Forestry Corporation

# ANNUAL REPORT 2015–16

# Letter of submission

31 October 2016

The Hon. Gladys Berejiklian, MP
Treasurer
Parliament House
Macquarie Street
Sydney NSW 2000

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

Dear Treasurer and Minister

We are pleased to submit the Annual Report for Forestry Corporation of NSW (Forestry Corporation) for the year ending 30 June 2016 for tabling in Parliament.

The report details the performance, operations and financial results of 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




Forestry Corporation Annual Report 2015–16

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# CEO and Chairman overview

Forestry Corporation recorded another strong financial performance during the 2015–16 financial year (FY16), while maintaining our environmental credentials, with both operating divisions achieving independent certification to the Australian Standard for Sustainable Forest Management.

With 2016 marking a century since the establishment of Forestry Corporation's predecessor the NSW Forestry Commission, it is particularly pleasing to celebrate this milestone with such strong results and a positive outlook.

The significant work we have completed to streamline operations and improve business processes in the three years following corporatisation has continued to support improving financial results. Both operating divisions exceeded their financial targets for the year, with the Softwood Plantations Division returning its best ever profit and the Hardwood Forests Division producing a solid profit. Corporate overheads and debt levels continued to reduce, improving margins across both divisions. We ended the year with earnings before interest and tax (EBIT) of $57 million and declared dividends of $22 million. Strong cash flows allowed the repayment of $25 million of debt and the payment of the $19 million dividend declared in FY15.

Our commitment to quality forest management and the sustainability of our forests was thoroughly scrutinised during the past year through the development of new Forest Management Plans, which were finalised following community input. We also underwent independent audits to maintain certification to the Australian Standard for Sustainable Forest Management. Each operating division has now independently obtained certification to the standard, replacing the single certification Forestry Corporation has held for the whole business for many years.

The improvements we have made in recent years to develop a well trained, flexible and responsive firefighting capability also paid dividends. We took advantage of a quiet fire season to end the year well ahead of our State hazard reduction burning targets, completing burns of 38,000 hectares.

In a first for NSW, new flora reserves were established over the Murrah, Mumbulla and Tanja State Forests and part of Bermagui State Forest on the south coast near Eden. This was an innovative solution developed in response to a unique set of circumstances in these forests, which contain significant Aboriginal cultural heritage values and the region's only viable koala population. The Office of Environment and Heritage has been appointed as the land manager of these flora reserves. The timber that would have been sourced from these forests will now be sourced from further north on the south coast, with a $2.5 million Environmental Trust grant over four years offsetting the additional cost in supplying these logs to our customers. This was an important decision for the south coast and has delivered resource certainty, environmental benefits and land management efficiency. The many years of research carried out by the Department of Primary Industries continues to inform our management of koalas at a landscape scale.

Disappointingly, we received a small number of penalty infringement notices during the year and the Environment Protection Authority (EPA) commenced prosecution of Forestry Corporation in relation to operations carried out on the south coast in 2013. We take breaches of the stringent native forestry and plantation rules seriously and above all are committed to ensuring that environmental harm does not take place. Consequently we have completed extensive reviews and further staff training to ensure we do not breach the regulations in the future. However, we will continue to dispute situations where we believe we have complied with the regulations and no environmental harm has occurred.

We are a business built on people, so providing a safe working environment remains our fundamental priority. Work has continued in collaboration with contractors and interstate forest managers to develop industry-wide initiatives to improve safety throughout the supply chain. Following a concerning number of log truck roll overs, we engaged the Australian Logistics Council to audit our haulage contractors' chain of responsibility compliance. A number of opportunities for improvement have been identified and contractors will be audited again at the end of FY17.

Despite continued efforts, safety performance was disappointing. A total of 23 lost time injuries and 17 medical treatment injuries were recorded during the year, resulting in a Total Recordable Injury Frequency Rate of 18.7 per million hours worked, falling short of our target of 9.4. At the same time, reporting of incidents, near misses and hazards has improved, demonstrating a greater level of focus and maturing of our safety culture. Improving the safety of our workplaces will remain the major priority over the coming year.

Our success over the past few years has been built on the skills and professionalism of our people, so it was pleasing to see our second staff engagement survey measure an improvement in staff engagement. Overall engagement increased by seven per cent since the first survey in 2014. Recognising the central role of leadership in business performance, we again invested in the LifeStyles Inventory (LSI) program with almost 100 leaders participating in assessment and coaching during FY16. With our first three-year corporate strategy now delivered, we have drawn on knowledge from throughout the business to review our purpose and values and develop a new strategic plan that builds on the passion, commitment and respect our people have for the forests we manage and exciting new opportunities in the market.

This year we have continued to meet the long term wood supply commitments that underpin the NSW timber industry. We have implemented supply chain improvements, which will reduce costs, such as the appointment of a consortium of hauliers using state-of-the-art truck dispatch software on the north coast and new electronic docketing systems for softwood customers. We continue to build a business equipped to be sustainable, profitable and adaptable in the changing world of the future.

We have ended our centenary year with strong results, but importantly we are now better placed than ever to continue this positive trend into 2017 and beyond.

James M. Millar AM
Chairman

Nick Roberts
Chief Executive Officer

# About us

**Forestry Corporation of NSW is the State's largest manager of commercial native and plantation forests. Established as the NSW Forestry Commission in 1916 to manage the State's forests and timber resources, we have managed environmental sustainability, community access and renewable timber production in NSW State forests for a century. Today, we are a State Owned Corporation responsible for managing more than two million hectares of State forests on behalf of the people of NSW and returning an annual dividend to the NSW Government.**

The forests we manage include exotic pine plantations, hardwood timber plantations and working native hardwood production forests as well as environmentally and culturally significant areas and flora reserves maintained for conservation and community recreation. Our Hardwood Forests Division has stewardship of around two million hectares of forest, including coastal native forests and hardwood plantations as well as cypress and red gum forests in the State's west, and harvests less than two per cent of that area each year to supply timber. Our Softwood Plantations Division manages more than 200,000 hectares of plantation pine in the central west, south and north of the State.

Producing more than four million tonnes of renewable timber a year, which is around 14 per cent of the timber produced in Australia annually, we are a major player in the Australian wood products industry, which employs 22,000 people in NSW and adds $2.4 billion a year to the economy. We permanently protect a million hectares for wildlife and conservation, welcome millions of visitors each year and are independently certified to the Australian Standard for Sustainable Forest Management.

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

# Sustainable business

Sustainability has always been a core principle underpinning our forest management. As a business that relies on continually producing timber, as well as other products and services from the same forests, the sustainability of these forests is fundamental to our long-term success. Beyond the fundamental environmental sustainability, we aim to ensure sustainability is built into every aspect of our business, from the wellbeing of our staff to our interactions with the community and the profitability of our operations.

We have developed a framework that sets out our key focus areas and produce an annual sustainability report that details our performance.

**Visit our website for more information about our sustainability framework and to read our annual sustainability report.**

# Operational overview

## Softwood Plantations Division

Efficiency improvements over the last two years, solid domestic sales fuelled by the continued strength of the housing market and a growing export operation enabled Forestry Corporation to deliver a strong financial result during FY16. The division surpassed targets and ended the year with an EBIT of $59 million.

The domestic housing market has underpinned sales in recent years, with a significant proportion of timber sold as structural lumber for house frames. However, the division is continuing to diversify revenue streams by increasing log export operations. After some small exports in recent years, regular exports to China commenced from the Walcha Management Area in FY15 following the earlier closure of a local mill operation and have continued to grow year on year. In late FY16, the Grafton Management Area also began exporting logs that were surplus to local market demand. While this operation is in its infancy, further expansion of the customer base will buffer local operations against a downturn in the domestic housing market.

