Annual Report
2013 – 14

Letter of compliance

31 October 2014

The Hon. Andrew Constance, MP
Treasurer
Parliament House
Macquarie Street
Sydney NSW 2000

The Hon. Dominic Perrottet, MP
Minister for Finance and Services
Parliament House
Macquarie Street
Sydney NSW 2000

Dear Treasurer and Minister

We are pleased to submit the Annual Report for the Forestry Corporation of NSW for the year ending 30 June 2014 for tabling in Parliament.

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

The report has been prepared in accordance with the *Annual Reports (Statutory Bodies) Act 1984*, the applicable provisions of the *Public Finance and Audit Act 1983*, the *State Owned Corporations Act 1989* and the *Forestry Act 2012.*

Once the report has been tabled in Parliament, it will be available on our website www.forestrycorporation.com.au

Yours sincerely

James M. Millar AM
Chairman

Nick Roberts
Chief Executive Officer

Contents

Chairman and CEO report

Improved earnings and sustainability

The financial year ended 30 June 2014 (FY14) has been one of business transformation and improved financial performance for Forestry Corporation of NSW, Australia's largest manager of native and plantation forests, with two million hectares under management.

The corporation has embarked upon a five-year transformation journey and its performance in FY14 demonstrates how it has begun to realise the early gains from this process.

Forestry Corporation is an important component of the state's billion-dollar timber industry, operating a safe and sustainable hardwood and softwood forestry business on behalf of the people of NSW. It is also responsible for the protection of forest values, including biodiversity, clean air and water, and public access for recreation.

Its first full year as a State Owned Corporation has seen the corporation become a business-focused enterprise, which has resulted in a much-improved financial performance in terms of revenue, margins and earnings. At the same time, our environmental stewardship initiatives and provision of public access, amenity and recreational opportunity have been enhanced.

Forestry Corporation is now well positioned to capture new opportunities from further improvement in housing construction activity in Australia and increasing export demand for softwood for construction in China, as well as tapping into new international markets for hardwoods.

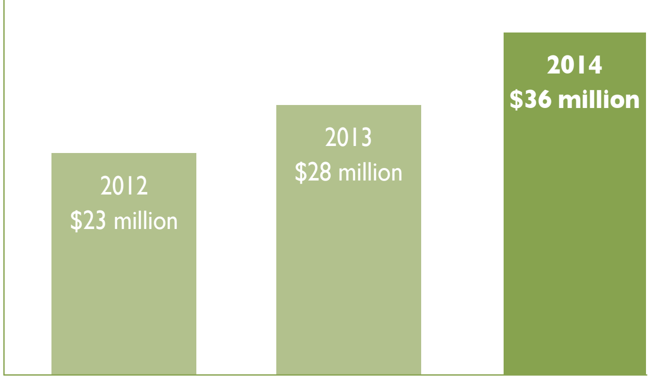
Restructure lifts financial and operating performance

During the year, the corporation's major achievement has been the successful restructure of the business and the implementation of a comprehensive strategic plan. This has enabled the management team to achieve its key goals ahead of schedule.

We are pleased to report this effort is reflected in financial results significantly above expectations, as outlined in the Statement of Corporate Intent (SCI) for FY14. Key results are as follows:

- Earnings before interest and tax (EBIT) of $36 million excluding exceptional items are up $8 million on FY13 and are $14 million better than the SCI target for 2014, with:
  - an EBIT margin of 11 per cent (the highest in three years)
  - a 28 per cent increase in earnings before interest, overheads and taxes from the Softwood Plantations Division to $64 million
  - reversal of losses in the Hardwood Forests Division to generate a small profit before interest, overheads and taxes compared to a $4 million loss in FY13.
- The projected dividend to the NSW Government doubled to $9.7 million.
- We achieved strong cash flows and retired $24 million of long-term debt.
- We returned approximately $45 million in cash to the NSW Government, comprising interest payments, taxes (and equivalents), dividends and repayment of debt.
- Return on equity improved to 3 per cent (100 basis points above the SCI target).

EBIT[1]



We benefited from improved market conditions, which contributed to better revenues after the difficult trading conditions of the previous few years. The improvement in financial results also stemmed from some difficult but important decisions taken to ensure the corporation's long-term viability.

While restructures in parts of the business have unfortunately resulted in reductions in employee numbers, the corporation is now more efficient and will be better placed to meet and improve upon our economic, environmental and social goals and obligations into the future.

The long-term viability of the business is essential for the broader NSW timber industry and the many thousands of regional jobs that rely upon it, and this is linked to the sustainability of the forests we manage.

In this context, the successful negotiation of a timber buy-back agreement on the NSW north coast is a notable achievement. The reacquired timber will not be reallocated. This will reduce timber harvesting to a level that can be maintained over the long term and help ensure all our customers continue to receive the timber products they require to sustain their businesses.

The agreement, which included the payment of $8.55 million to Boral in lieu of its foregone timber entitlements, was based on the recommendations of the independently chaired Project 2023 Steering Committee established by the NSW Government to review the north coast timber supply.

In consultation with the Environment Protection Authority, the Department of Primary Industries (Fisheries) and the community, work also started on the development of a more contemporary regulatory regime for timber harvesting in coastal native forests. The objective is to replace highly prescriptive regulations that impose more than 2000 conditions with a regulatory framework focused on environmental effects and outcomes. Work will continue on developing this over the coming year.

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

Safety and sustainability

Maintaining a safe and sustainable work environment is a core value of the Forestry Corporation. Although statistical safety results improved for the year, one of our colleagues, John Creighton, was tragically killed after being hit by a falling tree limb during an operation on the north coast. We will be making even greater efforts to ensure the people working for us can do so safely, with our ultimate target a recordable incident rate of less than one. We have begun proactively reviewing our safety management system and have reinvigorated a partnership with WorkCover NSW to address key workplace health and safety issues in the forestry industry.

The Total Recordable Incident Frequency rate for the year was 3.8, compared with 6.1 at 30 June 2013.

The timber the corporation produces is certified sustainable and, following independent auditing, we have again retained certification to the Australian Forestry Standard. Our sustainability framework maintains a strong focus on environmental performance, and a snapshot of the corporation's performance will be available on our website.

Funding for public amenity

During FY14, Community Service Obligation (CSO) funding from the NSW Government increased by $5.2 million, the first increase since 2000. The previous funding was well short of the cost of providing services to the community, including access and recreational opportunities in State forests. The increased funding received this year brings the corporation's total CSO funding to approximately $15 million a year.

A business built on people

The progress made in 2014 would not have been possible without the commitment of our staff to ensuring the corporation remains a sustainable timber business and a world-class forest manager, providing acceptable returns to its owners, the people of NSW. We are grateful for their efforts, and they will continue to underpin our corporate journey.

Positive outlook

With the domestic housing construction industry recovering from its recent downturn, there is now greater demand for timber products.

The market outlook is positive for the immediate future. Over the past year Forestry Corporation has also begun investigating potential entry into new international markets, including China, to further diversify its customer base. If successful, this will improve the corporation's resilience to domestic market fluctuations and help maximise the viability of the State's timber resources.

The corporation is well positioned to build on this year's success and continue moving towards its vision to be Australasia's leading forestry business.

James M. Millar AM
Chairman

Nick Roberts
Chief Executive Officer

Softwood Plantations Division

Earnings increase by 28 per cent

The restructure following corporatisation has brought greater accountability and focus to the Softwood Plantations Division (SPD), which this year recorded a 28 per cent increase in earnings before interest, overheads and tax, to $64 million.

In FY14, the SPD recorded revenue of $221 million (up $17 million over FY13). This result reinforces the corporation's leading market position in the softwoods industry. Revenues have been driven by an improvement in domestic housing starts, a reduction in the value of the Australian dollar and the continued high level of construction activity in China which together led to a significant lift in demand for logs during FY14 and a corresponding increase in price. Margins have increased as costs have reduced.

Strong export market conditions drove additional volumes through Eden from the Bombala region, which also benefited as the region's new sawmill moved into full production. In addition, a strategic move was made into containerised log export from Walcha through Botany Bay to supply the Chinese log market.

High-quality seedlings

The SPD continues to lead in the quality of seedlings grown in the corporation's production nurseries at Blowering and Grafton, and dispatched 7.95 million seedlings. When combined with seedlings sourced from interstate, this resulted in a total of 9.7 million seedlings planted in FY14, exceeding the target for the year. This underpins the sustainability of future log supply and is fundamental to the four-year land bank reduction program that commenced during the year to reduce the period land is left fallow after a plantation is harvested.

The division expects to maintain an increased rate of planting and to reach its land bank reduction targets by the end of FY17.

While this will increase the total expenditure on re-establishment operations over the short term, maximising the land stocked with trees will result in a more valuable plantation asset and assure ongoing profitability.

During the year, seedling survival has been good despite protracted hot and dry conditions, and the Blowering nursery continues to improve the quality of seedlings produced.

Proactive risk management

The impact of an unusually difficult fire season was mitigated by divisional preparation and foresight. As a result, significant damage was contained to approximately one per cent of the softwood portfolio or 2600 hectares of out of a total 234 000 hectares of State-owned and joint-venture softwood plantations. Salvage operations will recover a large proportion of the burnt timber from older age classes. However, some younger trees were not salvageable and the affected areas will be replanted.

Improved safety record

Improving safety has been a primary focus and we are pleased the division successfully reduced recordable incidents and lost time through injury this year. The total recordable injury frequency rate was 4.0, compared with 7.9 at 30 June 2013. Nevertheless, the division continues to work towards its ultimate target of a recordable incident frequency rate of less than one and will continue to prioritise this goal in the coming year.

Efficiencies and long-term viability

The restructure of staff roles during the year is increasing efficiency, reducing duplication and establishing clearer reporting lines. The new structure places the corporation on a more sustainable long-term foundation. Our staff members now have clear responsibilities, which allows them to sharpen their focus on delivering the corporation's strategic goals.

The restructure will also mitigate the revenue impacts of some reduction in the availability of mature timber around the Tumut area over the next 10 years. This follows damaging fires in 2006, and increased haulage costs due to the longer distances travelled to transport timber from outlying maturing forests.

Importantly, progress has also been made on ongoing software development to translate long-term and tactical plans into operational plans and optimise production from harvesting operations.

Looking forward, the corporation is advancing an important project to define plantation boundaries and obtain limited or full title to the land underlying the plantations. This project will continue in the coming year and will provide clear boundaries between the corporation's estate and its neighbours.

The corporation expects recreational use of forests in the Sydney rim will continue to increase and is well prepared to ensure an appropriate balance between recreational use and the safe and efficient operation of its commercial plantations.

Softwood outlook

With business process improvements complete and work under way to develop supply chain capability to increase export volumes, the SPD is in a strong position to continue building on its successes into FY15 and achieve sustainable performance in the future.

Hardwood Forests Division

Positive earnings and sustainability

This year represented a major turning point for the Hardwood Forests Division (HFD). Performance against annual delivery plans and budgets exceeded targets agreed with customers, resulting in one of the division's most productive years.

After recording losses in recent years, during FY14 the division has dramatically improved its financial position and is now on track to return a profit in FY15.

The $4 million turnaround in divisional earnings produced a positive underlying result of $400 000 before interest, overheads and taxes. During the year, the HFD underwent a significant restructure of the entire division. The outcome is reflected in the earnings turnaround driven by increased efficiency and reduced costs, and improved accountability leading to increased production and stakeholder value.

While the new structure resulted in a reduction in the number of permanent roles, it will ensure the division continues to provide the community with economic returns as well as environmental and recreational benefits. The restructure is expected to reduce ongoing costs by around $5 million a year.

A sustainable future for north coast forestry

The corporation invested $8.55 million to reacquire 50 000 cubic metres of pre-allocated hardwood per year from Boral over the next nine and a half years.

The buy-back is for species-specific timber allocations on the north coast and will deliver increased marketing flexibility and have a positive impact on the long-term viability of local industry in the region.

Capitalising on new opportunities for export

Major price review negotiations were completed for high-quality log products, and the division commenced its first ongoing export of low-quality hardwood logs not wanted by domestic processors. A number of other log export trials are also underway.

Safety

All employees of the corporation were deeply saddened by the passing of one of our colleagues, who was tragically killed by a falling tree limb early in the year. The division has begun a comprehensive review of all safety standards as part of a corporation-wide overhaul of the safety management system and is closely engaged with WorkCover NSW to address key workplace health and safety issues that affect the forest industry. Despite improvements in incident rates, the safety record was disappointing and the division has stepped up efforts to achieve the required improvements.

Environment

The division continues to participate in a whole-of-government process to improve the clarity and enforceability of environmental regulation by reviewing the coastal Integrated Forestry Operations Approvals (IFOAs). The process aims to recognise innovations in best regulatory practice, incorporate advances in technology and deliver a contemporary regulatory framework that is fit for purpose.

The expected outcome is reduced compliance costs while maintaining the level of environmental protection and ensuring the regulation of operations is both meaningful and enforceable.

Related community consultation commenced in the second half of the year and will continue in FY15.

The corporation is tracking ahead of its five-year State target for hazard reduction burning following effective hazard reduction over the past two years. The division has continued to invest in fire preparedness, with staff completing fitness testing, scenario-based training, tanker operator training and division commander training. A review of fire capability confirmed the division is continuing to meet its first response capacity.

Hardwoods outlook

The various cost containment and profit improvement initiatives are contributing to improved financial performance of the HFD and paving the way for a sustainable and profitable HFD in the future.

Financial performance

Outperformance on key financial metrics

The transformation in the Forestry Corporation's business processes maximised its ability to increase sales in the domestic market and maintain a strong export component, while improving margins and driving efficiencies.

This resulted in an improved financial performance in FY14 that exceeded the objectives and expectations outlined in Forestry Corporation's SCI, its performance agreement with the NSW Government.

In FY14, total revenue increased 4.5 per cent to $324 million. This was $27 million above the SCI target. The revenue growth was predominantly due to an improvement in the domestic housing market and the easing of the Australian dollar. Additionally, cost-reduction initiatives reduced operating expenditure and lifted underlying profitability.

The corporation delivered a profit of $36 million, measured in terms of EBIT and normalised for exceptional items. This was $8 million higher than last financial year and $14 million above projections, lifting EBIT margins to a three-year high of 11 per cent.

Major items recorded in EBIT included a $5.2 million increase in CSO income, a one-off payment of $8.55 million to buy back timber allocations on the north coast, and costs relating to restructuring staff roles.

Stakeholders benefit from strong cash flow

A significant increase in profitability lifted net cash flow and allowed the corporation to repay $24 million of long-term debt. The corporation generated $31 million from operating activities and $6 million from the sale of surplus assets during FY14. A $9 million dividend declared in the previous year was also paid. Taking into account taxes and equivalents, interest, dividend payments and the repayment of borrowings, the corporation returned almost $45 million to the NSW Government in FY14.

A strong balance sheet

The corporation's robust balance sheet was further strengthened during the year with net assets increasing by $59 million. This was mainly due to improvements in the value of the standing timber in the plantation estate resulting from improved log prices and expanding markets. Net assets now stand at $1.175 billion.

Significant debt repayments reduced the long-term debt level to $108 million, increasing interest cover to a healthy four times. The improvement in profitability and increase in net assets have also driven up the retained earnings to a surplus position.

Return on equity, measured as EBIT divided by the total equity, improved to three per cent. This was 50 basis points better than last financial year and 100 basis points above the SCI target.

Capital expenditure remained steady at $2.3 million during FY14, the majority of which was incurred in the ongoing replacement of the motor vehicle and heavy plant fleet. Tight management of the purchases and replacement programs and the deferral of some purchases to FY15 kept capital expenditure $7 million below the SCI target.

Significant items recognised in the income statement in FY14 included:

- a $74 million increase in the value of the biological assets (standing timber), resulting from improved log prices and expanding markets
- a $3.99 million non-recurring charge to the income statement for the change in the defined benefit superannuation liabilities (actuarial assessment).

Financial highlights

Key financial data							
Year ended 30 June		2012	2013	2014	2014		
					SCI	Variance	Performance[2]
Revenue[1]	$m	318	310	324	297	27	●
Operating profit[1]	$m	14	19	27	12	15	●
EBIT[1]	$m	23	28	36	22	14	●
Dividend payable	$m	5	9	10	5	5	●
Borrowings	$m	133	131	108	131	(22)	●
Biological assets	$m	734	708	782	735	47	●
Key ratios							
Return on equity	%	2.2	2.5	3.0	2.0	1.0	●
EBIT margin[1]	%	7.3	9.0	11.0	7.3	3.7	●
Liquidity ratio	times	1.1	1.4	1.5	1.2	0.3	●
Debt ratio	%	45.3	39.6	40.6	45.0	(4.4)	●
Interest cover	times	2.5	2.9	4.0	2.3	1.7	●

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

[2] *Green indicates performance is on target.*

Corporate governance

Charter

The Forestry Corporation of NSW is constituted under the *Forestry Act 2012*, and is subject to the direction of the Board of Directors.

