Six internal audits were initiated during the year, including hazard reduction burning, employee expense management, environmental management, fleet management, and Forestry Corporation's implementation of Chain of Responsibility legislation. Two other planned audits, covering implementation of after-action reviews for firefighting and fraud, were deferred to the first quarter of FY20 due to other initiatives being implemented in the affected areas.

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 the 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

Forestry Corporation is making progress in its pursuit of no safety incidents. 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.

In FY19, further work was carried out to implement the new safety strategy. This included projects focusing on critical risks, contractor management, health and wellbeing and safety leadership and performance.

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

Serious bushfires

Bushfires remain a serious risk to health and safety, business assets and the environment. 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. In FY19, a major program was carried out to replace the light tanker fleet and some earthmoving machinery. This equipment supplements heavy fleet and works in conjunction with contract aircraft.

Minimising fuel loads occurs outside the fire season, through the implementation of a hazard reduction burning program. This can be supplemented by grazing. In addition, an extensive network of roads and fire trails is maintained.

During FY19, a successful trial was undertaken of the use of drones assisting with hazard reduction burning. The use of drones in fire detection and firefighting is a feature of Forestry Corporation's fire mitigation strategies.

Pests and diseases

Incursion of pests and diseases can pose a significant risk to the health and productivity of forests. Forestry Corporation completes systematic surveys of the forest estate, 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

Severe storms and floods can damage trees, particularly young plantations. Windthrow is the bending, breaking or uprooting of trees due to wind damage. Thinning programs are designed to reduce susceptibility to windthrow damage. Capacity for quick action to salvage damaged plantations is a key element of Forestry Corporation's response to this unpredictable risk. Another concern for Forestry Corporation is the damage caused to roads, bridges and other infrastructure either in the forest, or in areas that may hinder moving products from forest to customer. A quick response capability is fundamental to meet both environmental and business imperatives.

Meeting supply commitments

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

Considerable science, technology and expertise are behind the development of operational plans, including those required for harvesting. Despite some weather-related interruptions, supply commitments were met for the year.

Significant downturn in timber demand

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

Cyber security

Security of information systems is an ever-increasing concern and Forestry Corporation is vigilant in keeping all the various information systems used in the business as safe as possible. 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. As part of the review of privacy and information security arrangements, the security settings of Forestry Corporation's systems were assessed by Ernst & Young against the Australian Signal Directorate's 'Essential Eight' mitigation strategies. New technologies and software solutions are being explored.

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 and Officers, Personal Accident (volunteers), Travel (domestic and abroad), Property and Motor vehicle.

As at 30 June 2019, 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 management of workers' compensation claims incurred whilst licensed as a self-insurer.

Digital information security attestation

Forestry Corporation had an Information Security Management System in place during FY19 consistent with the core requirements set out in the Digital Information Security Policy for the NSW Public Sector.

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

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

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

Exemptions from reporting provisions

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

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

Places of business

Forestry Corporation Head Office

121–131 Oratava Ave
West Pennant Hills
Post: PO Box 100
Beecroft 2119
Phone: 9872 0111

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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