As well as increasing revenue, the division continued to drive down costs and improve productivity by rolling out a new electronic docketing system to contractors across the State. The system has reduced duplication of records by customers, contractors and divisional staff by allowing delivery dockets to be completed electronically in real time on smart devices. This automated system has reduced manual data entry errors and has also improved efficiency in truck scheduling.

Nursery operations once again produced a healthy crop of seedlings, which contributed to establishing 8250 hectares of plantation in the 2015 age class. Six million radiata pine seedlings were dispatched from Forestry Corporation's Blowering Nursery, supplemented by more than two million seedlings grown on contract interstate and at the Grafton Nursery. The Snowy Region achieved its best seedling survival rate in ten years, with 96 per cent of seedlings surviving in a planting program that covered 5,300 hectares. Ongoing enhancements to the seed selection and growing processes underpinned this result and continue to improve the quality of seedlings and establishment operations.

The division's costs were further reduced by a quiet fire season. No plantations were lost to fire for the first time in several years, through a combination of good preparation and favourable weather conditions.

A number of environmental conservation initiatives were established and maintained in partnership with community groups in forests across the state throughout the year. Initiatives ranged from a new partnership with Central Tablelands Local Land Services to protect the habitat of the endangered Booroolong Frog within Essington State Forest, to a long-running program of pine wildling removal in Stingray and Hanging Rock Swamps in Penrose State Forest. These environmental partnerships complement the division's overall commitment to environmental management, which was independently certified to the Australian Standard for Sustainable Forest Management during the year.

**$59M EBIT**

**8.5M PINE SEEDLINGS PLANTED**

| Softwood Plantations Division Financial Year to 30 June | | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|
| Revenue[1] | $M | 201 | 204 | 221 | 214 | 232 |
| Operating profit[1] | $M | 32 | 34 | 48 | 48 | 55 |
| EBIT[1] | $M | 42 | 41 | 55 | 54 | 59 |

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

# Hardwood Forests Division

The Hardwood Forests Division has successfully built on improvements made in recent years to return an EBIT of $1.2 million. This result surpassed expectations and is a credit to staff who have worked hard to reduce costs and embraced new work structures and processes to improve performance. The hardwood timber market remained strong throughout FY16 with solid demand for local hardwood products allowing timber customers to capitalise on the positive economic conditions.

**$1.2M EBIT**

On the north coast, substantial savings are expected to be passed on to high quality sawlog customers after Forestry Corporation awarded a timber haulage contract to a newly-formed consortium of existing local haulage businesses. The consortium will draw on centralised logistics services to streamline truck movements and introduce a fleet of safer trucks. Haulage is a significant component of timber cost, so downward pressure on prices is a positive development.

Long-term certainty was provided to the timber industry along the Murray River with the amendment of the Riverina Red Gum Integrated Forestry Operations Approval (IFOA) to increase the maximum volume of residue logs that can be produced from harvesting on Western Lands Leases. Forestry Corporation completed a comprehensive assessment of the available timber resource to ensure the new cap is sustainable over the short, medium and long-term and worked collaboratively with the EPA to mitigate any potential ecological impacts.

Higher than average rainfall caused flooding within the Riverina Red Gum IFOA region towards the end of FY16. Floodwaters and poor ground conditions affected access and production in forests and Western Lands Leases from the second half of June and have continued to limit harvesting in the region following the close of accounts. The full impact of the flooding on production and revenue will not be quantifiable until the end of FY17.

On the south coast, a major storm event late in the year caused significant damage to the port facilities of Allied Natural Wood Exports (ANWE), a large customer in the Eden area. This caused a short-term suspension of exports and, while operations have substantially resumed from alternative loading facilities, there is likely to be some impact on revenue in FY17.

The EPA commenced prosecutions against Forestry Corporation in the Land and Environment Court relating to alleged breaches of the threatened species licence of the IFOA relating to identifying rocky outcrops and cliffs in timber harvesting operations in 2013. Forestry Corporation pleaded not guilty to two of the matters but entered a guilty plea for one, noting the EPA's expert ecological report submitted as evidence indicated overall harm was minimal and localised and no identified threatened species were affected. The matters will be heard in FY17 and highlight the importance of ongoing efforts to improve the clarity of the coastal IFOAs.

To this end, work continued on the coastal IFOA remake, with the Department of Primary Industries researchers mapping suitable koala habitat across NSW. The new IFOA aims to enhance koala protection by protecting the places across the landscape where koalas are more likely to occur and this work will continue into FY17.

A range of long and short term monitoring programs, environmental improvement initiatives and community partnerships continued in forests throughout the state during FY16, some of which are detailed in this year's sustainability report. State forests continued to be recognised at State and regional tourism awards reinforcing the social and economic contribution State forests make to the NSW economy outside of timber production. Partnerships with local communities continue to enhance access to forests throughout NSW.

**FIVE TOURISM AWARDS**

| Hardwood Forests Division Financial Year to 30 June | | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|
| Revenue[1] | $M | 112 | 101 | 100 | 99 | 102 |
| Operating profit[1] | $M | (16) | (15) | (12) | (0.6) | (0.7) |
| EBIT[1] | $M | (13) | (12) | (9) | 2 | 1.2 |

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

# Corporate services

A wide range of improvements have been made within the Corporate Resources and Finance & Technology divisions in recent years to better support the operating divisions and reduce the cost of doing business. This work continued in FY16 and, as a result, overheads came in $1.9 million under budget.

The recruitment of a seasonal workforce of firefighters has continued to improve flexibility and responsiveness around fire management. Both operating divisions were able to take advantage of mild weather conditions to complete 38,300 hectares of hazard reduction burns across the State, which is the best result in several years and close to double Forestry Corporation's State hazard reduction burning target of 22,000 hectares. The quiet season also meant several firefighters were able to be deployed to assist with emergency firefighting operations in Tasmania and Western Australia, as well as in the United States and Canada, providing important emergency assistance as part of our ongoing commitment to NSW's coordinated emergency response and enhancing our firefighters' skills and capability.

Tree breeding programs were downsized following an external review by an independent consultant. Forestry Corporation will continue to collect and store genetically improved seeds. The softwood pine breeding program will continue to be carried out as part of a long-term partnership with the New Zealand Radiata Pine Breeding Company, of which Forestry Corporation is a major shareholder. Fleet management and workshop services were also reviewed and a decision was made to outsource the management of these functions to a provider with access to the latest fleet management technology and critical mass to support buying power.

Forestry Corporation continues to invest in technology, with mobile devices such as tablets and smart phones improving efficiency throughout the business. A number of projects are underway to improve data connectivity and use of remote applications.

Use of the Forestry Corporation Map App has expanded to contractors, bringing GPS precision to harvesting processes. The app is now making real time data available to staff during planning and operations, and improvements continue to be made to further enhance its functionality and reliability.

We continued to review safety policies and processes during the year to ensure they incorporate both legislated safety responsibilities and lessons from analysis of incidents and near misses. The new safety management system and reporting framework developed in recent years continues to improve management of safety by capturing and sharing information on risks, hazards and lessons learned. Safety continues to be the major priority for the business and further work will be done in collaboration with contractors in FY17 to improve practices and processes at every stage of the supply chain.

Staff from across the business have engaged in skills and career planning with the majority of staff taking part in the Performance Development Scheme (PDS), which involves performance planning, professional development and a six-monthly review process. The scheme aims to provide staff with career development opportunities while focusing attention on business priorities.

The new business strategy includes a number of projects aimed at further developing a dynamic workforce, improving efficiency and profitability and achieving operational excellence in running an innovative, modern, proactive, resourceful and customer-focused business. Significant work will be undertaken on these projects in FY17 and beyond.