As a public land manager, Forestry Corporation receives funding from the NSW Government to provide specific public services such as educational and recreational facilities. However, the 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 2012*, the 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, and

  ii. to maximise the net worth of the State's investment in the corporation,

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

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

d. to contribute towards regional development and decentralisation,

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

Board of directors

The Board is constituted under the *Forestry Act 2012* and is accountable to the voting shareholders as set out in the *State Owned Corporations Act 1989*. The Forestry Corporation has two shareholding Ministers, namely the NSW Treasurer and the Minister for Finance, who each hold one share for and on behalf of the NSW Government.

The Board comprises four non-executive directors and the Chief Executive Officer as an executive director. All non-executive directors were appointed for the skills they offer to the corporation and are considered independent in accordance with NSW Treasury Guidelines for Boards of Government Businesses.

The Board was appointed on 1 March 2013 for a period of three years. The directors are:

- **Mr James Millar AM – Director and Chairman**
  James is an experienced corporate executive advisor and director of a number of Australian companies and organisations. He has more than 35 years' experience as a corporate insolvency executive and was previously Chief Executive Officer of Ernst & Young. James holds a BCom from the University of NSW, is a Fellow of the Institute of Chartered Accountants and a Fellow of the Australian Institute of Company Directors.

- **Ms Sarah Kearney – Director and Chair Human Resources Committee**
  Sarah is a Director of Performance Insights and has extensive experience developing and delivering people management strategies. She spent 18 years with global HR consulting organisation SHL Australia, including six years as Managing Director, and has worked with companies from a broad range of industry sectors in Australia and overseas. Sarah holds a BSc (Psychology) from the University of NSW.

- **Mr Geoffrey Applebee – Director and Chair Audit and Risk Committee**
  Geoffrey has more than 40 years' experience in the accounting profession, including over 22 years as a partner at Ernst & Young. He is a Director of a number of Australian companies. Geoffrey holds a BA (Accounting) and is a Fellow of the Australian Institute of Company Directors, a Fellow of the Institute of Chartered Accountants in Australia, a Fellow of the Certified Practising Accountants – Australia and a registered company auditor.

- **Mr Noel Cornish – Director**
  Noel has extensive global business management experience, holding senior positions in the manufacturing and mining sectors. He has been Chief Executive of BlueScope's Australian and New Zealand steel manufacturing businesses and is a Director of a number of Australian and overseas companies. Noel holds a BSc (Metallurgy) and MEngSc from Newcastle University and also studied at the University of Michigan Business School.

- **Mr Nick Roberts – Executive Director**
  Nick has more than 30 years' experience in the forest and timber industry, including five years as Managing Director of Weyerhaeuser Australia and six years as Chief Executive Officer of NSW's largest commercial forest manager. He has been actively involved in industry associations, chairing A3P and serving as a Director of Forest and Wood Products Australia. Nick holds a BSc (Forestry) (Hons), a MSc (Forestry) and a GAICD. Nick also studied at the Stanford University Business School.

Board role

The primary objective of the Board is to build long-term value in the Forestry Corporation for the people of NSW. The role of the Board as outlined in the Board Charter includes:

- providing direction and approval of corporate strategies, policies and key performance targets
- protecting and augmenting Forestry Corporation's performance and building sustainable value for shareholders
- monitoring management performance against targets
- setting, reviewing and ensuring compliance with Forestry Corporation's values and governance framework
- ensuring shareholders are kept informed of Forestry Corporation's performance and major developments.

Board meetings

Nine Board meetings were held during the reporting period. Board attendance is outlined below:

Member	Number of meetings attended	Number of meetings eligible to attend
Mr James Millar – Chairman	9	9
Ms Sarah Kearney	9	9
Mr Geoffrey Applebee	9	9
Mr Noel Cornish	9	9
Mr Nick Roberts	9	9

The Board held one meeting in the softwood production area of Tumut, and took the opportunity to visit forest operations, a Forestry Corporation production nursery and local sawmillers.

Board sub-committees

The Board is supported by two sub-committees, the Audit and Risk Sub-Committee and the Human Resources Sub-Committee. Working groups comprising independent directors and management support both sub-committees. Although there were no formal meetings of the Human Resources Sub-Committee during the reporting period, the Human Resources Working Group met on four occasions to discuss matters being considered at Board meetings. The Audit and Risk Sub-Committee met on three occasions and the Audit and Risk Working Group met on six occasions.

Corporate governance (continued)

Organisational structure

Forestry Corporation's senior management team consists of the CEO and four divisional managers. The management team structure and responsibilities are listed below:

BOARD OF DIRECTORS

CHIEF EXECUTIVE OFFICER

SENIOR MANAGEMENT TEAM

Dr Ross Dickson, Chief Forester and Company Secretary

BAgSc (Hons), BSc (Plant Science), PhD (Forestry Science), GAICD, Grad Dip ACG

- assets and estates
- fire management
- mapping and information services
- tree and seed resources
- human resources and safety
- communications and media
- risk management and internal audit
- corporate governance, executive support and records management
- right to information
- fleet and radio services.

Dean Anderson, General Manager, Hardwood Forests Division

BSc (Forestry)

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

Ian Brown, General Manager, Softwood Plantations Division

BSc (Forestry)

- softwood marketing and timber sales
- planted forest stewardship
- forest management planning
- timber harvesting and roading operations
- Blowering production nursery.

Anshul Chaudhary, Chief Financial Officer

BCom (Accounting), CA

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

Statutory information

Chief Executive's performance

Trading name	Forestry Corporation
Position	Chief Executive
Period in position	1 July 2013 to 30 June 2014

Mr Roberts is accountable to me for performing all the functions of the Executive Director under the *Forestry Act 2012* and for implementing government policy.

I am satisfied that Mr Roberts has met the performance criteria established for the position. Key tasks have been undertaken to achieve operational requirements and leadership has been provided to deliver outcomes consistent with government policy.

As Executive Director, Mr Roberts was responsible for:

- successfully improving efficiency and customer service throughout the corporation and reducing costs. Some of these improvements stemmed from redesigned business processes and restructures in parts of the business
- improving safety performance by driving implementation of the safety strategy
- maintaining adequate digital information and information systems security
- maintaining Forestry Corporation's self insurer's licence
- recording a financial performance well above budget forecast, including:
  – earnings before interest and taxes of $36 million
  – dividend declared to NSW Treasury of $9.7 million
- demonstrating Forestry Corporation's sustainable forest management through continuing certification to the Australian Forestry Standard AS 4708:2007 and ISO 14001:2004 (Environmental Management System).

James M. Millar AM
Chairman of the Board of Directors
Forestry Corporation of NSW

Consultants

$50 000 or more		
Subject area	Vendor	Cost $
Management Services – NSW Forestry Corporation IFOA	Capital Insight P/L	54 771

There were about 64 consultants engaged for $50 000 or less during FY14. The amounts and subject areas are detailed below.

$50 000 or less (per consultant)	
Subject area	Cost $
Engineering	7984
Environmental	105 336
Finance/Accounting	26 304
Human Resources	157 152
Management Services	112 190
Marketing	116 826
Organisational Review	12 462
Training	64 045
Total Cost	**602 299**

Cost of Annual Report

The total external costs incurred in the production of the Forestry Corporation Annual Report for FY14 were approximately $11 700 excluding GST. The Annual Report is available on the corporation's website www.forestrycorporation.com.au.

Credit card certification

Corporate credit card use is monitored on a monthly basis. Only eligible staff are issued with corporate credit cards to facilitate travel, accommodation and limited purchases. The Chief Executive Officer or relevant senior manager approves all expenses associated with card use.

Credit card use has been in accordance with the Premier's Memoranda and Treasurer's Directions.

Finance information

Debt management

At 30 June 2014, the corporation's total borrowings were $108 million (2013: $131 million). The debt portfolio was sourced almost entirely through NSW Treasury Corporation and is actively managed to limit the cost of funds.

Debt portfolio performance

	Forestry Corporation of NSW	Benchmark
Market valuation 30 June 2014*	$120 million	N/A
Generalised cost of funds	5.62%	5.62%

** 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 2014, 100 per cent of total debt was charged interest at the fixed rate.

Investment management performance

At 30 June 2014, the corporation's financial investments were $10.68 million (2013: $4.76 million). The investment portfolio's performance is benchmarked against the NSW Treasury Corporation's hourglass cash facility, consistent with NSW Treasury guidelines and to maximise investment returns while maintaining appropriate risk controls.

Interest of $755 425 (2013: $345 993) was received from Treasury Corporation on amounts lodged on their 24-hour call facility at a yearly rate of 2.92 per cent (2013: 3.69 per cent).

Statutory information (continued)

Payment of accounts

Accounts paid on time

Quarter	Target %	Actual %	Total amount paid $	Actual $
All suppliers				
September	90	98.96	71 553 825	72 306 669
December	90	98.16	48 207 836	49 112 312
March	90	96.81	52 234 787	53 953 267
June	90	97.86	49 328 169	50 408 008
Small business suppliers				
September	90	97.22	9 675 799	9 952 029
December	90	96.73	7 347 353	7 595 478
March	90	96.96	7 100 808	7 323 784
June	90	97.21	7 435 887	7 649 325

Forestry Corporation exceeded its targets for accounts paid on time during FY14 and will continue working to maintain its performance.

Aged analysis

Quarter	Current (ie, within due date)	Less than 30 days overdue	Between 30 and 60 days overdue	Between 60 and 90 days overdue	More than 90 days overdue
All suppliers					
September	66 307 965	5 245 860	470 384	210 516	71 943
December	44 782 611	3 425 225	434 544	311 912	158 019
March	46 460 105	5 774 682	1 263 888	211 440	243 152
June	35 928 983	13 399 186	672 905	214 611	192 323
Small business suppliers					
September	8 342 442	1 333 357	142 304	100 110	33 816
December	6 325 344	1 022 009	168 920	55 047	24 157
March	6 053 729	1 047 080	137 257	59 944	25 775
June	6 401 845	1 034 042	126 274	57 015	30 150

Government Information Public Access

There were 14 valid Government Information Public Access (GIPA) applications received between 1 July 2013 and 30 June 2014. Two applications were received prior to 30 June 2013 but decisions on these were made after 30 June 2013 and are included in this report. The decision on one application was pending as at 30 June 2014 and will be included in next year's report.

The applications predominantly sought information on management of activities regarding State forests and forest closures and also included requests around the management of threatened species and tenders.

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

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

	Access granted in full	Access granted in part	Information not held
Media			
Members of Parliament	2	1	–
Private sector businesses	2	–	–
Not-for-profit organisations or community groups	4	1	2
Members of the public (application by legal representative)	2	–	–
Members of the public (other)	1	–	–
Total	11	2	2

** No applications fell into the following categories: Access refused in full; Information already available; Refuse to deal with application; Refuse to confirm/deny whether information is held; Application withdrawn.*

Statutory information (continued)

Human resources

Statistical information on Equal Employment Opportunity (EEO) target groups

Trends in the representation of EEO groups

EEO group	Benchmark or target	2012	2013	2014
Women	50%	17.70%	17.30%	16.30%
Aboriginal and Torres Strait Islander peoples	2.60%	2.70%	2.20%	1.90%
People whose first language is not English	19%	3.70%	3.70%	3.50%
People with a disability	N/A	4.70%	4.50%	3.70%
People with a disability requiring work-related adjustment	1.3% (2012)	4.70%	–	–
	1.5% (2013)	–	4.50%	–
	1.5% (2014)	–	–	3.70%

Trends in the distribution of EEO groups

EEO group	Benchmark or target	2012	2013	2014
Women	100	105	116	106
Aboriginal and Torres Strait Islander peoples	100	N/A	N/A	N/A*
People whose first language is not English	100	122	123	122
People with a disability	100	89	90	93
People with a disability requiring work-related adjustment	100	89	90	93

**The Distribution Index is not calculated where Workforce Diversity group or non-Workforce Diversity group numbers are less than 20.*

As at 30 June 2014, Forestry Corporation employed 592 people. This figure comprised 337 employees primarily involved in management, administration and technical roles, and 255 primarily engaged in timber marking, mechanical trades, road construction and maintenance, tree planting and pruning, nursery work, forest conservation and fire protection.

Employee numbers – three-year trend

Year ended 30 June	Office-based	Field-based	Total
2011	402	401	803
2012	385	345	730
2013	366	306	671
2014	337	255	592

Structural adjustment

In FY14, the corporation continued to review its workforce and internal organisational structures. Four significant reviews were undertaken during the year including a restructure of the Softwood Plantations Division, implementation of a new operating model in the Hardwood Forests Division, re-alignment of the payroll function and closure of the engineering services branch. These reviews were undertaken to streamline functions, re-engineer business processes and further strengthen the corporation's commercial operating position.

Salary and wage movement

Forestry Corporation employees are covered by an enterprise agreement that took effect on 1 January 2013, replacing any other award, agreement or instrument that would otherwise have applied. The Forests NSW Enterprise Agreement 2012 provided a 2.5 per cent pay increase (covering wages and wage-related allowances) for all staff covered by the agreement, payable on the first pay period on or after 1 July 2013.

Senior executive reporting

Around two per cent (1.99%) of employee-related expenditure during the reporting year related to senior executives.

The number of senior executives employed at the end of the reporting year

Band	2014	
	Female	Male
Band 4	0	1
Band 3	0	0
Band 2	0	3
Band 1	0	1
Total	0	5

Average remuneration of senior executives

Band	Range $	Average Remuneration $
Band 4	422 501–488 100	425 605
Band 3	299 751–422 500	–
Band 2	238 301–299 750	262 022
Band 1	167 100–238 300	229 951

Statutory information (continued)

Training and organisational development

FY14 saw another year of significant investment in corporate and operational staff training across the organisation.

Technical skills

The corporation has continued to demonstrate industry best practice by focusing on regular up-skilling and reassessment of core technical skills against units of national competence. To further support this, the corporation undertook a review of plant operator skills to ensure staff competency and that operators meet the national unit of competency relevant to the type of plant they operate. This process was undertaken following changes to WorkCover licensing requirements. Further reviews in the organisational development field are planned for FY15.

Performance framework

In FY14 the corporation continued to focus on cultural change within the business. The performance planning framework was reviewed, reinvigorated and relaunched and training provided to reviewers on performance review techniques to support high-performance outcomes.

Reward and recognition program

A reward and recognition program was developed and launched in early 2014 and the inaugural Forestry Corporation Peak Performer Awards were awarded at the end of quarter three. The Peak Performers Program is designed to build a high-performance culture by incorporating rewards and recognition into management practices and to acknowledge employees for outstanding contributions in key business areas.

Equity, diversity, multiculturalism and equal employment opportunity

Forestry Corporation values the contributions that people from a range of backgrounds with diverse experiences can make to the work environment. The Equity and Diversity Policy (a Forestry Corporation Board policy) was developed and launched in FY14. The policy helps the Board set objectives and targets for achieving diversity in its workplaces.

The corporation is committed to fostering an inclusive and collaborative workplace culture through implementation of the following principles:

- providing equal opportunities with appointment based on capability, performance and potential
- maintaining workplaces free from unlawful harassment, bullying and victimisation
- encouraging a workplace culture displaying fair practices and behaviours.

Equal employment opportunity planning is also dealt with in State legislation. Workforce diversity obligations are established under section 63 of the *Government Sector Employment Act 2013*. The effect of this legislation is to make the head of a State Owned Corporation responsible for workforce diversity.

Aboriginal employment strategy

The corporation has further enhanced its partnerships with local communities. In FY14, through partnerships with MEGT and Auswide Services, we have successfully supported both full-time and school-based trainees of Aboriginal background. Our partnership with MEGT was established in FY13 through our Grafton office and has resulted in one student completing a Certificate III in Forest Growing and Management. The relationship was extended this year, with two students hosted by the Hardwood Forests Division completing their Certificate III in Forest Growing and Management in a 12-month traineeship through the TAFE NSW North Coast Institute.

In the State's south, the corporation has continued its school-based trainee programs, with three students progressing through a Certificate II in Forest Growing and Management.

These partnerships will continue into FY15.

Public Interest Disclosures

Forestry Corporation has a Public Interest Disclosures (PID) policy which is available on the corporation's website.

The policy is supported by a procedure for staff in making and dealing with PIDs. The policy and procedure were distributed to staff in FY14. As part of a staff awareness program, information and educational resources were made available on the intranet and an awareness presentation was given by the PID Coordinator to the senior management team and all divisional management team groups. Resources were provided to enable manages to cascade this information through their functional structures.