**OVERHEADS**
**$1.9M**
UNDER
BUDGET

**38,300**
**HECTARES**
HAZARD
REDUCTION
BURNS

# Financial results

## Forestry Corporation delivered strong financial results in the 2016 financial year and ended the year with a solid profit.

EBIT $57M

Underlying EBIT was $57 million, which is 10 per cent higher than FY15 and $10 million over the target set in Forestry Corporation's Statement of Corporate Intent (SCI).

At $339 million, revenue was $8 million over the SCI target and seven per cent higher than the FY15 result. As a result of strong domestic sales and steady exports, the Softwood Plantations Division increased its EBIT by 11 per cent on last year's results. The Hardwood Forests Division also delivered strong results, posting a positive EBIT of $1.2 million following successful business restructuring initiatives over the past few years.

## Capital and shareholder return

Cash from operations was 25 per cent higher than last year, putting Forestry Corporation in a strong position to further reduce its debt levels. Forestry Corporation repaid $25 million of long term debt, effectively halving debt levels since corporatisation and saving ongoing interest expenses.

Forestry Corporation returned $38 million to shareholders in dividends and taxes during the financial year and declared dividends of $22 million for FY16.

$22M DIVIDEND

## Balance sheet

Debt repayments and solid earnings strengthened Forestry Corporation's balance sheet. Key balance sheet ratios, such as debt to earnings before interest, tax and depreciation (at 1.0 times) and interest cover (at 9.0 times), have significantly improved over the past year.

Revaluations of property, plant and equipment during the financial year resulted in a net decrement of $135 million before tax, mainly due to a reduction in regional land values, which are predominantly Crown land. Offsetting this reduction was an uplift in the value of standing timber in softwood plantations. The total value increased by $87 million before tax over last year, supported by low discount rates and strong timber demand.

$25M DEBT REDUCTION

## Other items

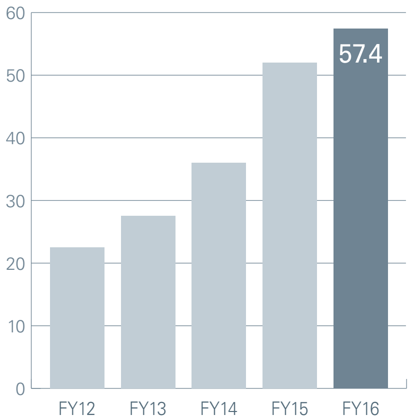
Statutory (non-operating) adjustments recorded in the financial statements had a significant impact on net profit results. These included the impact of asset revaluations and assessment on the defined benefit superannuation liabilities, which were non-cash related and did not affect the underlying EBIT.

These significant items have been reconciled below:

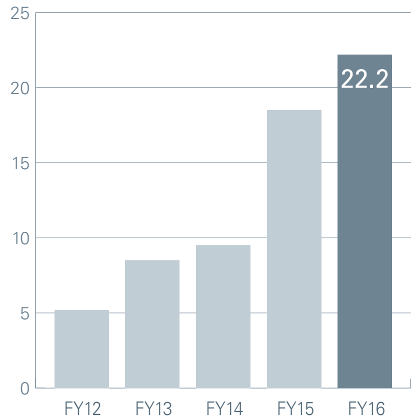
| **Underlying earnings to statutory result**<br>**Financial Year to 30 June** | **2015**<br>**$M** | **2016**<br>**$M** |
|---|---|---|
| Underlying EBIT | 52 | 57 |
| Underlying profit after tax | 31 | 36 |
| Impact of revaluation and related impairment of property, plant and equipment (net of tax) | - | (95) |
| Impact of valuation of standing timber (net of tax) | 53 | 61 |
| Impact of actuarial assessment on the defined benefit superannuation liabilities (net of tax) | (3) | (38) |
| Total Comprehensive Income / (Loss) per the Financial Statements | 81 | (36) |

# Financial highlights

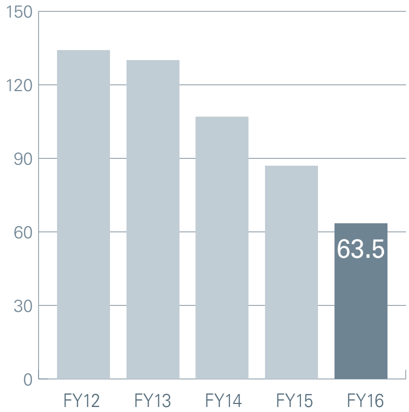
EBIT ($M)




DIVIDEND ($M)




DEBT ($M)




**$339M**
**REVENUE**
+7%
FY15

**16.9%**
**EBIT MARGIN**
UP FROM
16.4%

**0.98x**
**DEBT TO EBITDA**
DOWN FROM
1.5x

| **Key financial data<br>Financial Year to 30 June** | | | | | | | | **2016 SCI peformance** | |
|---|---|---|---|---|---|---|---|---|---|
| | | **2012** | **2013** | **2014** | **2015** | **2016** | | **SCI** | **Variance** |
| Revenue[1] | $M | 318 | 310 | 324 | 317 | 339 | | 331 | 8 |
| Operating profit[1] | $M | 14 | 19 | 27 | 45 | 51 | | 40 | 11 |
| EBIT[1] | $M | 23 | 28 | 36 | 52 | 57 | | 47 | 10 |
| Dividend payable | $M | 5 | 9 | 10 | 19 | 22 | | 20 | 3 |
| Borrowings | $M | 133 | 131 | 108 | 89 | 64 | | 82 | (19) |
| **Key ratios** | | | | | | | | | |
| Return on equity | % | 2.2 | 2.5 | 3.0 | 4.2 | 4.9 | | 4.0 | 0.9 |
| EBIT margin[1] | % | 7.3 | 9.0 | 11.0 | 16.4 | 16.9 | | 14.3 | 2.6 |
| Liquidity ratio | times | 1.1 | 1.4 | 1.5 | 1.4 | 1.4 | | 1.4 | (0.0) |
| Debt to EBITDA | times | 4.2 | 39.8 | 40.6 | 39.8 | 1.0 | | 1.5 | (0.5) |
| Interest cover | times | 2.5 | 2.9 | 4.0 | 7.1 | 9.0 | | 6.5 | 2.5 |

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

# Corporate governance

## Charter

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

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

Under the objectives set out in the Act 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
  ii. to maximise the net worth of the State's investment in the corporation

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

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

d. to contribute towards regional development and decentralisation

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

## Forestry Corporation Board

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

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

All members of the Board were appointed on 1 March 2013 and were re-appointed on 1 March 2016.

### Board of Directors

- **Mr James M. Millar AM – Director and Chairman**
  **BCom, FCA, FAICD**
  James is the former Chief Executive Officer and Oceania Area Managing Partner of Ernst & Young and was a director on their Global Board. James commenced his career with Ernst & Young in insolvency and reconstruction and was involved in the reconstruction of some of Australia's largest businesses. He is an experienced corporate executive advisor and is a director, trustee or member of a number of companies, not-for-profit and charitable organisations. He is also Chairman of the Export Finance and Insurance Corporation.

- **Ms Sarah Kearney – Director and Chair Human Resources Committee**
  **BSc (Psychology)**
  Sarah is a Director of Performance Insights and is a former Managing Director of global HR consulting organisation SHL Australia and New Zealand. She has extensive experience working with companies across a broad range of industry sectors and developing frameworks to drive cultural change. As a Director of Performance Insights, Sarah continues to work with companies to design and implement people management strategies to improve skills and performance.