No PIDs were received during FY14.

Legislation and legal issues

There have been no changes to the principal legislation relevant to Forestry Corporation's core activities during FY14.

On 10 July 2013 in the Land and Environment Court, the corporation was fined $35 000 under the *Protection of the Environment Operations Act 1997* in relation to offences of polluting water and breaching its environment protection licence.

The corporation pleaded guilty to the two offences, which arose from a hazard reduction burn in 2011 in Mogo State Forest near Batemans Bay on the NSW south coast. The hazard reduction burn resulted in ash and soil entering water courses and in burning within exclusion zones about water courses.

By agreement with the Environment Protection Authority, the fine was applied to an environmental project to identify and map an endangered ecological community in forests in the State's south-east.

Otherwise, the corporation has not been involved in significant legal proceedings during FY14.

Overseas visits

- In July 2013 and May 2014, Chief Forester Ross Dickson travelled to New Zealand for the Radiata Pine Breeding Company strategy day and Board meeting.
- In September 2013, CEO Nick Roberts travelled to America to attend the Forest Products Forum and the Who Will Own the Forest? conference.
- In November 2013, Remote Sensing Specialist Tony Brown presented a paper on steep slope wood harvesting at the ForestTECH Conference in New Zealand.
- In November 2013 and May 2014, Tree Improvement Officer Troy Brown attended the Radiata Pine Breeding Company's Technical Committee Meeting in New Zealand.
- In April 2014, Gary Miller, Trent Froud and Craig Tribolet from the Softwood Plantations Division Northern Softwoods Region travelled to New Zealand to investigate log scaling and data management operations.
- In May 2014, General Manager Softwood Plantations Division Ian Brown travelled to Canada to attend the Global Forest and Paper Industry Conference and the Global Softwood Log and Lumber Conference.

Research and development

The NSW DPI Forest Science group provides technical advice, and research and development services to the Forestry Corporation under a memorandum of understanding (MOU). This group has scientific and technical expertise in the core activities of forest ecology and sustainability, forest health and resource assessment, carbon in forests, wood products and bioenergy, and biometrical services. Forestry Corporation invested $1.8 million in research and development under this MOU during FY14.

Statutory information (continued)

Recent research activities include:

- completing the annual aerial and ground surveys of the plantation estate for outbreaks of pests and diseases
- operational testing of the efficacy of cuprous oxide, and the timing of aerial application to improve the control of dothistroma needle blight in pine plantations. Results showed a significant reduction in disease and in the area requiring ongoing chemical application
- developing new standard operating procedures to reduce the impact of ips bark beetles on the sirex biological control program
- completing extensive surveys of native forest in NSW, revealing that myrtle rust is causing significant impact, including tree mortality, to several key rainforest species
- modelling the influences of drought and temperature extremes on the survival of potential tree species for commercial environmental forestry in the dryland areas on the western slopes of NSW
- managing a national research project aimed at providing data workflow and analytical solutions required for the operational deployment of high-spatial-resolution data into existing resource information systems
- developing an algorithm to delineate individual trees using LiDAR point cloud data
- developing a new method (BioImpact) for accounting for biodiversity in life cycle assessments
- developing a new method to determine coarse woody debris levels in native forests
- assessing greenhouse implications of managing native forests in NSW and improving allometrics for estimating biomass for commercial native species
- participating as lead author of the harvested wood products chapter in the recently released IPCC Revised Supplementary Methods and Good Practice Arising from the Kyoto Protocol
- streamlining threatened Hastings River Mouse management with predictive habitat maps and a better understanding of the species' response to disturbance by a program of post-harvest trapping
- studying the response of threatened Eastern Pygmy Possums to selective harvesting, with results revealing that the mosaic of disturbance created by selective harvesting operations did not negatively affect the animal's home range or den selection
- coordinating and analysing the first year of landscape biodiversity monitoring data in the Pilliga forests
- producing a publication on trends in bird diversity over 12 years in eucalypt plantations on the north coast, demonstrating an increase in diversity over time
- completing 15 years of annual monitoring of Australia's largest roost of Eastern Horseshoe bats in Ourimbah State Forest, revealing a continued sustainable colony
- providing biometrical support to ensure statistically robust research and monitoring programs covered by the MOU

Forestry Corporation is also a shareholder in the Radiata Pine Breeding Company and Forestry Corporation's Chief Forester holds directorship of that company. Through this arrangement, Forestry Corporation has access to the company's radiata pine breeding research and development program.

Responding to community concerns

Forestry Corporation has received representations from the community on a range of issues including the environment, neighbour relations, recreation, land management and timber supply.

Community consultation commenced in the second half of the year as part of a whole-of-government process to improve the clarity and enforceability of environmental regulation by improving the coastal Integrated Forestry Operations Approvals (IFOAs).

A stakeholder engagement policy can be viewed on our website, outlining the corporation's commitment to facilitating opportunities for engagement with stakeholders.

Risk management, internal audit and insurance

Forestry Corporation has an internal audit charter under which an Audit and Risk Sub-Committee has been established.

The corporation's risk management framework meets State Owned Corporation requirements set out in the NSW Treasury Policy TPP 09-5 and NSW Treasury Circular TC09-08 and Australian/New Zealand Standard Risk Management – principles and guidelines (AS/NZS ISO 31000:2009 Risk Management).

Internal audit functions are undertaken for Forestry Corporation by an external service provider, selected from a shortlist of preferred providers, based on a tendering process. To ensure the independence of the audit process, the external service provider reports to the Audit and Risk Sub-Committee and has access to the Chief Executive Officer as required.

Four internal audits were conducted during the year, covering payroll, procurement and bushfire management. Protected disclosure functions were managed by the corporation.

The corporation has developed a risk matrix as part of its risk management strategy.

Identified risks and management strategies put in place by Forestry Corporation to deal with them are outlined below.

Bushfire

As part of normal fire management practices, Forestry Corporation maintains high levels of fire planning, preparedness and suppression capacity. Risk mitigation strategies include early detection through a network of fire towers, patrols on high fire danger days, integrated communications, technical applications such as a lightning strike detection system, and use of satellite infrared imagery. This is supported by well trained staff (including casual labour) available for immediate deployment using a heavy and light tanker fleet, supported by a fleet of earthmoving heavy machinery and contract aircraft.

Outside of the fire season, fuel loads in the forests are maintained through prescribed burning or grazing, and an extensive network of roads and fire trails is maintained.

Pests and diseases

Forestry Corporation undertakes systematic health surveys of the planted forest estate to assess forest health and to 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 damage

Severe storms can damage trees, particularly young plantations. Thinning programs are designed to reduce susceptibility to wind-throw damage. No severe storm occurred during the reporting period, however Forestry Corporation has the capacity to quickly salvage plantations damaged by wind or storms and establish new forest.

Statutory information (continued)

Flood damage

Extreme storm conditions resulting in flooding can cause damage to roads and limit productive harvesting capacity. Robust planning controls and strategies allow for flexibility in operations.

Meeting supply commitments

Effective strategic and tactical operational planning is undertaken to meet commitments in wood supply agreements. Appropriate scientific and technological tools and skill sets are employed in developing harvesting plans.

Significant downturn in timber demand

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

Business failure of a major customer

The internationalisation of ownership in the NSW softwood industry has made collapse of one of the major processors unlikely. The global owners of these facilities have strong financial resources. In the hardwood sector, 25–30 per cent of Forestry Corporation's trade is with one major customer. This customer is a large national building products company whose hardwood timber production is dominated by high value adding activity. Through its credit policy and financial management, Forestry Corporation maintains adequate security (from partially secured to fully secured, pay-in-advance and bank guarantees), monitors customers' accounts and checks the financial health and creditworthiness of customers.

Strategies are in place to deal with other risks identified in Forestry Corporation's risk register. These risks are:

- inadequate planning and planning controls
- inadequate health and safety
- lack of harvest and haulage contractors
- lack of environmental sustainability
- loss of commercial viability
- failure to meet social responsibilities
- poor management and access to information
- inadequate or inappropriate workforce management.

Insurance

Forestry Corporation maintains extensive insurance coverage. Policies in place for the year were for Combined General Liability, Excess Liability, Motor Vehicle, Industrial Special Risks, Group Personal Accident (Volunteers), Corporate Travel, Marine Cargo and Professional Indemnity.

These were sourced from both local and global insurance markets at competitive rates. As at 30 September 2014, Forestry Corporation moved a number of insurance policies to the Treasury Managed Fund (TMF), the NSW Government's self-insurance scheme.

Forestry Corporation continues to hold a WorkCover NSW self-insurance licence for the management of workers' compensation claims.

Digital information security attestation

Forestry Corporation had an Information Security Management System in place during the FY14 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 the risk profile of Forestry Corporation is not sufficient to warrant certification.

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

Waste management

Forestry Corporation managed waste, recycling and procurement in line with the NSW Government Waste Reduction and Purchasing Policy (WRAPP) commitment in the NSW Government Sustainability Policy. This sets targets for resource use and disposal and procurement across energy, water, fleet and waste. In addition, commercial pressures ensure that areas of wastage are identified and economically viable improvements implemented. This process is part of the corporation's Forest Management System and is certified to the environmental management system ISO 14001.

An independent energy audit of the corporate office facilities was undertaken during FY14. A number of recommendations were accepted and budgeted for implementation during FY15.

The corporation has previously assessed a number of haulage scheduling systems to evaluate their potential effectiveness in reducing haulage costs through better use of the existing log haulage truck fleet. During FY14, the corporation assessed how an optimised log haulage transportation planning and management software system would perform, how it might apply to plantation operations and whether it would cut costs and energy consumption. Numerous simulated models of the Bombala zone of operations were completed and two other case studies were conducted.

Implementation of price determination

Forestry Corporation, in the most part, has implemented the 2006 Independent Pricing and Regulatory Tribunal (IPART) Review of Rental Arrangements for Crown Land Communication Tower Sites for rentals of communication towers on State forests as permits have come up for renegotiation and for new permits.

Since the end of the reporting period, the NSW Government has endorsed the IPART's 2013 review and Forestry Corporation is amending its pricing structure in line with the determination.

Forward outlook

	FY15 budget	
	Measure	Target
Revenue	$m	331.9
EBITDA[1]	$m	54.7
EBITDA on sales	%	16.5
EBIT	$m	45.9
Operating Profit before Tax	$m	37.3
NPAT[2]	$m	26.1
Dividend payout ratio	%	70
Return on assets	%	2.4
Return on equity	%	4.0

[1] *Earnings before interest, taxes, depreciation and amortisation.*

[2] *Net profit after tax.*

Financial statements

for the year ended 30 June 2014

Forestry Corporation of NSW (trading as Forestry Corporation of NSW) ABN 43 141 857 613

Consolidated Audited Annual Financial Statements for the year ended 30 June 2014

Statement of Comprehensive Income

for the year ended 30 June 2014

	Notes	Economic Entity 2014 $'000	Economic Entity 2013 $'000
Revenue			
Forests sales revenue	4(a)	292 832	281 678
Other revenue	4(b)	16 625	19 012
Grants revenue	4(c)	14 614	9648
Change in fair value of biological assets less estimated point of sale costs	12	74 118	-
Total Revenue		398 189	310 338
Expenses			
Expenses from operations	5	(205 012)	(196 722)
Depreciation and amortisation	11, 14	(8892)	(9055)
Employee related (a)		(78 348)	(45 520)
Personnel services		-	(29 819)
Finance costs	6	(8890)	(9571)
Gain on Revaluation / Impairment	11	15	-
Change in fair value of biological assets less estimated point of sale costs	12	-	(26 077)
Total Expenses		(301 127)	(316 764)
Profit/(Loss) Before Income Tax		97 062	(6 426)
Income tax (expense)/benefit (a)	7	(29 829)	6000
Profit for the Year		67 233	(426)
Items that will not be reclassified to profit or loss			
Other comprehensive income			
Changes in revaluation surplus	11	(466)	-
Defined benefit plan actuarial gains (a)	17	2866	43 947
Income tax on other comprehensive income (a)	7	(720)	(12 122)
Total Other Comprehensive Income for the Year, Net of Income Tax		1680	31 825
Total Comprehensive Income for the Year		**68 913**	**31 399**

(a) The adoption of the revised AASB 119 Employee Benefits resulted in prior year restatement of employee related expenses, defined benefit plan actuarial gain and income tax (refer to note 2 for more details).

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Statement of Financial Position

for the year ended 30 June 2014

	Notes	Economic Entity 2014 $'000	Economic Entity 2013 $'000	*Economic Entity 1 July 2012 $'000
ASSETS				
Current Assets				
Cash and cash equivalents	8	21 696	20 281	9408
Trade and other receivables	9	43 920	47 850	51 599
Inventories	10	3311	3629	3755
Biological assets	12	65 383	51 745	54 509
Current tax asset		-	393	1450
Total Current Assets		**134 310**	**123 898**	**120 721**
Non-Current Assets				
Property, plant and equipment	11	1 118 985	1 132 818	1 143 928
Biological assets	12	716 982	656 502	679 815
Investment assets	13	7974	6646	6845
Intangibles	14	100	319	537
Total Non-Current Assets		**1 844 041**	**1 796 285**	**1 831 125**
TOTAL ASSETS		**1 978 351**	**1 920 183**	**1 951 846**
LIABILITIES				
Current Liabilities				
Trade and other payables	18	45 802	49 138	62 594
Borrowings		-	-	6488
Dividend provided	20	9665	9119	5254
Provisions	21	31 735	35 948	36 614
Current tax liability		5146	-	-
Total Current Liabilities		**92 348**	**94 205**	**110 950**
Non-Current Liabilities				
Borrowings	19	108 221	130 908	126 976
Provisions (a)	21	111 467	109 440	154 539
Net deferred income tax liability	16	491 732	470 050	517 484
Total Non-Current Liabilities		**711 420**	**710 398**	**798.999**
TOTAL LIABILITIES		**803 768**	**804 603**	**909 949**
NET ASSETS		**1 174 583**	**1 115 580**	**1 041 897**
EQUITY				
Contributed equity	22	421 706	421 706	421 706
Reserves	22	738 258	741 510	694 475
Retained surplus (accumulated deficit) (a)		14 619	(47 636)	(74 284)
TOTAL EQUITY		**1 174 583**	**1 115 580**	**1 041 897**

(a) The adoption of the revised AASB 119 Employee Benefits resulted in prior year restatement of employee related provisions, and statement of changes in equity.
** In accordance with AASB 101.10(f), a third balance sheet column is included which shows revised balances as at 1 July 2012 (refer to note 2 for more details).*

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

for the year ended 30 June 2014

Economic Entity	Contributed Equity $'000	*Reserve for Deferred Tax Assets $'000	Asset revaluation reserve $'000	*Retained Profits / (Loss) $'000	Total equity $'000
Balance as at 1 July 2012 *	**421 706**	**-**	**694 475**	**(74 284)**	**1 041 897**
Total Comprehensive Income for the Year					
Profit for the year	-	-	-	(426)	(426)
Other Comprehensive Income					
Transfer of asset revaluation reserves to retained profits	-	-	(4368)	4368	-
Defined benefit plan actuarial gains	-	-	-	43 947	43 947
Income tax recognised on other comprehensive income	-	-	-	(12 122)	(12 122)
Total Other Comprehensive Income	-	-	(4368)	36 193	31 825
Total Comprehensive Income for the Year	-	-	(4368)	35 767	31 399
Transactions Recorded Directly in Equity					
Reversal of deferred tax liabilities on disposal of assets	-	-	1311	-	1311
Initial recognition of deferred tax asset on employee benefits	-	50 092	-	-	50 092
Total Transactions Recorded Directly in Equity	-	50 092	1311	-	51 403
Transactions with Owners, Recorded Directly in Equity					
Dividends provided	-	-	-	(9119)	(9119)
Total Transactions with Owners	-	-	-	(9119)	(9119)
Balance as at 30 June 2013	**421 706**	**50 092**	**691 418**	**(47 636)**	**1 115 580**

Economic Entity	Contributed Equity $'000	*Reserve for Deferred Tax Assets $'000	Asset revaluation reserve $'000	*Retained Profits / (Loss) $'000	Total equity $'000
Balance as at 1 July 2013	**421 706**	**50 092**	**691 418**	**(47 636)**	**1 115 580**
Total Comprehensive Income for the Year					
Profit for the year	-	-	-	67 233	67 233
Other Comprehensive Income					
Transfer of asset revaluation reserves to retained profits	-	-	(3923)	3923	-
Defined benefit plan actuarial gains	-	-	-	2866	2866
Revaluation of property, plant and equipment	-	-	(466)	-	(466)
Income tax recognised on other comprehensive income	-	-	140	(860)	(720)
Total Other Comprehensive Income	-	-	(4248)	5929	1681
Total Comprehensive Income for the Year	-	-	(4248)	73 162	68 914
Transactions Recorded Directly in Equity					
Reversal of deferred tax liabilities on disposal of assets	-	-	1254	-	1254
Total Transactions Recorded Directly in Equity	-	-	1254	-	1254
Transactions with Owners, Recorded Directly in Equity					
Land revocation (a)	-	-	(258)	(137)	(395)
Funding for public access roads	-	-	-	(1105)	(1105)
Dividends provided	-	-	-	(9665)	(9665)
Total Transactions with Owners	-	-	(258)	(10 907)	(11 165)
Balance as at 30 June 2014	**421 706**	**50 092**	**688 166**	**14 619**	**1 174 583**

(a) In 2014 1,445.06 hectares (2013: nil hectares) were revoked and transferred to other NSW related government agencies

** The adoption of the revised AASB 119 Employee Benefits resulted in prior year restatement of reserve for deferred tax assets and retained profit/(loss) (refer to note 2 for more details).*

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 2014

	Notes	Economic Entity 2014 $'000	Economic Entity 2013 $'000
Cash Flows From Operating Activities			
Receipts			
Cash receipts from customers		356 425	343 735
Interest received		1085	649
Payments			
Cash paid to suppliers and employees		(314 643)	(319 656)
Interest paid		(9990)	(9029)
Income taxes paid		(2075)	(1097)
Net Cash Flows From Operating Activities	8	**30 802**	**14 602**
Cash Flows From Investing Activities			
Receipts			
Proceeds from sale of property, plant & equipment		5662	6419
Payments			
Acquisition of property, plant and equipment		(2335)	(2339)
Net Cash Flows From Investing Activities		**3327**	**4080**
Cash Flows From Financing Activities			
Payments			
Repayment of borrowings		(23 595)	(2556)
Dividends paid	20	(9119)	(5254)
Net Cash Flows Used In Financing Activities		**(32 714)**	**(7810)**
Net Increase in Cash and Cash Equivalents		1415	10 872
Opening cash and cash equivalents at 1 July		20 281	9408
Closing Cash And Cash Equivalents at 30 June 2014	8	**21 696**	**20 281**

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes to and forming part of the financial statements

Note 1: Corporate Information

Forestry Corporation of NSW (the corporation) (ABN 43 141 857 613), previously Forestry Commission of NSW, is a NSW State Owned Corporation established on 1 January 2013 following the enactment of the *Forestry Act 2012*. For the 2013 financial year, the financial statements of the corporation included the results of the Forestry Commission of NSW.

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

In the 2013 financial year, the corporation was the parent reporting entity and its operations were consolidated with the activities of Forestry Commission Division (FCD) to form the economic reporting entity. FCD was a special purpose service entity pursuant to Part 3 of Schedule 1 of the *Public Sector Employment & Management Act 2002*, and the corporation administered and had dominant control of its day to day operation. On 22 April 2013, pursuant to the Treasurer's Order and the *Forestry Act 2012*, all employees of FCD and their related liabilities were transferred to the corporation.

On 24 February 2014, a new employment legislation, *Government Sector Employment Act 2013* came into effect which abolished the Forestry Commission Division (FCD) and transferred it to the Department of Trade and Investment, Regional Infrastructure and Services (DTIRIS). In the last financial year, the corporation's consolidated financial statements included two columns; Economic Entity and Statutory Corporation. The only difference between the two columns was the split in personnel services and employee expenses. Employee expenses for public servants who were employed by the Department of Primary Industries (DPI) were included as personnel services, whereas fieldworkers employed by FCD were classified as employee related expenses. For 2014, as FCD was abolished and all employees were employed by the corporation, only the Economic Entity columns are shown. Refer to prior year financial statements to obtain detailed information on the Statutory Corporation.

The significant accounting policies that have been adopted in the preparation of the financial statements are detailed below.

Note 2: Summary of Significant Accounting Policies

Except for the changes below, the corporation has consistently applied the accounting policies set out in Note 2 (a) to (ab) to all periods presented in these financial statements.

The corporation has adopted the following new standards and amendments to the standards, including any consequential amendments to other standards:

i) AASB 13 Fair Value Measurement (refer note 2 (d))

ii) AASB 119 Employee Benefits (2011)

AASB 119 Employee Benefits (2011) impact

The adoption of the revised AASB 119 Employee Benefits resulted in a change to the corporation's accounting policy which significantly affected items recognised in the financial statements. Pillar Administration manages the defined benefit superannuation pooled fund and has provided the revised and restated impact of AASB 119 on the financial statements.

The interest cost and expected return on plan assets used in the previous version of AASB 119 are replaced with a net-interest amount under AASB 119 (Revised 2011), which is calculated by applying the discount rate to the net defined benefit liability or asset at the start of each annual reporting period.

The interest income component has replaced the expected return on assets. Interest income is calculated using a different discount rate to expected return on assets, which has led to an increase to the expense reported in the Statement of Comprehensive Income

Additionally, the NSW Treasury has previously undertaken the practice of offsetting investment credits against the superannuation contributions tax. This year, NSW Treasury has advised that the accounting standard does not allow investment credits to be netted off against the superannuation contributions tax and that the defined benefit liability should be retrospectively grossed up for this contributions tax. This has changed the calculation of the defined benefits liability/asset presented in the statement of financial position. As a result the defined benefit liability and the expense related to the defined benefit cost have increased. This change has increased the total comprehensive income for the year ended 30 June 2013 by $4.7 million after tax. There are adjustments to the amounts recognised in the Statements of Financial Position, and Changes in Equity. There are no adjustments in Cash Flows from this change.

AASB 108 – Accounting Policies, Changes in Accounting Estimates and Errors, requires revised standards to be adopted retrospectively and the impact on prior and current years disclosed to the extent practicable. Accordingly, adjustments to the retirement benefit obligation have been recognised at the beginning of the earliest period presented (1 July 2012) and the profit for the period and other comprehensive income in the statement of comprehensive income were restated for the comparative period. The impact of these adjustments on the individual line items in the prior year financial statements is shown below.

Notes to and forming part of the financial statements (continued)

The impact on the Statement of Comprehensive Income for the year ended 30 June 2013 is as follows:

Description	Prior year restatements		
	Economic Entity 2013 (previously stated) $'000	Economic Entity Profit increase/(decrease) $'000	Economic Entity 2013 (Restated) $'000
Employee related expenses	(34595)	(10925)	(45520)
Profit/(Loss) before income tax	4499	(10925)	(6426)
Income tax benefit	2723	3277	6000
Profit/(loss) for the year	7222	(7648)	(426)
Items that will not be reclassified to profit or loss			
Other Comprehensive Income			
Defined benefit plan actuarial gains	26315	17632	43947
Income tax on other comprehensive income	(6832)	(5290)	(12122)
Total Comprehensive income for the year, net of tax	19483	12342	31825
Total Comprehensive Income for the year	**26705**	**4694**	**31399**

The impact on the Statement of Financial Position as at 30 June 2013 is as follows:

Description	Prior year restatements			
	Economic Entity 2013 (previously stated) $'000	Economic Entity Profit increase/(decrease) $'000	Economic Entity 2013 (Restated) $'000	Economic Entity 1 July 2012 (Restated) $'000
Non-Current Liabilities				
Provisions	94467	14973	109440	154539
Net deferred tax (assets)/liabilities	474540	(4490)	470050	-

The impact on the Statement of Changes in Equity as at 01 July 2012 and 30 June 2013 is as follows:

Description	Reserve for Deferred Tax Assets		Retained Profit/(Loss)	
	Economic Entity (previously stated) $'000	Economic Entity (Restated) $'000	Economic Entity (previously stated) $'000	Economic Entity (Restated) $'000
Balance as at 1 July 2012	**-**	**-**	**(52603)**	**(52603)**
Change in accounting policy	-	-	-	(21681)
Restated as at 1 July 2012	**-**	**-**	**(52603)**	**(74284)**
Total Comprehensive Income for the Year				
Profit /(loss) for the year	-	-	7222	(426)
Other Comprehensive Income				
Transfer of asset revaluation reserves to retained profits	-	-	4368	4368
Defined benefit plan actuarial gains	-	-	26315	43947
Income tax recognised on other comprehensive income	-	-	(6832)	(12122)
Total Other Comprehensive Income	-	-	23851	36193
Total Comprehensive Income for the Year	-	-	31073	35767
Transactions Recorded Directly in Equity				
Initial recognition of deferred tax asset on employee benefits	43588	50092	-	-
Total Transactions Recorded Directly in Equity	43588	50092	-	-
Transactions with Owners, Recorded Directly in Equity				
Dividends provided	-	-	(9119)	(9119)
Total Transactions with Owners	-	-	(9119)	(9119)
Balance as at 30 June 2013	**43588**	**50092**	**(30649)**	**(47636)**

The impact of the revised AASB 119 on the current financial year is as follows:

Description	Financial Year to 30 June 2014				
	Previous AASB 119 (with 0% contribution tax)				Current AASB 119
	SASS $000	SANCS $000	SSS $000	Total $000	Total $000
Service cost	1120	352	276	1748	2287
Net Interest (current AASB119 only)	n/a	n/a	n/a	n/a	3940
Interest Expense (previous AASB119 only)	2520	317	7860	10697	n/a
Expected return on assets (previous AASB119 only)	(4994)	(749)	(10837)	(16580)	n/a
Superannuation expense/(income) in P&L	(1354)	(80)	(2701)	(4135)	6227
Actuarial (gains) losses on liabilities	5933	1015	6881	13829	12834
Return on assets excluding amounts included in P&L^	(1213)	(297)	(5022)	(6532)	(15700)
Amount recognised in other comprehensive income (OCI)	4720	718	1859	7297	(2866)
Total recognised in P&L and OCI	**3366**	**638**	**(842)**	**3162**	**3361**

^ This item is the actual return on assets in excess of expected return on assets under the previous AASB119 standard, and in excess of interest income under the current AASB119 standard.

The impact of new AASB119 on the Statement of Financial Position as at 30 June 2014 is as follows:

Description	As at 30 June 2014				
	Previous AASB 119				Current AASB 119*
	SASS $000	SANCS $000	SSS $000	Total $000	Total $000
Net Defined Benefit Liability	10950	84	79708	90742	105914

** For the breakdown of the current AASB119 figures by scheme, refer the full 30 June 2014 AASB119 disclosure in Note 17.*

The revised standard has also changed the accounting for the corporation's annual leave obligations. As the corporation does not expect all annual leave to be taken within 12 months from the end of the reporting year, annual leave obligations expected to be settled after 12 months are now classified as long term employee benefits. This changed the measurement of these obligations, as long term employee benefits should be measured on a discounted basis. However, the impact of this change is immaterial since the majority of the leave is still expected to be taken within a short period after the end of the reporting year (refer to note 2 (y)).

(a) Statement of Compliance

This general purpose financial report complies with Australian Accounting Standards, which include Australian Accounting Interpretations.

The corporation's financial statements for the year ended 30 June 2014 were authorised for issue in accordance with a resolution of the Directors on 2 September 2014.

(b) 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 2010.

The corporation is a for-profit entity and its financial statements are consolidated as part of the NSW Total State Sector Accounts.

The financial statements have been prepared on an accrual basis utilising the conventional historical costs except for certain forest, non-forest assets, investment properties, onerous contract provision and employee benefits which, as indicated separately in the notes and financial statements, are at fair value.

The financial statements are presented in Australian dollars and all values are rounded to the nearest thousand dollars unless otherwise stated.

(c) Significant Accounting Judgements, Estimates and Assumptions

In the application of accounting standards, management is required to make judgements, estimates and assumptions about the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various factors that are believed to be reasonable under the circumstance, the results of which form the basis to make the judgements.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision, and future periods if the revision affects both current and future periods.

Information about assumptions and estimation uncertainties are included in the following notes:

- Note 2 (j)(ii) Biological Assets
- Note 2 (j)(iii) Impairment
- Note 2 (t) Provisions
- Note 2 (y) Employee Benefits

Notes to and forming part of the financial statements (continued)

- Note 16 Deferred tax assets and liabilities
- Note 17 Employee defined benefits

(d) Measurement of fair value

AASB 13 establishes a single source of guidance under Australian Accounting Standards for all fair value measurements. AASB 13 does not propose a change to when the corporation is required to use fair value, but rather provides guidance on how to measure fair value under Australian Accounting Standards. AASB 13 defines fair value as 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. As a result of the guidance in AASB 13, the corporation re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. AASB 13 also requires additional disclosures.

Application of AASB 13 has not materially impacted the fair value measurements of the corporation. Additional disclosures, where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined.

When measuring the fair value of an asset or a liability, the corporation uses market observable data as far as possible. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy based on the inputs used in the valuation techniques as follows:

i. Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

ii. Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

iii. Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Information about assumptions made in measuring fair values is included in the following notes:

- Note 2 (j) Non - Current Asset Valuations
- Note 2 (j)(ii) Biological Assets
- Note 15 Fair value measurement of non-financial assets
- Note 21 Onerous contract provision
- Note 23 Financial instruments

(e) Basis of Consolidation

The consolidated financial statements comprise the financial statements of the corporation and its subsidiary as at and for the period ended 30 June each year.

(i) Subsidiaries

In the 2013 financial year the corporation had a subsidiary which was controlled by the corporation. The consolidation of this subsidiary is contained in the comparative figures only. Control exists when the corporation has the power to govern the financial and operating policies of an entity so as to obtain benefits from their activities. The financial statements of the subsidiary, FCD, are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Transactions eliminated on consolidation

In the 2013 financial year intra-group balances and any unrealised income and expenses arising from intra-group transactions were eliminated in preparing the consolidated financial statements. This is no longer applicable for the current financial year.

(f) Income Tax (National Tax Equivalents Regime)

The corporation operates under the National Tax Equivalents Regime (NTER) which requires the same taxes, including income tax and goods and services tax, as private sector organisations.

Current tax

Current tax is calculated by reference to the amount of income tax payable or recoverable in respect of the taxable profit or tax losses for the year. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Tax for the current year / prior year is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the 'balance sheet liability method'. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the Statement of Financial Position. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. In principle, deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the corporation intends to settle its current tax assets and liabilities on a net basis.

Deferred tax asset items relating to tax losses will be carried forward as an asset as this benefit has largely arisen from the deductibility of plantation establishment activity. Whilst recognising the timing differences (to the maturity of these plantation assets), there is a high likelihood the benefit will be fully realised in future years.

Current and deferred tax for the year

Movements in current and deferred tax are recognised as an expense or income in the Statement of Comprehensive Income, except when they relate to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity.

Other Taxes (GST)

Revenues, expenses and assets are recognised net of the amount GST, except:

- the amount of GST incurred by the corporation as a purchaser that is not recoverable from the Australian Taxation Office (ATO) is recognised as part of the cost of acquisition of an asset or as part of an item of expense.
- Receivables and payables are stated with the amount of GST included.
- 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 ATO are presented as operating cash flows.

Notes to and forming part of the financial statements (continued)

(g) Trade and Other Receivables

Receivables are recognised initially at fair value, usually based on the transaction cost or face value. Subsequent measurement is at amortised cost using the effective interest method, less an allowance for any impairment of receivables.

Trade and other receivables are constantly reviewed and impaired when the debt is deemed uncollectible. Bad debts are written off as incurred. Credit sales are generally on 7, 14 or 30 days settlement terms.

(h) Inventories, Work in Progress and Seedlings

Inventories and 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 plus 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. On the initial recognition of seeds at their fair value less point of sale costs, a value is recorded in the Statement of Comprehensive Income.

(i) Property, Plant and Equipment

The corporation's property, plant and equipment is governed by policy TPP06-6 for capitalisation.

(i) Recognition and Measurement

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 Accounting Policy TPP 14-01 Valuation of Physical Non-Current Assets at Fair Value. This policy adopts fair value in accordance with AASB 13 Fair Value Measurement, AASB 116 Property, Plant and Equipment and AASB 140 Investment Property.

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.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other revenue" in the Statement of Comprehensive Income. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

(ii) Subsequent Costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the corporation and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the regular servicing and maintenance of property, plant and equipment are recognised in the Statement of Comprehensive Income as incurred.

(iii) Depreciation

Depreciation on property, plant and equipment is recognised in the Statement of Comprehensive Income at rates which provide for the original cost or valuation to be written down over the expected useful life of the asset. Leased assets are depreciated over the shorter of the lease term and the useful lives unless it is reasonably certain that the corporation will obtain ownership by the end of the lease term. Land is not depreciated. Depreciation commences when assets are ready for use, including standby assets.