- **Mr Geoffrey R. Applebee – Director and Chair Audit and Risk Committee**
  **BA (Accounting), FCA, FAICD**
  Geoff is a former partner with Ernst & Young, a position he held for 22 years. He has built a long career in the accounting profession and is a director of a number of Australian companies and not-for-profit organisations. Geoff also chairs a number of audit and risk committees and is Chairman of a mid-tier accounting firm. He works as an advisor to professional service firms where he also uses his experience to mentor and coach partners and senior directors.

- **Noel Cornish – Director**
  **BSc (Metallurgy), MEngSc, FAICD**
  Noel has extensive business management experience both in Australia and overseas. He is the former Chief Executive of BlueScope Steel Limited's Australia and New Zealand steel manufacturing business and President of Northstar BHP LLC in Ohio, USA. Noel is a director of a number of companies in the education, finance, communications and manufacturing sectors. He chairs two boards and is Deputy Chancellor of the University of Wollongong.

- **Nick Roberts – CEO and Executive Director**
  **BSc (Forestry) (Hons), MSc (Forestry), GAICD**
  Nick has significant forestry and timber industry experience in Australia and overseas. He has been the CEO of NSW's largest commercial forest manager for the past nine years and was previously Managing Director of Weyerhaeuser Australia, a position he held for five years. He has been actively involved in industry associations, chairing A3P and serving as a director for Forest and Wood Products Australia. He currently chairs the Safety Committee for the Australian Forest Products Association.

### Board meetings

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

| Member | Number of meetings attended |
|---|---|
| Mr James Millar AM | 9 |
| Ms Sarah Kearney | 9 |
| Mr Geoffrey R Applebee | 9 |
| Mr Noel Cornish | 9 |
| Mr Nick Roberts | 8 |

### Board committees

The Board is supported by the Audit and Risk Committee and the Human Resources Committee which provide more detailed analysis of finance, risk, audit, remuneration and human resources. Working groups comprising independent directors and management support both committees.

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

During the reporting period there were three meetings of the Audit and Risk Committee and three meetings of the Human Resources Committee. The Audit and Risk Working Group met on four occasions and the Human Resources Working Group met on three occasions.

# 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**

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

**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, fleet and radio services
- mapping and information services
- tree and seed resources
- human resources and safety
- communications
- risk management and internal audit
- corporate governance and executive support
- legal 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

## Consultants

### More than $50,000

| Vendor and subject area | Amount |
|---|---|
| Lofberg Investments – Management / Business Strategy | 199,231 |
| Strategic Human Resource Consulting PTY LTD – Management / Business Strategy | 112,118 |
| Mobiddiction – Information Technology | 86,047 |
| 2020 Fleet Solutions – Management / Business Strategy | 81,900 |
| Geotrack Engineering – Engineering | 71,600 |
| Mark Hendrick – Environmental | 58,103 |

### $50,000 or less

Forestry Corporation employed 52 consultants for engagements costing less than $50,000 with the cost totalling $419,578. Consultants were engaged in management, business strategy, human resources, engineering, information technology, operations, environment, finance, accounting and marketing.

## Cost of Annual Report

The total external costs incurred in the production of the Forestry Corporation Annual Report for FY16 were approximately $5982 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 CEO 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 2016, the corporation's total borrowings were $64 million (2015: $89 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 | Benchmark |
|---|---|---|
| Market valuation 30 June 2016* | $72 million | N/A |
| Generalised cost of funds | 5.43% | 4.84% |

** 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 2016, 100 per cent of total debt was charged interest at the fixed-rate.

### Investment management performance

At 30 June 2016, Forestry Corporation's financial investments were $6.98 million (2015: $14.66 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 $646,929 (2015: $539,626) at yearly rate of 2.47 per cent (2015: 2.75per cent) was received from Treasury Corporation on amounts lodged on their 24 hour call facility.

## Implementation of price determination

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

The NSW Government has endorsed IPART's 2013 review and Forestry Corporation is amending its pricing structure in line with the determination.

## Forward outlook

| | Financial Year to 30 June 2017 budget | |
|---|---|---|
| | Measure | Target |
| Revenue | $m | 353.07 |
| EBITDA[1] | $m | 58.92 |
| EBITDA on sales | % | 16.7 |
| EBIT | $m | 51.1 |
| Operating profit before tax | $m | 44.45 |
| NPAT[2] | $m | 31.12 |
| Dividend payout ratio | % | 70 |
| Return on assets | % | 2.5 |
| Return on equity | % | 4.1 |

[1] *Earnings before interest, taxes, depreciation and amortisation.*
[2] *Net profit after tax.*

## Government Information Public Access

There were 14 valid Government Information Public Access (GIPA) applications received between 1 July 2015 and 30 June 2016. One application was received prior to 30 June 2015 but a decision on this was made after 30 June 2015 and is included in this report. One application was transferred to another agency. The decisions on four applications were pending as at 30 June 2016 and will be included in next year's report.

The applications predominantly sought information on the management of State forests including, expenditure of Community Service Obligation funding, timber supply, permits in State forests, road maintenance, and management of specific flora and fauna.

A number of documents, including policies and harvest plans for native forest operations, were released proactively during the year and are available on our 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 | 1 | – | – |
| Not-for-profit organisations or community groups | 2 | - | - |
| Members of the public (application by legal representative) | 1 | - | 1 |
| Members of the public (other) | 1 | 1 | – |
| Total | 7 | 1 | 2 |

** No applications fell into the following categories, and hence these categories have not been included in the table above: Information already available; Refused to confirm/deny whether information is held; Application withdrawn, Access refused in full and Refused to deal with.*

## Human resources

As at 30 June 2016 Forestry Corporation employed 570 people. This figure comprised 308 employees primarily involved in management, administration and technical roles, and 262 employees primarily engaged in road construction and maintenance, tree planting and pruning, nursery work, forest conservation contactor supervision, mechanical trades and fire protection. The majority of staff are managed in accordance with the Enterprise Agreement negotiated with staff and endorsed by Fair Work Australia. Senior Managers are on individual contracts. Forestry Corporation has a Code of Conduct and a range of other policies for management of personnel.

### Employee numbers – trend (Full Time Equivalent)

| Financial Year to 30 June | Office-based | Field-based | Total |
|---|---|---|---|
| 2016 | 308 | 262 | 570 |
| 2015 | 315 | 267 | 582 |
| 2014 | 337 | 255 | 592 |
| 2013 | 366 | 306 | 672 |

### Trends in the representation of equal employment opportunity groups

| EEO group<br>Financial Year to 30 June | Benchmark or target | 2014 | 2015 | 2016 |
|---|---|---|---|---|
| Women | 50% | 16.30% | 17.20% | 18.1% |
| Aboriginal and Torres Strait Islander peoples | 2.60% | 1.90% | 3.80% | 4% |
| People whose first language is not English | 19% | 3.50% | 6.30% | 6% |
| People with a disability | N/A | 3.70% | 4.60% | 4.8% |
| People with a disability requiring work-related adjustment | 1.5% | N/A* | N/A* | 1% |

** Information not available*

# Statutory information *cont.*

## Trends in the distribution of EEO groups

| EEO group<br>Financial Year to 30 June | Benchmark*<br>or target | 2014 | 2015 | 2016 |
|---|---|---|---|---|
| Women | 100 | 106 | 111 | 111 |
| Aboriginal and Torres Strait Islander peoples | 100 | N/A | 83 | 73 |
| People whose first language is not English | 100 | 122 | 121 | 116 |
| People with a disability | 100 | 93 | 90 | 86 |
| People with a disability requiring work-related adjustment | 100 | N/A** | N/A** | N/A** |

** This information is supplied by the NSW Government Workforce Profile.*
*** Information not available*

## 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. Strategic initiatives target improving diversity in our workforce and project teams are in place to address targets and Board objectives in relation to gender and age diversity. A broad spectrum of employees is involved in identifying initiatives to attract a more diverse range of candidates to our business and to provide the conditions that will enable a diverse population to stay and thrive. Forestry Corporation has partnered with Sydney University and experts on diversity and inclusion to assist in facilitating diversity discussions.