The estimated useful lives for the current and comparative years are as follows:

Type of asset	Depreciation Method	Useful Life
Property (other than Land)	Straight Line	10 to 50 years
Other Plant and Equipment	Straight Line	3 to 50 years
Roads and Bridges		
– earthworks	Straight Line	50 years
– paving	Straight Line	15–30 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(j) Non-Current Asset Valuations

Non-current assets are reviewed and assessed periodically at each reporting cycle to assess fair value and impairment.

A comprehensive valuation for non-current assets was conducted by Land and Property Information (LPI) – a division of the Office of Finance and Services, covering land, roads, and non forests installations for 30 June 2012.

The next comprehensive valuation for non-current assets will be carried out as on 30 June 2017 per TPP07-1 and at least every 3 years subsequently per TPP14-01, or earlier if significant movements in the market values of assets are detected.

With respect to the current financial year, an interim revaluation covering land, non forest installations, roads and bridges is conducted using current market indices obtained from LPI in accordance with in accordance with the TPP 14-01. This policy adopts fair value in accordance with AASB 13 Fair Value Measurement, AASB 116 Property, Plant and Equipment and AASB 140 Investment Property.

(i) Property, Plant & Equipment

Land

All land, being Crown Land and the corporation owned land, under forests and plantations and under administrative buildings, offices, mechanical workshops and other non-forest installations are carried at fair value.

Fair value is measured at the highest and best use by market participants that are physically possible, legally permissible and financially feasible. The highest and best use takes into account the characteristics of the asset being measured, including any socio-political restrictions imposed by government. After taking into account these considerations, the highest and best use is the existing use. LPI supported this basis of valuation by recognising that the corporation's land was held for continued use and by performing the valuation in accordance with AASB13 Fair Value Measurement and NSW Treasury Policy Paper TPP14-01: Valuation of Non-Current Assets at Fair Value.

The valuation recognised areas that were currently utilised for timber producing purposes and other areas such as reserves and exclusion zones where no commercial activities are carried out by the corporation.

Roads & Bridges

Major Roads and Bridges were independently revalued by LPI at 30 June 2012 on the basis of written down replacement cost, which approximates fair value.

Costs of building or significantly upgraded primary access roads (Class A) and secondary access roads (Class B) are capitalised as incurred. Maintenance costs on these higher classification roads are expensed as incurred. All other costs of maintaining and developing the rest of the roading infrastructure are expensed as incurred.

Heavy Plant and Equipment, Motor Vehicles and Mobile Plant

Heavy Plant and Equipment, Motor Vehicles and Mobile Plant are assessed at 30 June every financial year by management. The carrying value as at 30 June 2014 approximates fair value.

(ii) Biological Assets

Under AASB 141 Agriculture, a biological asset is defined as 'a living animal or plant'. The corporation's assets falling into this category consist of plantation timber (softwood and hardwood) and native forest timber.

The corporation manages available forest areas on a sustainable yield basis. Sustainable yield means that the volume harvested will approximate, over long-term harvest cycles, annual forest growth of the harvestable forest areas. As a result, all costs incurred in managing, maintaining and developing the timber resources are expensed as incurred on the basis that all relevant costs are incurred in maintaining a constant forest resource.

The corporation reports its biological assets at fair value less estimated point-of-sale costs. Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Point-of-sale costs include all costs that would be necessary to sell the assets.

As there is no observable active and liquid market for the corporation's forest assets, the corporation has, in accordance with the provisions of AASB 13 and AASB 141, adopted the Net Present Value (NPV) methodology under income approach of valuation as the most appropriate alternative for estimating the fair value of its forest assets.

Plantation Timber

The corporation manages approximately 234,000 (2013 – 235,000) hectares of softwood plantations and 34,000 (2013 – 33,000) hectares of hardwood plantations. The majority of the corporation's softwood plantation estates comprise radiata pine. The hardwood plantations consist mainly of endemic eucalypts and are predominately located on the NSW north coast.

Native Forest Timber

The corporation manages approximately 1.8 million (2013 – 1.8million) hectares of native forests. Native forests are predominantly coastal and tableland eucalypt forests and smaller areas of red gum in the state's south-west and cypress pine in the state's central west.

Valuation of Biological Assets

The Net Present Value (NPV) methodology

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.

Under the NPV methodology, valuation changes mainly arise from:

- Changes in timber volume associated with growth and also changes to the overall estate as a result of annual planting and harvesting activity;
- Changes in timber prices;
- Changes in forest production costs; and
- Changes in the discount rate used in the discounted cash flow calculation.

Assumptions underpinning the NPV calculation are:

- Forest valuations are based on the expected volumes of merchantable timber that will be realised from existing stands, given current management strategies and timber recovery rates;
- Only the current crop (standing timber) is valued. The cash flow analysis is based on the anticipated timing of the harvest of existing stands, which has been developed in the context of sustained yield management;
- Volume increments/decrements are determined both by periodic re-measurement of forest samples and by modelling growth from the date of the most recent measurement to date of harvest;
- Prices used in the NPV calculation are based on the CPI adjusted average prices achieved over the previous year, current year, and next year's budget. The use of prior year averages reduces the impact of significant annual pricing variations;
- Ancillary income earned from activities such as the leasing of land for grazing and other occupancy rights is added to the net harvest revenues;
- Costs used in the NPV calculation are based on the CPI adjusted average costs of previous year, current year, and next year's budget. These costs are unadjusted for any increases in operational efficiency which might occur in the future;

The discount rate used is approved by the Board of Directors and is based on the Capital Asset Pricing Model, relevant Treasury guidelines and industry benchmark data. The discount rate is expressed in real terms, before income tax, and has been set with reference to forestry industry risk margins relative to overall market risk margins. The use of a 'real' discount rate effectively allows for all prices and costs to be expressed in current dollar terms. The discount rate used for the current year valuation is 8.50% (2013: 8.52%).

Sources of valuation of biological assets

Plantations

The fair value (based on NPV) of the biological assets has been determined by appropriately qualified staff employed by the corporation using advanced modelling techniques/methods.

Wood flows available from the regional plantation forest estates are estimated using, an industry-standard forest estate modelling system which simulates growth, harvesting and replanting of forests over an extended time period. Timber yield estimates are made by the application of growth and yield models to forest inventory measurements and the aggregate wood flow from regional forests is constrained by the requirement to meet contracts to supply logs to existing customers.

The total standing volume of trees expected at the date of harvest is converted to an assortment of log products by the application of models which simulate the manufacture of saleable log products. The estimates of future log product yields are based on past experience of actual yields in similar crops. Cash flows are determined for the existing current crop only.

Native Forests

The gross area of native forests from which the log supply is drawn is reduced by Forest Management Zoning and other exclusions. In the north and south coast regions an additional "net harvest modifier" is then applied to reflect the impact of unmapped exclusions prescribed by licences that are not area specific. A "strike rate modifier" is used to reduce the harvest area to account for unmapped areas with significant floral and faunal values.

The cash flow analysis is underpinned by projections of future wood volume flows over a 100 year period for each of the major native forest estates. The wood flows are determined using the FRAMES (Forest Resource Area Management Evaluation System) toolkit initialised with the most recent resource inventory information. It is the intention of the corporation to update the inventory on an annual basis by remeasuring plots that have been disturbed due to harvesting or where it is more than 10 years since the previous measurement.

Notes to and forming part of the financial statements (continued)

Estimates of volume are adjusted by applying "recovery factors" to the volumes of log products available from each regional resource. These recovery factors reflect the differences between the external features recorded for standing trees at inventory and those found when trees are felled and logs are processed and internal defects become visible. This enables the impact of internal defects in the timber to be incorporated into the estimates of future log product volume availability.

Native Forests is a separate cash generating unit (CGU), however as the net cash flows from the CGU are negative, related assets apart from land are 100% impaired.

(iii) Impairment of other tangible assets

At each reporting date, the corporation reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the corporation estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(iv) Impairment of intangible assets

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset maybe impaired. Where an indicator of impairment exists, the asset will be written down to the recoverable amount. Recoverable amount is the greater of fair value less costs to sell and value in use.

(k) Maintenance and Repairs

The corporation's policy is to maintain property, plant and equipment in good order and condition requiring ongoing maintenance and repair. The costs of maintenance and repairs are generally charged as expenses when incurred, except where they relate to the replacement of a significant component of an asset or a major upgrade of an asset, in which case the costs are capitalised and depreciated. Other routine operating maintenance, repair and minor renewal costs are also expensed as incurred.

(l) Derecognition of Assets

Assets are derecognised upon disposal where there is no future economic benefits expected to arise from the continued use. Any gain or loss from derecognition of assets upon disposal is included in the Statement of Comprehensive Income in the year the item is derecognised.

(m) Other Financial Assets

Investments are initially recognised at fair value, less in the case of investments not at fair value through profit and loss, transaction costs. The corporation determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this at each month reporting date. Please refer to note 2(q).

(n) Intangible Assets

Software

Software that is acquired or developed by the corporation which has a finite useful life is measured at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

Intangible assets are amortised on a straight-line basis in profit or loss over their estimated useful lives, from the date that they are available for use. The estimated useful life for Software for the current and comparative years is 5 years. Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

(o) Borrowings

Borrowings are measured at amortised cost, using the effective interest rate method. Interest is accrued over the period it becomes due and is recorded as part of other creditors.

(p) 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 cost is recorded in the Statement of Comprehensive Income.

(q) Financial Instruments

Recognised financial instruments	Accounting policies	Terms and conditions
Financial Assets		
Cash	Short-term deposits are stated at net realisable value	Cash is deposited at call.
Receivables	Trade receivables are carried at nominal cost	Credit sales generally on 7, 14, or 30 day settlement terms.
Other financial assets	Investments are stated at net realisable value. Interest and movements in market value are recognised in the Statement of Comprehensive Income where earned.	All investments during the year were at call.
Financial Liabilities		
Accounts payable and other creditors	Liabilities are recognised for amounts to be paid in the future for goods and services received.	Trade liabilities are settled within 30 days of the month in which they are incurred in line with NSW Government policy.
Interest-Bearing Loans and Borrowings	Liabilities for loans are recognised at the time of entering into the arrangement	A liquidity risk policy has been adopted by which no more than 30% of the total debt matures in any one year. All borrowings are sourced from the NSW Treasury Corporation.

(r) Cash and Cash Equivalents

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.

(s) Finance Costs

Finance costs are recognised as expenses in the year in which they are incurred, except where they are included in the costs of qualifying assets (where valid).

Finance costs include:

(i) interest on bank overdrafts and short-term and long-term borrowings;

(ii) amortisation of discounts or premiums relating to borrowings; and

(iii) government guarantee fees

(t) Provisions

Provisions are recognised when past events result in a present obligation, that will involve a future sacrifice of economic resources and the amount of provision can be measured reliably.

The amount of provisions recognised at reporting date are derived after estimating the considerations required to settle the obligation taking into account both the associated risks and uncertainties.

In circumstances where there are recoveries of settlement obligations from third parties, the receivable amount will be recognised as an asset if there is absolute certainty of recovery and recoverable monies can be reliably measured.

Provisions that are measured by expected cash outflows on future settlement dates to settle the present obligation will be discounted by an appropriate rate of discount so as to obtain the present value of the expected cash outflows.

The discount rate, i.e. government bond rate that is used to compute the present value of cash outflows reflects the specific risks pertaining to the obligation and the current market assessment of the present value of money. Any increase in the provision due to discounting is recognised as a finance cost.

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. The provision is measured at net present value of the expected future net benefit/ (cost) from the contract. These are discounted at the rate of 8.50% (2013: 8.52%), same as used in biological assets valuation.

(u) Leased Assets

Leases are classified as finance leases if at the end of the lease term, the risk and ownership of the leased assets substantially accrued to the lessee.

Finance leases are capitalised at the inception of the lease based on the lower of fair value of the leased assets or the present value of the minimum lease payments.

All other leases are classified as operating leases. Operating lease payments are recognised as expenses in the Statement of Comprehensive Income on a straight-line basis over the lease term.

(v) Dividend

The corporation's Board of Directors has recommended a dividend payment of $9,665,000 (2013: $9,119,000) which is calculated on adjusted net profit after tax in according to TPP 14-4 Financial Distribution Policy for Government Businesses.

(w) Revenue Recognition

Revenues are recognised at the fair value of the consideration received net of the amount of GST payable to the taxation authority.

(i) Sale of Timber and Related Activities

Revenue from the sale of timber and related activities is recognised (net of returns, discounts and allowances) when the significant risks and rewards of ownership transfer to the buyer.

(ii) Forest Management Services

Revenue from forest management services is typically received in advance, with the amount received representing the net present value and as agreed within individual contractual arrangements. Revenue from forest management services is then recognised over the period of the contractual term unless it is refunded.

(iii) Rental Income

Revenue from investment properties is recognised on a straight line basis over the period of the lease.

(x) 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.

(y) Employee Benefits

Until 22 April 2013, public service employees were employed by DPI and fieldworkers by the FCD. On 22 April 2013, pursuant to the Treasurer's Order and the *Forestry Act 2012*, all employees and their related liabilities were transferred to the corporation. The employee related liabilities are disclosed as provision of employee benefits as on 30 June 2013.

Salaries & Wages

Salaries and wages are recognised and measured for employees' services up to the reporting date at nominal amounts based on the amounts expected to be paid when the liabilities are settled.

Workers Compensation Insurance

The corporation is a licensed self insurer under the provisions of the *Workers Compensation Act 1987*. In accordance with regulations that govern the operations of Workers Compensation, an independent actuary has determined the value of the outstanding claims liability as at 30 June 2014 for the corporation. In addition, separate insurance cover is held with private insurance companies for excess total incident and total claims costs.

From 1 January 2013, all employees are covered under the new Forests NSW Enterprise Agreement 2012.

Annual Leave

Annual leave benefits that are payable at the reporting date are measured on an undiscounted basis at the nominal amount expected to be settled, except for annual leave benefits that are expected to be settled beyond 12 months. The annual leave benefits that are expected to be settled beyond 12 months are measured at present value in accordance with AASB 119 Employee Benefits and discounted using the yield at the reporting date on 10 year Government bonds if the impact of inflation and discounting is material.

Long Service Leave

A liability for long service leave is recognised by the corporation and is measured in accordance with AASB 119 Employee Benefits as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expect future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates at the reporting date on notional government guaranteed securities with terms to maturity that match, as closely as possible, the estimated future cash outflows.

The long service leave liability is assessed by actuaries at 30 June each year.

Sick Leave

Sick leave is non-vesting and is expensed as incurred. In line with past results, sick leave taken in future periods is expected to be well below entitlements in those periods so no provision is necessary at 30 June.

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.

Defined Contribution Plans

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 Plans

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 in respect of 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 national government 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.

As of 22 April 2013, the corporation became the direct employer of all public service employees and fieldworker staff. Consequently, the employee defined benefits Note 17 contains details for all employees as at 30 June 2013 and 30 June 2014.

(z) Investment Assets

The corporation does not actively trade or engage in the investment property market. It leases offices and other buildings sites for rental income that are surplus to its requirements.

Investment property is measured initially at its cost, including transaction costs and subsequently restated at fair value. Gains or losses arising from changes in the fair value of investment property are included in the Statement of Comprehensive Income when they arise.

Investment properties are derecognised when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected. No depreciation is charged on investment properties.

(aa) Accounting standards and interpretations issued but not yet applied

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2014, and have not been applied in preparing these financial statements. The corporation does not plan to adopt these standards early and the extent of their impact has not been determined.

NSW Treasury issued NSWTC 14/03 circular which states not to early adopt any of the new or revised Standards or Interpretations.

List of new standards and interpretations are as follows:

a. AASB 9, AASB 2010-7 and AASB 2012-6 regarding financial instruments

b. AASB 2012-3 regarding offsetting financial assets and financial liabilities

c. AASB2013-3 amendments to AASB 136 recoverable amount disclosures for non-financial assets

The corporation does not expect the new standards to have a significant impact.

(ab) Comparative Figures

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

Note: 3 Financial Risk Management

The corporation has exposure to the following risks from their use of financial instruments:

- Credit Risk;
- Liquidity Risk;
- Market Risk.

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 by senior management on a continuous basis.

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).

Credit risk arises from the financial assets of the corporation, including cash, receivables and authority deposits. Some collateral is held by the corporation. The corporation has not granted any financial guarantees.

Credit risk associated with the corporation's financial assets, other than receivables, is managed through the selection of counterparties and establishment of minimum credit rating standards. Authority deposits held with NSW Treasury Corporation (NSW TCorp) are guaranteed by the State and are AAA rated by Standard and Poor's.

The credit risk on the financial assets of the corporation has been recognised in the Statement of Financial Position at the carrying amount, net of any allowance for doubtful debts.