Forestry Corporation continues to be 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.

## Gender distribution of senior executives in FY16

| Band | Gender | |
|---|---|---|
| | Female | Male |
| Band 4 or above | – | 1 |
| Band 3 | – | 0 |
| Band 2 | – | 3 |
| Band 1 | – | 1 |

*Gender distribution figures in FY16 were identical to FY15.*

## Aboriginal Employment Strategy

Forestry Corporation has continued to engage two Indigenous trainees through group training organisation MEGT to complete a Certificate II in Forest Growing and Management. The trainees are being supported by our Hardwood Forests Division team in Coffs Harbour and Grafton. These traineeships are being completed through TAFE NSW Riverina Institute Tumut.

Forestry Corporation has also supported a school based traineeship program on the south coast with one student progressing through the program this year.

## Structural adjustment

In FY16, the corporation continued to review its workforce and organisational structures. Five reviews were undertaken during the year including restructuring the operating model of Fleet and Workshops; reviewing resourcing in the Hardwood Forests Division's planning team; closing of Tree and Plantation Improvement Branch; and realigning teams in Cumberland State Forest and the Hardwood Forests Division's stewardship team. These reviews were undertaken to streamline functions, re-engineer business processes and further strengthen Forestry Corporation's commercial operating position.

Consultation was undertaken with staff in accordance with the Enterprise Agreement.

## Salary and wage movement

A new enterprise agreement was implemented in FY16. The Enterprise Agreement 2015 provided a 2.5 per cent pay increase for staff covered by the agreement, payable on the first full pay period on or after 1 July 2015. Senior Managers were transitioned to individual employment contracts.

## Average remuneration of senior executive

| Financial Year to 30 June<br>Band | 2015<br>$ | 2016<br>$ |
|---|---|---|
| Band 4 or above | 533,997 | 560,275 |
| Band 3 | – | - |
| Band 2 | 296,649 | 317,647 |
| Band 1 | 259,737 | 278,271 |

FY16 included 27 pay periods instead of the regular 26. This additional pay period contributed to the increase in senior executive remuneration against FY15.

Around 3.04 per cent (FY15 2.8 per cent) of employee-related expenditure during the reporting year related to senior executives.

## Training and organisational development

The past year has seen a maturing of Forestry Corporation's organisational performance behaviours.

### Technical skills

Forestry Corporation has continued to demonstrate industry best practice by focusing on the regular upskilling and reassessment of staff for core technical skills against units of national competency. Design and maintenance of technical competency development programs is aligned to, and compliant with, the national competency framework.

### Performance framework

In FY16, increased focus was placed on the timeliness and quality of performance discussions throughout the business. Self-directed learning tools were made available to all staff and work undertaken to raise the prominence of the performance review process. The percentage of performance reviews submitted by the due date increased significantly. The performance rating scale was also refined and has been adjusted to accommodate a five tier rating scale for FY17.

### Reward and recognition program

Forestry Corporation's Peak Performer Reward and Recognition Program continued during FY16 with awards granted to employees for leadership in safety, environment, commercial innovation and performance excellence.

### Leadership development

A Leadership Development Plan has been designed for the corporation and is being implemented. A key tenent of this plan is the Forestry Corporation Leadership Capability Framework which is intended to guide the career planning and development of staff. To support this, a development guide was prepared to assist staff in understanding their development needs, how best they learn, and what they can do to further develop themselves.

Senior managers were re-tested against the LSI scheme and an executive coaching program was implemented to help them further develop against this insight feedback. Forestry Corporation has also developed internal competence and accreditation in LSI and executive coaching skills to facilitate implementation of a coaching culture and roll out the LSI program to other levels of management.

### Employee engagement

An Employee Engagement Pulse Survey was conducted in FY16 through AON Hewitt. The overall engagement of Forestry Corporation's staff was reflected in an increase of seven percentage points since the last survey two years ago. Improvements in engagement were evident for every segment of the business, reinforcing the efforts made by the organisation to improve employees' working experience, and connectivity with senior leadership. The survey results are informing plans to further increase engagement throughout the business in the coming years.

# Public Interest Disclosures

Forestry Corporation has a Public Interest Disclosures (PID) policy, which is available on our website.

Procedures for making and dealing with PIDs are also provided to assist staff. The policy and procedures were made available to staff during FY16 via the intranet. No PIDs were received during FY16.

# Legislation and legal issues

There have been no significant changes to the principal legislation relevant to Forestry Corporation's core activities during FY16. The corporation has not been party to any significant judicial decision affecting the organisation during FY16.

# Overseas visits

- August 2015 – Walcha District Manager, Gary Miller, travelled to China to attend meetings with customers and agents to facilitate sales of export softwood volume to China
- November 2015 — Tree Improvement Officer, Troy Brown, travelled to New Zealand to attend the Radiata Pine Breeding Company's Technical Committee Meeting
- November 2015 – Forest Information and Planning Manager, Mike Sutton, travelled to New Zealand to present two case study presentations on Forestry Corporation's Map App to the ForestTECH 2015 Conference
- February 2016 – Remote Sensing Specialist, Tony Brown, travelled to New Zealand to work with remote sensing and LiDAR specialists on product development
- May 2016 – Regional Manager Northern Softwoods, Jason Molkentin, travelled to Canada to attend two forest industry conferences on global wood supply demand and to meet with the British Columbia Forest Safety Council
- In July 2015 four Forestry Corporation staff members were deployed to Canada as part of a 102-strong Australian contingent coordinated by Emergency Management Victoria to assist in a fire emergency in British Columbia, Alberta and northern Saskatchewan. A further two staff participated in an Australian contingent to the United States in August 2015.

# Research and development

The NSW Department of Primary Industries (DPI) Forest Science group provides technical advice, and research and development services to Forestry Corporation under a memorandum of understanding (MOU). This group has scientific and technical expertise in forest ecology and sustainability, forest health and resource assessment, carbon in forests, wood products and bioenergy, and biometric services. Forestry Corporation invested

# Statutory information *cont.*

$1.7 million in research and development under this MOU during FY16.

DPI Forest Science group represents forestry on the NSW Scientific Committee. Recent research activities conducted by the DPI Forest Science group include:

## Forest ecology

- Developing a spatial model for mapping the distribution of koala habitat
- Continuing the NSW Environmental Trust-funded project *Does thinning regrowth restore habitat biodiversity*
- Optimising acoustic survey methodology for monitoring bats in the forests of the Pilliga
- Contributing to the implementation of a monitoring program for the Hastings River Mouse
- Completing a field survey campaign for birds and mammals in eucalypt plantations in the Urbenville area to contribute to tracking biodiversity trends from pre-establishment through to canopy closure.

## Forest health and biosecurity

- Undertaking annual aerial and ground surveys of the softwood and eucalypt plantation estate for pests and diseases
- Monitoring the successful establishment of the parasitic wasp released as a biological control agent for the Essigella pine aphid
- Developing a high spatial resolution model that predicts drought-induced mortality within Forestry Corporation Radiata pine plantations
- Continuing research into the impact of the exotic pathogen Myrtle Rust
- Continuing the Forests and Wood Products Australia (FWPA) funded project evaluating the costs and benefits of new and existing biosecurity threats to Australia's plantation industry
- Participating in the biosecurity audit of the Softwood Plantations Division
- Progressing national forest biosecurity arrangements, including contributing to the production of the national Biosecurity Manual
- Continuing the forestry biosecurity surveillance program for exotic pests and diseases at high-risk environs
- Contributing towards the eradication campaign for the Exotic Giant Pine Scale
- Providing training for the Softwood Plantations Division staff in Sirex Wood Wasp management and conducting an audit of the Sirex biological control program.