The corporation has a Credit Policy, which aims to mitigate the credit risk exposure from our sales customers. Customers are assessed for credit worthiness before payment and delivery terms are offered. The corporation's review includes external ratings, when available, company searches, and trade references. Purchase limits are established and customers are required to lodge suitable security for the estimated maximum credit exposure to its sales. The policy requires stringent credit assessment of customers before the granting of any unsecured credit.

The corporation has established an allowance for impairment that represents its estimate of incurred losses in respect 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 in respect of losses that have been incurred but not yet identified. The collective loss allowance is based on historical data of payment statistics.

Liquidity Risk

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.

During the current and prior years, there were no defaults or breaches on any loans payable. No assets have been pledged as collateral. The corporation's exposure to liquidity risk is deemed insignificant based on prior periods' data and current assessment of risk.

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 Hour Glass Investment facilities. 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 NSW TCorp. The corporation does not account for any fixed rate financial instruments at fair value through the Statement of Comprehensive Income or as available for sale. Therefore for these financial instruments, a change in interest rates would not affect the Statement of Comprehensive Income or equity. A reasonable possible change of +/- 1% is used, consistent with current trends in interest rates. The basis will be reviewed annually and amended where there is a structural change in the level of interest rate volatility. The agency exposure to interest rate risk is set out below.

The corporation's exposure to interest rates is set out in notes 8 and 23. Exposures arise from liabilities bearing variable interest rates as the corporation intends to hold fixed interest assets and liabilities to maturity. Interest rate exposure is limited to interest rates available at the time of entering into arrangements with NSW TCorp. The assets or liabilities are held until maturity.

Other price risk – NSW TCorp Hour Glass Investment facilities

Exposure to 'other price risk' primarily arises through investment with NSW TCorp Hour Glass Investment facilities, which are held for strategic rather than trading purposes. The corporation has no direct equity investments.

The corporation only holds units in the Hour Glass Investment Cash Facility trust. This trust only invests in Cash and money market instruments that have an investment horizon up to 1.5 years (June 2013 – Up to 1.5 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 above 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 Hour Glass facilities 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 Hour Glass Investment facilities are designated at fair value through profit or loss and therefore any change in unit price impacts directly on profit (rather than equity).

Notes to and forming part of the financial statements (continued)

Note 4: Revenue

	Economic Entity 2014 $'000	Economic Entity 2013 $'000
Revenue		
a) Forests sales revenue		
Sale of timber and related products	292 832	281 678
Total Forest sales revenue	292 832	281 678
b) Other revenue		
Other Services Rendered	10 401	12 623
Rental Income from Investment Properties	208	175
Other Rental	4592	3955
Gain/(Loss) on disposal on Non-Current Assets	339	1610
Interest Received	1085	649
Total Other revenue	16 625	19 012
c) Grants revenue		
Community service obligations	14 177	9407
Other state government grants	437	241
Total Grants revenue	14 614	9648

Community Services and Government Grants

The corporation's Community Service and Government Grants are detailed in the following notes:

(i) Community Service Obligations (CSO)

The corporation incurred $14.18 million (2013: $9.41 million) costs for services which include provision of recreation facilities, education and advisory services, government liaison and regulatory services, community fire protection and research. In 2014, the corporation obtained additional funding for CSO of $5.23 million to compensate for CSO activities it carried out in native forests. Any unspent CSO grants are carried forward to the next financial year for on-going projects. The contributions utilised were included in the financial statements as revenue. These costs are included in operating expenditure in Note 5.

(ii) Other Government Grants

The State Government also paid the corporation $0.44 million (2013: $0.24 million) for the performance of specific services including tasks associated with the Interim Assessment Process and related Comprehensive Resource Assessments.

Note 5: Expenses from Operations

	Economic Entity 2014 $'000	Economic Entity 2013 $'000
Operating Expenses		
Contract harvest and haulage	130 875	134 698
Contractors	20 174	21 749
Other operating expenses [(a)]	14 500	5461
Materials	15 932	14 864
Occupancy costs	2261	2103
Plantation establishment costs	18 610	15 080
Travel and Accommodation	1552	1569
Telephone and Communication costs	1108	1198
Total Operating Expenses	205 012	196 722

(a) In 2014, other operating expenses include a payment of $8.55 million to ensure sustainable supply of timber from North Coast forests.

Notes to and forming part of the financial statements (continued)

Note 6: Finance Costs

	Economic Entity 2014 $'000	Economic Entity 2013 $'000
Interest Expense	7238	7560
Government Guarantee Fee	1652	2011
Financing Costs Recognised in Comprehensive Income	8890	9571

Note 7: Income Tax Expense

	Economic Entity 2014 $'000	Economic Entity 2013 $'000
Current Tax Expense / (Benefit)		
Current Period	7583	4242
Prior Year	30	(74)
Deferred Tax Expense / (Benefit)		
Origination and reversal of temporary differences	22 573	1873
Prior Year	363	81
Total Income Tax Expense / (Benefit)	30 549	6 122
Numerical reconciliation between tax expense and pre-tax accounting profit		
Pre-Tax Accounting Profit / (Loss) (a)	97 062	(6426)
Income tax using the statutory rate of 30% (a)	29 118	(1928)
Aggregate income tax expense relating to timing differences and non deductible/non assessable items (a)	436	(3738)
Prior Year	363	81
Pre-CGT Gain	-	(341)
Utilisation of capital losses where no deferred tax asset was recognised	(118)	-
Under/(Over) prior year (a)	30	(74)
Income Tax Expense / (Benefit)	29 829	(6000)
Income tax on changes in revaluation surplus	(140)	-
Income tax on actuarial gain / (loss) (a)	860	12 122
Total Income Tax Expense / (Benefit)	30 549	6122

Tax Recognised Directly in Equity

Economic Entity	2014 Tax (expense) / benefit $'000	2013 Tax (expense) / benefit $'000
Transfer of asset revaluation reserves to retained profit	1254	1311
Initial Recognition of Employee Benefits (a)	-	50 092
	1254	51 403

Tax Recognised in Other Comprehensive Income

Economic Entity	2014 Tax (expense) / benefit $'000	2013 Tax (expense) / benefit $'000
Tax on other comprehensive income (a)	(720)	(12 122)
	(720)	(12 122)

(a) The adoption of the revised AASB 119 Employee Benefits resulted in prior year restatement of employee related expenses, defined benefit plan actuarial gain and income tax thereon (refer to note 2 for more details).

Note 8: Cash and Cash Equivalents

Details regarding credit risk, liquidity risk and market risk arising from financial statements are disclosed in Note 3 and 23.

	Economic Entity 2014 $'000	Economic Entity 2013 $'000
a) Reconciliation of Cash and Cash Equivalents		
Cash at bank	10992	15502
Cash on hand	21	23
NSW Treasury Corporation Hour Glass Cash Facility	10683	4756
Balance as per Statement of Cash Flows	21696	20281

The NSW Treasury Corporation Hour Glass cash facility has been subject to floating interest rates between 2.92% and 3.24% (2013: 3.69% and 4.35%)

b) Reconciliation of net profit after tax to net cash flows from operations		
Net Profit after income tax (a)	67233	(426)
Add/(less) non cash items:		
Depreciation	8892	9055
(Profit)/loss on disposal of non-current assets	(339)	(1610)
(Increment)/Decrement in fair value of biological assets	(74118)	26077
Income tax expense/(benefit) (a)	29829	(6000)
Other non-cash items (a)	3759	43949
	35256	71045
Change in operating assets and liabilities		
Movement in receivables	2825	3749
Movement in inventories	318	126
Movement in creditors	(3336)	(13456)
Movement in provisions (a)	(2186)	(45765)
Movement in income tax	(2075)	(1097)
	(4454)	(56443)
Net cash from operating activities	30802	14602

(a) The adoption of the revised AASB 119 Employee Benefits resulted in prior year restatement of employee related expenses, defined benefit plan actuarial gain and income tax thereon (refer to note 2 for more details).

Notes to and forming part of the financial statements (continued)

Note 9: Trade and Other Receivables

Details regarding credit risk, liquidity risk and market risk are disclosed in Note 3 and 23.

	Economic Entity 2014 $'000	Economic Entity 2013 $'000
Trade Receivables	39 281	44 169
Less: Allowance for impairment	(97)	(1999)
	39 184	42 170
Other Debtors	2603	2617
Prepayments	2133	3063
Total Receivables	43 920	47 850

	Economic Entity 2014 $'000	Economic Entity 2013 $'000
Allowance for impairment		
Carrying amount at the beginning of the year	(1999)	(1965)
Additional provisions made in the year	(97)	(44)
Amounts used during the year	1952	10
Unused amounts reversed during the year	47	-
Carrying amount at the end of the year	(97)	(1999)

At 30 June, the ageing analysis of trade receivables is as follows

	Economic Entity 2014 $'000	Economic Entity 2013 $'000
0-30 Days	27 261	25 930
0-30 Days (Considered Impaired)	-	-
31-60 Days (Past due but not impaired)	9909	15 326
31-60 Days (Considered impaired)	-	-
61-90 Days (Past due but not impaired)	927	373
61-90 Days (Considered impaired)	-	45
> 90 Days (Past due but not impaired)	1087	543
> 90 Days (Considered impaired)	97	1952
Total	39 281	44 169

Note 10: Inventories

The basis for valuation of inventories is set out in Note 2(h)

	Economic Entity 2014 $'000	Economic Entity 2013 $'000
Work in progress and finished goods	3311	3629
Total Inventories	3311	3629

Notes to and forming part of the financial statements (continued)

Note 11: Property, Plant and Equipment

Economic Entity	Crown Land $'000	Freehold Land $'000	Buildings $'000	Roads and Bridges $'000	Plant and Equipment $'000	PPE WIP $'000	Total $'000
Gross at 1 July 2012	1 036 653	1899	31 389	109 782	24 539	298	1 204 560
Accumulated depreciation and impairment	-	-	(13 792)	(39 005)	(7835)	-	(60 632)
Net carrying amount at 1 July 2012	1 036 653	1899	17 597	70 777	16 704	298	1 143 928
Additions		-	25	-	1933	381	2339
Transfers from WIP	-	-	310	156	24	(490)	-
Transfers (to)/from Investment Property	43	-	156	-	-	-	199
Disposals	(4171)	-	(79)	-	(562)	-	(4812)
Depreciation expense	-	-	(871)	(3542)	(4423)	-	(8836)
Net carrying amount at 30 June 2013	1 032 525	1899	17 138	67 391	13 676	189	1 132 818
Gross book value	1 032 525	1899	31 698	109 938	23 634	189	1 199 883
Accumulated depreciation and impairment	-	-	(14 560)	(42 547)	(9958)	-	(67 065)
Net carrying amount at 1 July 2013	1 032 525	1899	17 138	67 391	13 676	189	1 132 818
Additions	-	-	-	-	1892	443	2335
Transfers from WIP	-	-	465	-	148	(613)	-
Transfers (to)/from Investment Property	(1050)	-	(278)	-	-	-	(1328)
Asset Revocation	(288)	-	-	-	-	-	(288)
Disposals	(3378)	-	(1357)	-	(589)	-	(5324)
Depreciation expense	-	-	(867)	(3547)	(4259)	-	(8673)
Revaluation (loss) / income	(104)	-	-	-	-	-	(104)
(Impairment Loss) / Reversal of Impairment Loss	-	-	(451)	-	-	-	(451)
Net carrying amount at 30 June 2014	1 027 705	1899	14 650	63 844	10 868	19	1 118 985
Gross book value	1 027 705	1899	29 503	109 938	22 851	19	1 191 916
Accumulated depreciation and impairment	-	-	(14 853)	(46 094)	(11 983)	-	(72 931)
Net carrying amount at 30 June 2014	1 027 705	1899	14 650	63 844	10 868	19	1 118 985

Note 12: Biological Assets – Softwood Plantations

	Economic Entity 2014 $'000	Economic Entity 2013 $'000
Current		
Biological assets at fair value	65 383	51 745
Non-Current		
Biological assets at fair value	716 982	656 502
Total	782 365	708 247

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(j)(ii), this valuation is underpinned by several assumptions, the major ones being the timber volume sold, log prices and operating costs, and the discount rate used. Changes in these assumptions, such as movement in log prices due to market fluctuations or selling into emerging domestic and overseas markets, would have a corresponding impact on the valuation of the standing timber. The table below provides the sensitivity analysis on these significant assumptions and their impact on the valuation.

	Change	Current 2014	Non-Current 2014	Current 2013	Non-Current 2013
Discount Rate	+ 1 %	(299)	(66 723)	(237)	(61 802)
(Weighted Average Costs of Capital)	- 1 %	303	78 782	240	(72 762)
Expected future sales values	+ 5 %	10 386	97 767	9254	92 535
	- 5 %	(10 386)	(97 767)	(9254)	(92 535)
Expected future costs	+ 5 %	(7117)	(61 918)	(6667)	(59 710)
	- 5 %	7117	61 918	6667	59 710
Expected future changes in volume	+ 5 %	5380	50 924	4787	48 166
	- 5 %	(5380)	(50 924)	(4787)	(48 166)

Economic Entity	Softwood Plantations $'000	Native Forests $'000	Total $'000
Balance at 1 July 2012	734 324	-	734 324
Harvested timber (transferred to inventories)	(30 123)	-	(30 123)
Change in fair value less estimated point of sale costs			
- Due to changes in volumes, prices and markets	14 930	-	14 930
- Due to change in discount rate	(10 884)	-	(10 884)
Change in fair value less estimated point of sale costs	(26 077)		(26 077)
Balance at 30 June 2013	708 247	-	708 247
Balance at 1 July 2013	708 247	-	708 247
Harvested timber (transferred to inventories)	(29 014)	-	(29 014)
Change in fair value less estimated point of sale costs			
- Due to changes in volumes, prices and markets	101 682	-	101 682
- Due to change in discount rate	1450	-	1450
Change in fair value less estimated point of sale costs	74 118		74 118
Balance at 30 June 2014	782 365	-	782 365

Biological valuations for native forests assets have a nil value due to negative net present values.

Notes to and forming part of the financial statements (continued)

Note 13: Investment Assets

	Economic Entity 2014 $'000	Economic Entity 2013 $'000
Investment assets at the beginning of the year	6646	6845
Transfer from/ (to) Buildings/land	1328	(199)
Investment assets at the end of the year	7974	6646

Note 14: Intangibles

(a) Reconciliation of the opening and closing balances of intangibles

Economic Entity	Software $'000
Gross value at 1 July 2012	1093
Accumulated amortisation and impairment	(556)
Fair value at 1 July 2012	537
Additions	-
Amortisation	(218)
Impairment	-
Fair value at 30 June 2013	319
Gross value at 1 July 2012	1093
Accumulated amortisation and impairment	(774)
Fair value at 1 July 2013	319
Additions	-
Amortisation	(219)
Impairment	-
Fair value at 30 June 2014	100
Gross book value	1093
Accumulated amortisation and impairment	(993)
Fair value at 30 June 2014	100

Notes to and forming part of the financial statements (continued)

Note 15: Fair value measurement of non-financial assets/(liabilities)

(a) Fair value hierarchy

2014	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Property plant and equipment				
Land (includes Crown and Freehold Land)	-	1 029 605	-	1 029 605
Buildings	-	-	14 650	14 650
Plant and equipment	-	-	10 868	10 868
Roads and bridges	-	-	63 844	63 844
Investment property	-	7974	-	7974
Biological assets	-	-	782 365	782 365
Onerous contracts provision (Note 21)	-	-	(2913)	(2913)
Total	-	1 037 579	868 814	1 906 393

There have been no transfers between Level 1 and Level 2 during the period

(b) Valuation techniques, inputs and relationship of unobservable inputs to fair value

Type (Level 2)	Valuation technique	Inputs	LPI's Process
Land (includes Crown and Freehold Land) Investment property	The corporation obtained from LPI, market movement indices for the year to 30 June 2014 and applied on individual class of assets.	Current market indices	LPI indices have 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.

Type (Level 3)	Valuation technique	Inputs	Relationship of unobservable inputs to fair value
(a) Buildings (b) Roads and bridges (c) Plant and equipment	The corporation obtained from LPI, market movement indices for buildings, roads and bridges the year to 30 June 2014 and applied on individual class of assets. Plant and equipment, including heavy plant, vehicles and 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. A comprehensive revaluation was performed by external valuer as on 30 June 2012.	In FY 2012, a comprehensive valuation was performed where LPI used depreciated replacement cost (DRC) for building, roads and bridges assets. For current year fair value measurement, LPI provided indices based on market movement in construction cost.	The fair value would increase (decrease) if current market indices for buildings, roads and bridges increase (decrease). The fair value of plant and equipment would increase (decrease) based on their current condition and future useful life.