## Forest resource assessment

- Contributing towards the development of LiDAR-based plot imputation methodologies for predicting stand volume and timber products in pine plantations and native regrowth forests
- Analysing acoustic data for the assessment of the wood properties of slash pine and F2 hybrid southern pine
- Continuing to analyse harvester head data in order to improve information provided to Forestry Corporation's softwood customers.

## Forest carbon

- Continuing the FWPA-funded project to develop methodologies under the Emission Reduction Fund for carbon sequestration benefits.

## Biometrical assistance

- Providing advice on statistical rigour and sampling design including Late Age Fertiliser sampling and tree quality code analysis
- Providing statistical advice and training for the implementation of LiDAR-based plot imputation for native forests
- Finalising the analysis of the Brooman rainfall/water quality study.

Forestry Corporation continued to chair the joint DPI/Forestry Corporation Animal Care and Ethics Committee, which oversees the issuing of Animal Research Authorities for forest-based fauna survey work.

Forestry Corporation collaborated on a range of FWPA-funded research including the eCambium wood quality study; remote sensing of evapotranspiration project; high resolution remote sensing project and southern pine wood characterisation study.

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

A stakeholder engagement policy can be viewed on our website, outlining our commitment to facilitating opportunities for engagement with stakeholders. Stakeholder engagement was undertaken in FY16 as part of operational planning across the State. A complaints procedure was implemented during the year and this information is available on the website.

During the year, Forestry Corporation received representations from the community on a range of issues including the environment, neighbour relations, recreation, land management, weed control and timber supply. The corporation also sought feedback on draft Forest Management Plans for the softwood plantations and coastal hardwood forests which were placed on public exhibition in 2015. Submissions were considered and stakeholder views informed changes made to the final plans. These plans are available on our website.

# Risk management, internal audit and insurance

The Board of Forestry Corporation has an Audit and Risk Committee which has been established under the Board approved internal audit charter.

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

Each internal audit is 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 Committee and has access to the Chief Executive Officer as required.

Four internal audits were initiated during the year, covering general IT controls; IT business continuity and disaster recovery; cash and debt management; and contract management in Softwood Plantations Division. Implementation of resulting audit action plans will drive improvements in each of these areas.

## Risk management

An enterprise risk management framework is in place. It includes clear allocation of responsibility for risk management and defined criteria for the assessment of likelihood and impacts of identified risk types within a standardised risk assessment matrix. A software tool has been implemented that enables streamlined reporting and assessment of incidents and hazards as well as risk identification and follow up of audit actions and risk mitigation measures.

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

### Significant safety incident/fatality

Safety remains the most important risk for the corporation. Significant efforts are dedicated to providing training, tools, system resources, planning and operational practices to foster a safety culture and progress towards a goal of no harm. This is underpinned by an independently audited and robust safety management system. Among the strategies adopted in FY16 to reduce the likelihood of a safety incident occurring were reduction of manual tree falling, implementation of additional requirements on log trucks, and implementation of chain of responsibility for haulage. The corporation also chairs the Australian Forests Products Association's national industry council on safety and implements a number of initiatives from this forum to improve the safety of its employees and contractors.

### Serious bushfires

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, and access to a fleet of earthmoving heavy machinery and contract aircraft.

Outside 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 to assist with fire control when required.

### Pests and diseases

Forestry Corporation undertakes systematic health surveys of the forest estate to assess forest health and detect exotic incursions and possible outbreaks of pests and diseases. Reports on health surveys detail the location, extent and severity of detected damaging pests, diseases, weeds and climatic factors with recommended corrective actions. Biosecurity arrangements for softwood plantations were audited in FY16 and a number of improvements are being implemented.

### Storm and flood damage

Severe storms and floods can damage trees, particularly young plantations. Thinning programs are designed to reduce susceptibility to wind-throw damage. A severe storm in June 2016 caused significant damage to roads and bridges in coastal forests. The corporation was able to respond quickly and re-open damaged roads, especially in areas used by members of the public for recreation and access. Wind-throw damage occurred in some Radiata pine plantations around Bathurst and these are being assessed. Forestry Corporation has the capacity to quickly salvage plantations damaged by wind or storms and establish new forest.

### 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. Despite some weather related interruptions, supply commitments were able to be met for the year.

### Significant downturn in timber demand

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

# 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, Group Personal Accident (Volunteers), Corporate Travel, Marine Cargo Insurance and Officer's and Employer's Liability under the *Workers Compensation Act 1987*.

As at 30 June 2016, all insurance cover is administered under the Treasury Managed Fund (TMF), which is the NSW Government's self-insurance scheme.

# Statutory information *cont.*

Forestry Corporation no longer holds a WorkCover NSW self-insurance licence, however remains responsible for the tail management of workers' compensation claims incurred whilst licensed as a self-insurer.

## Digital information security attestation

Forestry Corporation had an Information Security Management System in place during FY16 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 an information technology steering group reporting to the senior management team on information security matters, including IT infrastructure and disaster recovery.

# Financial statements

## Contents

# Statement of profit or loss and other comprehensive income

For the year ended 30 June 2016

| | Note | 30 June 2016 $'000 | 30 June 2015 $'000 |
|---|---|---|---|
| **Revenue** | 4 | 322,360 | 301,133 |
| Other income | 5 | 16,223 | 15,947 |
| Change in fair value of biological assets | 15 | 87,037 | 75,779 |
| | | | |
| **Expenses** | | | |
| Operating expenses | 6 | (206,869) | (191,956) |
| Employee benefits expense | | (70,406) | (68,938) |
| Depreciation and amortisation expense | | (7,684) | (8,215) |
| Impairment of assets | | (4,792) | (321) |
| Finance costs | 7 | (6,351) | (7,388) |
| | | | |
| Profit before income tax expense | | 129,518 | 116,041 |
| | | | |
| Income tax expense | 8 | (39,246) | (35,276) |
| | | | |
| Profit after income tax expense for the year attributable to the owners of Forestry Corporation of New South Wales | | 90,272 | 80,765 |
| | | | |
| **Other comprehensive income** | | | |
| *Items that will not be reclassified subsequently to profit or loss* | | | |
| Changes to revaluation surplus, net of tax | | (91,082) | (375) |
| Actuarial gain/(loss) on defined benefit plans, net of tax | | (35,660) | 291 |
| | | | |
| Other comprehensive loss for the year, net of tax | | (126,742) | (84) |
| | | | |
| Total comprehensive income/(loss) for the year attributable to the owners of Forestry Corporation of New South Wales | | (36,470) | 80,681 |

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

# Statement of financial position

## For the year ended 30 June 2016

| | Note | 30 June 2016 $'000 | 30 June 2015 $'000 |
|---|---|---|---|
| **Assets** | | | |
| Current assets | | | |
| Cash and cash equivalents | 9 | 20,896 | 25,430 |
| Trade and other receivables | 11 | 43,643 | 46,578 |
| Inventories | 12 | 3,148 | 3,095 |
| Biological assets | 13 | 68,189 | 66,145 |
| Total current assets | | 135,876 | 141,248 |
| Non-current assets | | | |
| Property, plant and equipment | 14 | 973,472 | 1,111,206 |
| Biological assets | 15 | 876,992 | 791,999 |
| Investment assets | 16 | 6,821 | 8,540 |
| Total non-current assets | | 1,857,285 | 1,911,745 |
| Total assets | | 1,993,161 | 2,052,993 |
| **Liabilities** | | | |
| Current liabilities | | | |
| Trade and other payables | 17 | 42,319 | 42,746 |
| Dividend provided | 18 | 22,229 | 19,190 |
| Provisions | 19 | 31,096 | 28,566 |
| Income tax | | 5,065 | 8,552 |
| Total current liabilities | | 100,709 | 99,054 |
| Non-current liabilities | | | |
| Borrowings | 20 | 63,521 | 88,746 |
| Provisions | 21 | 4,968 | 5,960 |
| Retirement benefit obligations | 32 | 163,925 | 109,705 |
| Deferred tax | 22 | 481,690 | 512,883 |
| Total non-current liabilities | | 714,104 | 717,294 |
| Total liabilities | | 814,813 | 816,348 |
| Net assets | | 1,178,348 | 1,236,645 |
| **Equity** | | | |
| Contributed equity | 23 | 421,706 | 421,706 |
| Reserves | 24 | 644,387 | 736,407 |
| Retained profits | | 112,255 | 78,532 |
| Total equity | | 1,178,348 | 1,236,645 |

*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 2016

| | Contributed equity $'000 | Reserve for deferred tax asset $'000 | Asset revaluation reserve $'000 | Retained profits $'000 | Total equity $'000 |
|---|---|---|---|---|---|
| **Balance at 1 July 2014** | 421,706 | 50,092 | 688,166 | 14,619 | 1,174,583 |
| Profit after income tax expense for the year | - | - | - | 80,765 | 80,765 |
| Other comprehensive income/(loss) for the year, net of tax | - | - | (375) | 291 | (84) |
| Total comprehensive income/(loss) for the year | - | - | (375) | 81,056 | 80,681 |
| | | | | | |
| *Transactions with owners in their capacity as owners:* | | | | | |
| Transfer of asset revaluation reserves to retained profits | - | - | (2,108) | 2,108 | - |
| Reversal of deferred tax liability on disposal of assets | - | - | 632 | - | 632 |
| Land revocation | - | - | - | (61) | (61) |
| Dividends | - | - | - | (19,190) | (19,190) |
| | | | | | |
| **Balance at 30 June 2015** | 421,706 | 50,092 | 686,315 | 78,532 | 1,236,645 |

| | Contributed equity $'000 | Reserve for deferred tax asset $'000 | Asset revaluation reserve $'000 | Retained profits $'000 | Total equity $'000 |
|---|---|---|---|---|---|
| **Balance at 1 July 2015** | 421,706 | 50,092 | 686,315 | 78,532 | 1,236,645 |
| Profit after income tax expense for the year | - | - | - | 90,272 | 90,272 |
| Other comprehensive loss for the year, net of tax | - | - | (91,082) | (35,660) | (126,742) |
| Total comprehensive income/(loss) for the year | - | - | (91,082) | 54,612 | (36,470) |
| | | | | | |
| *Transactions with owners in their capacity as owners:* | | | | | |
| Transfer of asset revaluation reserves to retained profits | - | - | (1,340) | 1,340 | - |
| Reversal of deferred tax liability on disposal of assets | - | - | 402 | - | 402 |
| Dividend | - | - | - | (22,229) | (22,229) |
| | | | | | |
| **Balance at 30 June 2016** | 421,706 | 50,092 | 594,295 | 112,255 | 1,178,348 |

*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 2016

| | Note | 30 June 2016 $'000 | 30 June 2015 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers (inclusive of GST) | | 372,089 | 343,129 |
| Payments to suppliers and employees (inclusive of GST) | | (303,611) | (291,637) |
| Interest received | | 857 | 758 |
| Interest and other finance costs paid | | (7,038) | (7,840) |
| Income taxes paid | | (19,208) | (10,049) |
| Net cash from operating activities | 10 | 43,089 | 34,361 |
| **Cash flows from investing activities** | 14 | (4,695) | (2,438) |
| Payments for property, plant and equipment | | 1,487 | 952 |
| Proceeds from disposal of property, plant and equipment | | | |
| | | (3,208) | (1,486) |
| Net cash used in investing activities | | | |
| **Cash flows from financing activities** | | | |
| Dividends paid | | (19,190) | (9,665) |
| Repayment of borrowings | | (25,225) | (19,476) |
| Net cash used in financing activities | | (44,415) | (29,141) |
| Net increase/(decrease) in cash and cash equivalents | | (4,534) | 3,734 |
| Cash and cash equivalents at the beginning of the financial year | | 25,430 | 21,696 |
| Cash and cash equivalents at the end of the financial year | 9 | 20,896 | 25,430 |

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

# Notes to the financial statements

30 June 2016

## Note 1. General information

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

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

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

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

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 6 September 2016.

## Note 2. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### Basis of preparation

This general purpose financial report has been prepared in accordance with the *State Owned Corporations Act 1989*, Australian Accounting Standards (which include Australian Accounting Interpretations), NSW Treasury Circulars, and the requirements of the *Public Finance and Audit Act 1983* and Public Finance and Audit Regulation 2015.

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

#### *Historical cost convention*

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of certain forest, non-forest assets, investment properties, onerous contract provision and employee benefits provisions which are accounted at fair value.

#### *Critical accounting estimates*

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Corporation's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

### Revenue recognition

Revenue is recognised when it is probable that the economic benefit will flow to the Corporation and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

#### *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.

#### *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.

#### *Interest*

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

#### *Rent income*

Rent revenue from investment properties is recognised on a straight-line basis over the lease term. Contingent rentals are recognised as income in the period when earned.

### *Other revenue*

Other revenue is recognised when it is received or when the right to receive payment is established.

## Grants

Government grants are recognised as income over the periods necessary to match them with related costs which they are intended to compensate, on a systematic basis.

## Income tax

The Corporation operates in accordance with the National Tax Equivalent Regime (NTER), under which 'equivalent' taxes are payable to the NSW Government through the Office of State Revenue. The NTER closely mirrors the Commonwealth Income Tax Assessment Acts of 1936 and 1997 (as amended) and is administered by the Australian Taxation Office (ATO).

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

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

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

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

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

## Current and non-current classification

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

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

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

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

## Cash and cash equivalents

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

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

## Trade and other receivables

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

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

Other receivables are recognised at amortised cost, less any provision for impairment.

## Inventories

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

# Notes to the financial statements *cont.*

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

## Investment properties

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

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

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

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

## Property, plant and equipment

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

Items of property, plant and equipment are initially measured at their cost, and are subsequently measured at their fair value in accordance with NSW Treasury's accounting policy TPP14-01 'Valuation of Physical Non-Current Assets at Fair Value'. This policy adopts fair value in accordance with AASB 13 'Fair Value Measurement' and AASB 116 'Property, Plant and Equipment'. A comprehensive valuation of Property, Plant and Equipment has been carried out in accordance with TPP14-01 by an independent valuer for the financial year 2016 (FY16).

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

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

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

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

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

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

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

## Biological assets

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

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

### *Plantation Timber*

The Corporation manages approximately 240,000 (2015: 240,000) hectares of softwood plantations and 30,000 (2015: 30,000) hectares of hardwood plantations.

### *Native Forest Timber*

The Corporation manages approximately 1.8 million (2015: 1.8 million) hectares of native forests.

### *Valuation of Biological Assets*

NPV is calculated as the net of the future cash inflows and outflows associated with forest production activities discounted back to current values at the appropriate discount rate.