Notes to and forming part of the financial statements (continued)

Type (Level 3)	Valuation technique	Inputs	Relationship of unobservable inputs to fair value
Biological assets: Current standing timber	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 existing current crop only from one rotation length. The expected net cash flows are discounted using appropriate discount rate.	■ Estimated three years average timber market prices per tonne or m^3. ■ Estimated yield per hectare or estimated timber projections. ■ Estimated three years average direct and indirect costs. ■ Discount rate of 8.50%	The estimated fair value would increase (decrease) if: ■ the estimated three years average timber market price were higher (lower). ■ the estimated yield per hectare or estimated timber projections were higher (lower). ■ the estimated three years average direct and indirect cost were lower (higher). ■ the discount rate was lower (higher). *(Refer to note 12 for reconciliation and sensitivity analysis)*
Onerous contracts provision	Discounted net future income/ (expenses): Onerous contracts provision considers the present value of the net future income/ (expenses) expected to be generated from existing contracts. The projections include existing period of the contract for one rotation of the plantation. The expected net future income/ (expenses) are discounted using appropriate discount rate.	■ Estimated three years average direct and indirect costs. ■ CPI adjusted opening balance of advance amount from the contract. ■ CPI adjusted income rate mentioned in the contract. ■ Discount rate of 8.50%	The estimated fair value would increase (decrease) if: ■ the discount rate was higher by 1% then provision was lower by $129K ■ the discount rate was lower by 1% then provision was higher by $113K. ■ the estimated three years average direct and indirect cost were lower (higher) by 5% then provision was lower (higher) by $353K respectively. *(Refer to note 21 for reconciliation)*

(c) Reconciliation of level 3 fair value measurements

The following table provides a reconciliation from opening balance to the closing balance for Level 3 fair values:

2014	Buildings $'000	Roads and Bridges $'000	Plant and Equipment $'000	Total $'000
Fair value as at 1 July 2013	17 138	67 391	13 676	98 205
Additions	465	-	2040	2505
Revaluation increments in statement of comprehensive income	15	-	-	15
Revaluation decrements in other comprehensive income	(466)	-	-	(466)
Transfers to Level 2	(278)	-	-	(278)
Disposals	(1357)	-	(589)	(1946)
Depreciation	(867)	(3547)	(4259)	(8673)
Fair value as at 30 June 2014	14 650	63 844	10 868	89 362

Notes to and forming part of the financial statements (continued)

Note 16: Deferred Tax Assets and Liabilities

Economic Entity	Assets		Liabilities		Net	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Property, plant and equipment	(1522)	(222)	304925	306045	303403	305823
Biological Assets	-	-	234710	212474	234710	212474
Provisions	(41292)	(42365)	-	-	(41292)	(42365)
Revenue in advance	(5399)	(5684)	-	-	(5399)	(5684)
Other asset	(139)	(198)	449	-	310	(198)
Net deferred tax (assets)/ liabilities	(48352)	(48469)	540084	518519	491732	470050

Economic Entity	Balance 30 June 2012	Recognised in profit or loss	Recognised directly in equity	Balance 30 June 2013	Recognised in profit or loss	Recognised in other comprehensive income	Recognised directly in equity	Balance 30 June 2014
Property, plant and equipment	307535	(401)	(1311)	305823	(1026)	(140)	(1254)	303403
Biological Assets	220297	(7823)	-	212474	22236	-	-	234710
Provisions	(4783)	12510	(50092)	(42365)	213	860	-	(41292)
Revenue in advance	(5469)	(215)	-	(5684)	285	-	-	(5399)
Other asset	(96)	(102)	-	(198)	508	-	-	310
	517484	3969	(51403)	470050	22216	720	(1254)	491732

Note 17: Employee Defined Benefits

The NSW Treasury has previously undertaken the practice of offsetting investment credits against the superannuation contributions tax. This year, NSW Treasury has advised that the accounting standard does not allow investment credits to be netted off against the superannuation contributions tax and that the defined benefit liability should be retrospectively grossed up for this contributions tax. This has changed the calculation of the defined benefits liability/ asset presented in the statement of financial position. The information disclosed in this note has been provided by Pillar Administration in accordance with AASB 119.

Until 22 April 2013, public service employees were employed by DPI and fieldworkers by the FCD. On 22 April 2013, pursuant to the Treasurer's Order and the *Forestry Act 2012*, all employees and their related liabilities were transferred to the corporation. Actuarial gains and losses are recognised immediately in other comprehensive income in the year in which they occur.

Nature of the benefits provided by the fund – Para 139(a)(i)

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 - Para 139(a)(ii)

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 Scheme 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 NSW 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 NSW 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 2012.

Notes to and forming part of the financial statements (continued)

Description of other entities' responsibilities for the governance of the fund - Para 139(a)(iii)

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 - Para 139(b)

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

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

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

Description of significant events - Para 139(c)

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

Reconciliation of the Net Defined Benefit Liability/(Asset) - Para 140(a)

Financial Year to 30 June	SASS		SANCS		SSS		Total	
	2014 $000	2013 $000	2014 $000	2013 $000	2014 $000	2013 $000	2014 $000	2013 $000
Net Defined Benefit Liability/(Asset) at start of year	10253	17802	(322)	1681	94859	130295	104791	149778
Current service cost	1306	1372	389	447	593	813	2287	2632
Net Interest on the net defined benefit liability/(asset)	364	520	(19)	45	3595	3977	3940	4543
Actual return on Fund assets less Interest income	(3956)	(6825)	(716)	(937)	(11028)	(16050)	(15700)	(23811)
Actuarial (gains)/losses arising from changes in demographic assumptions	-	1763	-	9	-	7384	-	9155
Actuarial (gains)/losses arising from changes in financial assumptions	3090	(5697)	613	(840)	7326	(25009)	11029	(31546)
Actuarial (gains)/losses arising from liability experience	2919	2910	426	(315)	(1540)	(5912)	1805	(3316)
Employer contributions	(1361)	(1593)	(344)	(412)	(533)	(639)	(2238)	(2644)
Net Defined Benefit Liability/(Asset) at end of year	12614	10253	27	(322)	93272	94859	105914	104791

Notes to and forming part of the financial statements (continued)

Reconciliation of the Fair Value of Fund Assets – Para 140(a)(i)

Financial Year to 30 June	SASS		SANCS		SSS		Total	
	2014 $000	2013 $000	2014 $000	2013 $000	2014 $000	2013 $000	2014 $000	2013 $000
Fair value of Fund assets at beginning of the year	60 332	53 244	8897	7956	131 253	119 657	200 482	180 857
Interest income	2204	1556	330	231	4788	3505	7322	5291
Actual return on Fund assets less Interest income	3956	6825	716	937	11 028	16 050	15 700	23 811
Employer contributions	1361	1593	344	412	533	639	2238	2644
Contributions by participants	739	729	-	-	353	408	1092	1137
Benefits paid	(8776)	(4486)	(1976)	(1048)	(10 935)	(10 603)	(21 686)	(16 136)
Taxes, premiums & expenses paid	1747	870	(4)	409	706	1597	2449	2877
Fair value of Fund assets at end of the year	61 563	60 332	8307	8897	137 725	131 253	207 595	200 482

Reconciliation of the Defined Benefit Obligation – Para 140(a)(ii)

Financial Year to 30 June	SASS		SANCS		SSS		Total	
	2014 $000	2013 $000	2014 $000	2013 $000	2014 $000	2013 $000	2014 $000	2013 $000
Present value of defined benefit obligations at beginning of the year	70 585	71 047	8575	9637	226 112	249 952	305 272	330 636
Current service cost	1306	1372	389	447	593	813	2287	2632
Interest cost	2568	2076	312	276	8382	7482	11 261	9834
Contributions by participants	739	729	-	0	353	408	1092	1137
Actuarial (gains)/losses arising from changes in demographic assumptions	-	1763	-	9	-	7384	-	9155
Actuarial (gains)/losses arising from changes in financial assumptions	3090	(5697)	613	(840)	7326	(25 009)	11 029	(31 546)
Actuarial (gains)/losses arising from liability experience	2919	2910	426	(315)	(1540)	(5912)	1805	(3316)
Benefits paid	(8776)	(4486)	(1976)	(1048)	(10 935)	(10 603)	(21 686)	(16 136)
Taxes, premiums & expenses paid	1747	870	(4)	409	706	1597	2449	2877
Present value of defined benefit obligations at end of the year	74 177	70 585	8335	8575	230 997	226 112	313 509	305 272

Reconciliation of the effect of the Asset Ceiling - Para 140(a)(iii) - Nil

Fair value of Fund assets - Para 142

All Pooled Fund assets are invested by STC at arm's length through independent fund managers and 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 2014				As at 30 June 2013			
	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	2 452 755	1 572 615	880 140	-	N/A	N/A	N/A	N/A
Australian Fixed Interest	2 365 014	10 928	2 354 086	-	N/A	N/A	N/A	N/A
International Fixed Interest	880 529	-	880 529	-	N/A	N/A	N/A	N/A
Australian Equities	11 738 636	11 494 549	241 423	2664	N/A	N/A	N/A	N/A
International Equities	10 953 329	8 172 677	2 780 531	121	N/A	N/A	N/A	N/A
Property	3 272 986	894 113	692 296	1 686 577	N/A	N/A	N/A	N/A
Alternatives	6 329 410	565 401	4 897 152	866 857	N/A	N/A	N/A	N/A
Total *	37 992 659	22 710 283	12 726 157	2 556 219	N/A	N/A	N/A	N/A

Notes to and forming part of the financial statements (continued)

Fund assets

The percentage invested in each asset class at the balance sheet date:

As at 30 June	2014 %	2013 %
Short Term Securities	6.5%	13.1%
Australian Fixed Interest	6.2%	6.9%
International Fixed Interest	2.3%	2.2%
Australian Equities	30.9%	30.4%
International Equities	28.8%	26.1%
Property	8.6%	8.3%
Alternatives	16.7%	13.0%
Total	100.0%	100.0%

* Additional to the assets disclosed above, at 30 June 2014 Pooled Fund has provisions for receivables/(payables) estimated to be around $2.2 billion, giving an estimated assets totalling around $40.2 billion.

Level 1 – quoted prices in active markets for identical assets or liabilities. The assets in this levels 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 containing 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 cash flow 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 - Para 143

The disclosures below relate to total assets of the Pooled Fund.

The fair value of the Pooled Fund assets include as at 30 June 2014 of $173.9 million in NSW Government bonds.

Significant Actuarial Assumptions at the Reporting Date - Para 144

As at 30 June	2014	2013
Discount rate	3.57% pa	3.80% pa
Salary increase rate (excluding promotional increases)	2.27% pa to 30 June 2015, then 2.5% pa to 30 June 2018, 3.0% pa from 1 July 2018 to 30 June 2023, and 3.5% pa thereafter	2.25% for 2013/2014 (2.95% for PSS); 2.25% pa for 2014/2015; 2.00% pa for 2015/2016 to 2019/2020; 2.50% pa thereafter
Rate of CPI increase	2.5% pa	2.5% pa
Pensioner mortality	as per the 2012 Actuarial Investigation of the Pooled Fund	as per the 2012 Actuarial Investigation of the Pooled Fund

Sensitivity Analysis - Para 145

The entity's total defined benefit obligation as at 30 June 2014 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 2014.

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.

Notes to and forming part of the financial statements (continued)

As at 30 June	2014			2013		
	Base Case	Scenario A -1.0% discount rate	Scenario B +1.0% discount rate	Base Case	Scenario A -1.0% discount rate	Scenario B +1.0% discount rate
Discount rate	3.57%	2.57%	4.57%	N/A	N/A	N/A
Rate of CPI increase	as above	as above	as above	N/A	N/A	N/A
Salary inflation rate	as above	as above	as above	N/A	N/A	N/A
Defined benefit obligation $'000	313 509	356 185	278 410	N/A	N/A	N/A

As at 30 June	2014			2013		
	Base Case	Scenario C +0.5% rate of CPI increase	Scenario D -0.5% rate of CPI increase	Base Case	Scenario C +0.5% rate of CPI increase	Scenario D -0.5% rate of CPI increase
Discount rate	as above	as above	as above	N/A	N/A	N/A
Rate of CPI increase	2.5%	3.0%	2.0%	N/A	N/A	N/A
Salary inflation rate	as above	as above	as above	N/A	N/A	N/A
Defined benefit obligation $'000	313 509	331 725	296 856	N/A	N/A	N/A

As at 30 June	2014			2013		
	Base Case	Scenario E +0.5% salary increase rate	Scenario F -0.5% salary increase rate	Base Case	Scenario E +0.5% salary increase rate	Scenario F -0.5% salary increase rate
Discount rate	as above	as above	as above	N/A	N/A	N/A
Rate of CPI increase	as above	as above	as above	N/A	N/A	N/A
Salary inflation rate	as above	as above plus 0.5% pa	as above less 0.5% pa	N/A	N/A	N/A
Defined benefit obligation $'000	313 509	315 791	311 327	N/A	N/A	N/A

As at 30 June	2014			2013		
	Base Case	Scenario G +5% pensioner mortality rates	Scenario H -5% pensioner mortality rates	Base Case	Scenario G +5% pensioner mortality rates	Scenario H -5% pensioner mortality rates
Defined benefit obligation $'000	313 509	310 133	317 089	N/A	N/A	N/A

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

Asset-Liability matching strategies - Para 146

The Trustee monitors its asset-liability risk continuously in setting its investment strategy. It also monitors cashflows to manage liquidity requirements.

Funding arrangements - Para 147(a)

Funding arrangements are reviewed at least every three years following the release of the triennial actuarial review and was last reviewed following completion of the triennial review as at 30 June 2012. 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.

Notes to and forming part of the financial statements (continued)

Surplus/deficit

The following is a summary of the 30 June 2014 financial position of the Fund calculated in accordance with AAS 25 "Financial Reporting by Superannuation Plans":

Financial Year to 30 June	SASS		SANCS		SSS		Total	
	2014 $000	2013 $000	2014 $000	2013 $000	2014 $000	2013 $000	2014 $000	2013 $000
Accrued benefits*	56 860	56 652	6653	7291	133 948	133 350	197 460	197 293
Net market value of Fund assets	(61 563)	(60 332)	(8307)	(8897)	(137 725)	(131 253)	(207 595)	(200 482)
Net (surplus)/deficit	(4703)	(3680)	(1655)	(1606)	(3777)	2097	(10 135)	(3189)

* There is no allowance for a contribution tax provision within the Accrued Benefits figure for AAS 25. Allowance for contributions tax is made when setting the contribution rates.

Contribution recommendations

Recommended contribution rates for the entity are:

	SASS		SANCS		SSS	
	2014	2013	2014	2013	2014	2013
multiple of member contributions	1.9	1.9			1.6	1.6
% member salary	-	-	2.5	2.5	-	-

Economic assumptions

The economic assumptions adopted for the 30 June 2012 actuarial investigation of the Pooled Fund are:

For the period 30 June	2014 %	2013 %
Expected rate of return on Fund assets backing current pension liabilities	8.3% pa	8.3% pa
Expected rate of return on Fund assets backing other liabilities	7.3% pa	7.3% pa
Expected salary increase rate	SASS, SANCS, SSS 2.7% pa (PSS 3.5% pa) to 30 June 2018, then 4.0% pa thereafter	SASS, SANCS, SSS 2.7% pa (PSS 3.5% pa) for 6 years then 4.0% pa
Expected rate of CPI increase	2.5% pa	2.5% pa

Expected contributions - Para 147(b)

Financial Year to 30 June	SASS		SANCS		SSS		Total	
	2014 $000	2013 $000	2014 $000	2013 $000	2014 $000	2013 $000	2014 $000	2013 $000
Expected employer contributions for FY2015 and FY2014 respectively	1404	1385	368	372	565	653	2,336	2410

Maturity profile of defined benefit obligation - Para 147(c)

The weighted average duration of the defined benefit obligation is 12.3 years.

Profit and Loss Impact

For the year ended 30 June	SASS		SANCS		SSS		Total	
	2014 $000	2013 $000	2014 $000	2013 $000	2014 $000	2013 $000	2014 $000	2013 $000
Current service cost	1306	1372	389	447	593	813	2287	2632
Net interest	364	520	(19)	45	3595	3977	3940	4543
Defined benefit cost	1670	1892	370	492	4187	4791	6227	7175

Notes to and forming part of the financial statements (continued)

Other Comprehensive Income

For the year ended 30 June	SASS		SANCS		SSS		Total	
	2014 $000	2013 $000	2014 $000	2013 $000	2014 $000	2013 $000	2014 $000	2013 $000
Actuarial (gains) losses on liabilities	6008	(1024)	1039	(1146)	5786	(23 537)	12 834	(25 707)
Actual return on Fund assets less Interest income	(3956)	(6825)	(716)	(937)	(11 028)	(16 050)	(15 700)	(23 811)
Total remeasurement in Other Comprehensive Income	2053	(7849)	323	(2083)	(5242)	(39 587)	(2866)	(49 519)

Note 18: Trade and Other Payables

	Economic Entity 2014 $'000	Economic Entity 2013 $'000
Current		
Trade Creditors	27 808	30 193
Revenue Received in Advance	17 994	18 945
Total Current	45 802	49 138
Total Trade and other payables	45 802	49 138

Details regarding credit risk, liquidity risk and market risk, including a maturity analysis of the above payables, are disclosed in Note 3 and 23.

Note 19: Borrowings

	Economic Entity 2014 $'000	Economic Entity 2013 $'000
Non-Current		
NSW Treasury Corporation Loans	108 221	130 908
Total Borrowings	108 221	130 908

Details regarding credit risk, liquidity risk and market risk, including a maturity analysis of the above payables, are disclosed in Note 3 and 23.

Note 20: Dividends Paid/Provided

	Economic Entity 2014 $'000	Economic Entity 2013 $'000
Provision for dividend at beginning of year	9119	5254
Dividend paid	(9119)	(5254)
Dividend provided	9665	9119
Provision for dividend at end of year	9665	9119

Notes to and forming part of the financial statements (continued)

Note 21: Provisions

	Economic Entity 2014 $'000	Economic Entity 2013 $'000
Current		
Employee Benefits (a)	31 195	35 428
Workers Compensation	540	520
Total Current	31 735	35 948
Non-Current		
Employee Benefits	106 564	105 541
Onerous contracts (b)	2913	1979
Workers Compensation	1990	1920
Total Non-Current	111 467	109 440
Total Provisions	143 202	145 388
Movement in provisions (other than employee benefits)		
Onerous contracts		
- Carrying amount at the beginning of the year	1979	751
- additional provisions made in the year	934	1228
- Carrying amount at the end of the year	2913	1979
Workers Compensation		
- Carrying amount at the beginning of the year	2440	4600
- additional provisions made in the year	90	-
- amounts used during the year *	-	(2160)
- Carrying amount at the end of the year	2530	2440
Total Carrying amount of provisions	5443	4419

Those that are current provisions will be settled within 12 months and non-current will be 12 months and beyond. There are no settlements of warranty costs.

** In the 2013 financial year, decrease in workers compensation liability is due to change in Work Cover legislation.*

(a) In relation to employee benefits for annual leave recognised above as a current liability, the corporation expects to make payments totalling $3,755K (2013: $3,950K) in the next reporting period.

(b) Refer to note 15 for fair value measurement of onerous contracts provision

Note 22: Capital and Reserves

Contributed Equity

The corporation has Contributed Equity which represents NSW Government's investment in the corporation.

Asset Revaluation Reserve

The Asset Revaluation Reserve is used to record increments and decrements in the fair value of property, plant and equipment.

Reserve for Deferred Tax Assets

Until 22 April 2013, public service employees were employed by the DPI and fieldworkers by the FCD. On 22 April 2013, pursuant to the Treasurer's Order and the Forestry Act 2012, all employees and their related liabilities were transferred to the corporation.

As a result, a specific reserve is created for the initial recognition of deferred tax asset related to the employee benefits including employee defined benefits.

Capital Management Policy

The corporation is a for-profit entity and it 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. Senior management monitors the return on capital as well as the level of debt and dividends payable to NSW Treasury.

Note 23: Financial Instruments

(i) Contractual Maturity Analysis

2014 Category	< 1 year	1 to 5 years	> 5 years	Cash Flows	Market Value
Fixed Rate Borrowings ($'000)	(6092)	(91 353)	(39 949)	(137 394)	(119 980)

2013 Category	< 1 year	1 to 5 years	> 5 years	Cash Flows	Market Value
Fixed Rate Borrowings ($'000)	(7437)	(107 873)	(50 956)	(166 266)	(143 283)

(ii) Sensitivity Analysis

Interest Rate Risk

	2014 $'000	2013 $'000
Approximate increase/(decrease) in fair value of financial liabilities assuming one percentage point decrease (increase) in interest rates	4705 (4705)	5241 (5241)

Hour-Class Investment Facilities

	Change in Unit Price	2014 $'000	2013 $'000
Hour-Glass Cash Facility	+/- 1%	+/- 107	+/- 48

*** NB: All financial instruments are held in the corporation therefore, the above tables reflect the position of both the corporation and the Consolidated Entity*

The following sensitivity analysis is based on the interest rate risk exposures in existence at the reporting date.

At 30 June 2014, if interest rates had moved, as illustrated below, with all other variables held constant, post tax profit would have been affected as follows:

Changes in interest rates

	Post tax profit higher/(lower)	
	2014 $'000	2013 $'000
+/- 1%	+/-753	+/-918

The movements in profit are due to higher/lower interest costs predominately from fixed rate debt and cash balances.

(iii) Net Fair Value of Financial Assets and Liabilities

(a) Off Statement of Financial position

The corporation has potential financial liabilities which may arise from certain contingencies disclosed in Note 28 - Contingent Liabilities. As explained in the note, the claims cannot be quantified in terms of the likely impact on the carrying value of the corporation asset.

Notes to and forming part of the financial statements (continued)

(b) On the Statement of Financial position

Economic Entity - 2014		Carrying amount 1 Year or Less $'000	1 to 5 Years $'000	More than 5 Years $'000	Non Interest Bearing $'000	Total $'000
Financial Assets						
Cash and cash equivalents	8	21 696	-	-	-	21 696
Trade and other receivables	9	-	-	-	43 920	43 920
Total Financial Assets		21 696	-	-	43 920	65 616
Financial Liabilities						
Interest bearing loans and borrowings	19	-	71 191	37 030	-	108 221
Trade and other payables	18	-	-	-	45 802	45 802
Total Financial Liabilities		-	71 191	37 030	45 802	154 023
Net Financial Assets/(Liabilities)		21 696	(71 191)	(37 030)	(1 882)	(88 407)

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 where the fair value is $119.98 million.

The fair value measurements for interest bearing loan and borrowings of $119.98 million 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.

Economic Entity - 2013		Carrying amount 1 Year or Less $'000	1 to 5 Years $'000	More than 5 Years $'000	Non Interest Bearing $'000	Total $'000
Financial Assets						
Cash and cash equivalents	8	20 281	-	-	-	20 281
Trade and other receivables	9	-	-	-	47 850	47 850
Total Financial Assets		20 281	-	-	47 850	68 131
Financial Liabilities						
Interest bearing loans and borrowings	19	-	86 282	44 626	-	130 908
Trade and other payables	18	-	-	-	49 138	49 138
Total Financial Liabilities		-	86 282	44 626	49 138	180 046
Net Financial Assets/(Liabilities)		20 281	(86 282)	(44 626)	(1 288)	(111 915)

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 where the fair value is $130.91million.

(c) Other Qualitative Disclosures

Managed debt portfolios

NSW TCorp manages interest rate risk exposures applicable to specific borrowings of the corporation in accordance with a debt portfolio mandate agreed between the two parties. NSW TCorp receives a fee for this service, (which may include a performance component where it is able on behalf of the corporation to add value by achieving a reduction in the corporation debt costs against an agreed benchmark). NSW TCorp uses derivatives, primarily interest rate futures, to establish short-term (tactical) and longer term (strategic) positions within agreed tolerance limits to manage portfolio duration and maturity profiles. At reporting date the carrying value of borrowings and derivatives (net of funds held at call) managed by NSW TCorp stood at $108.2 million (2013: $130.9 million).

Hour-Glass Investment Facilities

The corporation holds units in the following Hour-Glass investment facilities:-

Facility	Investment Sectors	Investment Horizon
Cash Facility	Cash, Money market instruments	Up to 1.5 years

The unit price of each facility is equal to the total fair value of the 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 the above facility is required to act in the best interest of the unit holders and to administer the trust in accordance with the trust deed. As trustee, NSW TCorp has appointed external managers to manage the performance and risks of each facility in accordance with a mandate agreed by the parties. A significant portion of the administration of the facilities is outsourced to an external custodian.

Note 24: Operating Leases

At balance date the corporation had operating lease/rental agreements as Lessee and these agreements relate to occupancy of land, offices and equipment throughout the State. The corporation had no other material lease and hire purchase agreements.

Operating lease expenses

	Economic Entity 2014 $'000	Economic Entity 2013 $'000
Not later than one year	1682	1220
Later than 1 year and not later than five years	4095	3278
Later than 5 years	19241	6937
Total (including GST)	25018	11435

This year's operating leases are higher than prior year due to the inclusion of annuities land lease rentals. These were not included in prior year.

Operating lease rental income

	Economic Entity 2014 $'000	Economic Entity 2013 $'000
Not later than one year	755	1106
Later than 1 year and not later than five years	1197	3005
Later than 5 years	1314	6786
Total (including GST)	3266	10897

This year's operating lease income is lower than prior year due to the exclusion of cancellable lease. These were included in prior year.

Note 25: Commitments

At balance date the corporation has the following commitments not later than one year:

	Economic Entity 2014 $'000	Economic Entity 2013 $'000
Capital	169	97
Operating	3116	627
Total Commitments (a)	3285	724

(a) All commitments are expected to be expended in the next financial year and include input tax credits of $298,692 (2013: $65,831)

Notes to and forming part of the financial statements (continued)

Note 26: Key Management Personnel

Board of Directors	
James Millar AM	Chairman – Board Member (Non-Executive)
Noel Cornish	Board Member (Non-Executive)
Geoffrey Applebee	Board Member (Non-Executive)
Sarah Kearney	Board Member (Non-Executive)
Nick Roberts	Chief Executive Officer, Forestry Corporation of NSW
Senior Management Team	
Nick Roberts	Chief Executive Officer, Forestry Corporation of NSW
Anshul Chaudhary	Chief Financial Officer
Dean Anderson	General Manager Hardwood Forests
Ian Brown	General Manager Softwood Forests
Ross Dickson	Chief Forester and Company Secretary

All transactions by the corporation with key management personnel are conducted on an arm's length basis in the normal course of business and on commercial terms and conditions.

	Economic Entity 2014 $'000	Economic Entity 2013 $'000
Short-Term Employee Benefits	1769	1506

There are no outstanding balances relating to any key management personnel and no guarantees provided or received as well by the key management personnel. For the year ended 30 June 2014, the corporation has not raised any provision for doubtful debts relating to amounts owed by key management personnel (2013: nil).

Note 27: Auditors' Remuneration

	Economic Entity 2014 $'000	Economic Entity 2013 $'000
Audit Office of NSW - Audit of financial statements (including GST)	303	358

Note 28: Contingent Liabilities/Assets

During the financial year 754971 hectares (2013, 776532 hectares) of operational timber reserves were subject to claims under the *Native Title Act 1993*. 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.

As at Statement of Financial Position date, the corporation has no contingent assets.

Note 29: After Balance Day Events

There are no known after balance date events.

End of the Audited Financial Statements

Directors’ Declaration

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:

a. The accompanying financial statements and notes thereto exhibit a true and fair view of the financial position of the corporation as at 30 June 2014 and of its financial performance, as represented by the results of its operations and its cash flows, for the year ended on that date.

b. 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 2010.

c. At the date of this statement, there are reasonable grounds to believe that the corporation will be able to pay its debts as and when they become due and payable.

d. 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.

James M. Millar AM

Chairman

Dated this: 2 September, 2014

Ross Dickson

Acting Chief Executive Officer

Independent auditor's report

AUDITOR-GENERAL
NEW SOUTH WALES

Forestry Corporation of New South Wales

To Members of the New South Wales Parliament

I have audited the accompanying financial statements of Forestry Corporation of New South Wales (the corporation), which comprise the statement of financial position as at 30 June 2014, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information.

Opinion

In my opinion, the financial statements:

- give a true and fair view of the financial position of the corporation as at 30 June 2014, 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 41 B of the *Public Finance and Audit Act 1983* (the PF&A Act), *Forestry Act 2012*, *State Owned Corporations Act 1989* and the Public Finance and Audit Regulation 2010.

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

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation of the financial statements that give a true and fair view 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 of the financial statements that give a true and fair view and that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with Australian Auditing Standards. Those standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the corporation's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the corporation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

My opinion does *not* provide assurance:

- about the future viability of the corporation
- that it has carried out its activities effectively, efficiently and economically
- about the effectiveness of its internal control
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about other information that may have been hyperlinked to/from the financial statements.

Independence

In conducting my audit, I have complied with the independence requirements of the Australian Auditing Standards and relevant ethical pronouncements. The PF&A Act further promotes independence 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 but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by the possibility of losing clients or income.

Peter Barnes Director, Financial Audit Services

9 September 2014
SYDNEY

Places of business

Forestry Corporation Head Office

121–131 Oratava Ave
West Pennant Hills

Post: PO Box 100
Beecroft 2119

Phone: 9872 0111
Fax: 9871 6941

Softwood Plantations Division

Cnr Browning and William Streets
Bathurst

Post: PO Box 143
Bathurst 2795

Phone: 6331 2044
Fax: 6331 5528

Riverina Highlands Building
76 Capper Street
Tumut

Post: PO Box 291
Tumut 2720

Phone: 6947 3911
Fax: 6947 2865

Hardwood Forests Division

Maher Street
Wauchope

Post: PO Box 168
Wauchope 2446

Phone: 6585 3744
Fax: 6585 2392

130 West High Street
Coffs Harbour

Post: PO Box 535
Coffs Harbour 2450

Phone: 6652 0111
Fax: 6651 9891

Crown Street
Batemans Bay

Post: PO Box 42
Batemans Bay 2536

Phone: 1300 880 548
Fax: 4472 6557

Cnr Monash and Chelmsford Streets
Dubbo

Post: PO Box 865
Dubbo 2830

Phone: 6841 4288
Fax: 6841 4771

Contact us:

www.forestrycorporation.com.au

info@fcnsw.com.au

Enquiries about visiting forests: 1300 655 687

AFS / 01-21-05

PEFC/21-23-05

Forestry Corporation continues to meet the environmental, social, economic and sustainability criteria of the Australian Forestry Standard (AS4708:2007) and Environmental Management System (ISO 14001:2004).

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Forestry Corporation Annual Report 2013–14

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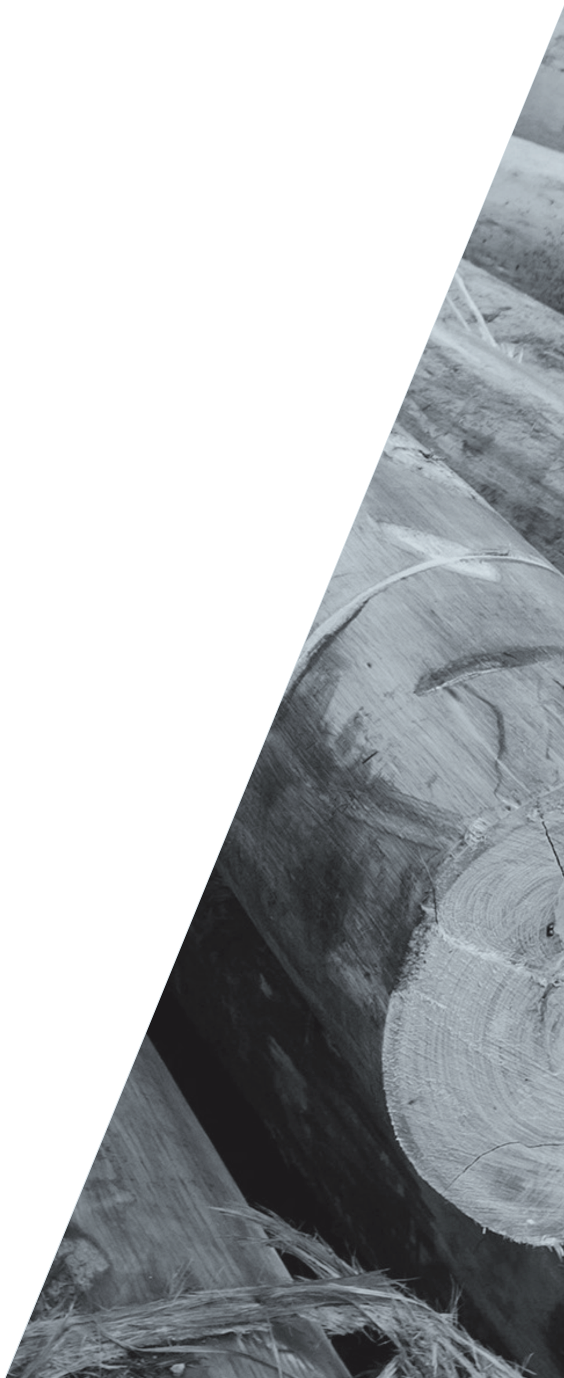

Forestry Corporation