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 the previous year, current year's, and next year's budget. These costs are unadjusted for any increases in operational efficiency which might occur in the future;

The discount rate applied in the calculation is 7.50% (2015: 8.00%) real, pre-tax, and reflects the specific risk profile of the Corporation. The risk is derived using the weighted average cost of capital (WACC) and benchmarked against industry data. The net increment or decrement of the movement in value of the plantation estate has been recognised in the statement of profit or loss.

## Impairment of non-financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

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

## Trade and other payables

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

## Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

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

## Guarantee fee

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

# Notes to the financial statements *cont.*

## Finance costs

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

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

## Provisions

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

## Employee benefits

### *Short-term employee benefits*

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

### *Other long-term employee benefits*

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

### *Defined contribution superannuation schemes*

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in determining profit or loss in the periods during which services are rendered by employees.

### *Defined benefit superannuation schemes*

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. In the NSW public service, defined benefit schemes (which are called the Pooled Fund Schemes) include the:

- State Authorities Superannuation Scheme (SASS)
- State Superannuation Scheme (SSS)
- State Authorities Non-Contribution Superannuation Scheme (SANCS - Basic Benefit)

The Corporation's net obligation 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.

### *Termination benefits*

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

## Fair value measurement

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

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

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

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

## Contributed equity

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

## Dividends

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

## Goods and Services Tax (GST) and other similar taxes

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

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

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

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

## Rounding of amounts

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

## New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, 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 is not known or reasonably estimable. These standards are outlined as follows:

- AASB 9 Financial Instruments and its consequential amendments
- AASB 15 Revenue from Contracts with Customers
- AASB 16 Leases

# Notes to the financial statements *cont.*

## Note 3. Critical accounting judgements, estimates and assumptions

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

### Provision for impairment of receivables

The provision for impairment of receivables assessment requires a degree of estimation and judgement. The level of provision is assessed by taking into account the recent sales experience, the ageing of receivables, historical collection rates and specific knowledge of the individual debtor's financial position.

### Fair value measurement hierarchy

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

The fair value of assets and liabilities classified as level 3 is determined by the use of valuation models. These include discounted cash flow analysis or the use of observable inputs that require significant adjustments based on unobservable inputs. The fair values are sensitive to various assumptions (refer to note 26).

### Estimation of useful lives of assets

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

### Impairment of property, plant and equipment

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

### Employee benefits provision

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

### Superannuation deferred benefit liability

As discussed in note 2, the liability for the defined benefit superannuation plans is measured at the present value of the defined benefit obligation at the reporting date less the fair value of the superannuation fund's assets at that date and any unrecognised past service cost as determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. The actuarial valuations are sensitive to these assumptions (refer to note 32).

## Note 4. Revenue

| | 30 June 2016 $'000 | 30 June 2015 $'000 |
|---|---|---|
| **Sales revenue** | | |
| Forests sales revenue | 305,481 | 287,236 |
| | | |
| *Other revenue* | | |
| Other services rendered | 11,367 | 8,739 |
| Interest | 857 | 758 |
| Rent income from investment properties | 252 | 229 |
| Other rental | 4,403 | 4,171 |
| | 16,879 | 13,897 |
| Revenue | 322,360 | 301,133 |

## Note 5. Other income

| | 30 June 2016 $'000 | 30 June 2015 $'000 |
|---|---|---|
| Grants revenue - community service obligations | 15,995 | 15,589 |
| Grants revenue - other state government grants | 295 | 22 |
| Net gain/(loss) on disposal of non-current assets | (67) | 336 |
| | | |
| Other income | 16,223 | 15,947 |

### Community Service Obligations (CSO)

The Corporation incurred $15.99 million (2015: $15.59 million) costs for services which included provision of recreation facilities, education and advisory services, government liaison and regulatory services, community fire protection and research. Any unspent CSO grants are carried forward to the next financial year for on-going projects. The costs are included in operating expenditure in Note 6.

## Note 6. Operating expenses

| | 30 June 2016 $'000 | 30 June 2015 $'000 |
|---|---|---|
| Contract harvest and haulage | 133,684 | 124,754 |
| External contractor costs | 39,006 | 33,773 |
| Other operating expenses | 7,637 | 8,258 |
| Materials | 17,153 | 17,008 |
| Occupancy costs | 2,303 | 2,213 |
| Forest management and licence costs | 1,250 | 619 |
| Travel and accommodation | 2,053 | 1,742 |
| Communication and computer costs | 2,629 | 2,321 |
| Insurance and state taxes | 1,154 | 1,268 |
| | | |
| | 206,869 | 191,956 |

# Notes to the financial statements *cont.*

## Note 7. Expenses

| | 30 June 2016 $'000 | 30 June 2015 $'000 |
|---|---|---|
| Profit before income tax includes the following specific expenses: | | |
| | | |
| **Finance costs** | | |
| Government guarantee fee | 1,406 | 1,560 |
| Interest expenses | 4,945 | 5,828 |
| | | |
| Finance costs expensed | 6,351 | 7,388 |
| | | |
| **Superannuation expense** | | |
| Defined contribution superannuation expense | 3,600 | 3,461 |
| Defined benefit superannuation expense | 1,596 | 1,705 |
| | | |
| Total superannuation expense | 5,196 | 5,166 |

*Refer to note 32 for Defined benefit superannuation expense.*

## Note 8. Income tax expense

| | 30 June 2016 $'000 | 30 June 2015 $'000 |
|---|---|---|
| **Income tax expense** | | |
| Current tax | 15,720 | 13,003 |
| Deferred tax - origination and reversal of temporary differences | 23,526 | 21,819 |
| Adjustment recognised for prior periods | - | 454 |
| | | |
| Aggregate income tax expense | 39,246 | 35,276 |
| | | |
| Deferred tax included in income tax expense comprises: | | |
| Increase in deferred tax liabilities (note 22) | 23,526 | 21,819 |
| | | |
| *Numerical reconciliation of income tax expense and tax at the statutory rate* | | |
| Profit before income tax expense | 129,518 | 116,041 |
| | | |
| Tax at the statutory tax rate of 30% | 38,855 | 34,812 |
| | | |
| Tax effect amounts which are not deductible/(taxable) in calculating taxable income: | | |
| Non-taxable expenses | 733 | 24 |
| Sundry items | (342) | (14) |
| | | |
| | 39,246 | 34,822 |
| Adjustment recognised for prior periods | - | 454 |
| | | |
| Income tax expense | 39,246 | 35,276 |

| | 30 June 2016 $'000 | 30 June 2015 $'000 |
|---|---|---|
| *Amounts credited directly to equity* | | |
| Deferred tax liabilities (note 22) | (54,317) | (36) |

## Note 9. Current assets – cash and cash equivalents

| | 30 June 2016 $'000 | 30 June 2015 $'000 |
|---|---|---|
| Cash on hand | 19 | 19 |
| Cash at bank | 13,895 | 10,747 |
| NSW Treasury Corporation Hour Glass Cash Facility | 6,982 | 14,664 |
| | | |
| | 20,896 | 25,430 |

The NSW Treasury Corporation Hour Glass cash facility has been subject to floating interest rates between 2.49% and 2.70% (2015: 2.73% and 3.11%).

## Note 10. Reconciliation of profit after income tax to net cash from operating activities

| | 30 June 2016 $'000 | 30 June 2015 $'000 |
|---|---|---|
| Profit after income tax expense for the year | 90,272 | 80,765 |
| | | |
| Adjustments for: | | |
| Depreciation and amortisation | 7,684 | 8,215 |
| Net (gain)/loss on disposal of property, plant and equipment | 67 | (336) |
| Net fair value gain on biological assets | (87,037) | (75,779) |
| Other non-cash items | (46,149) | 740 |
| | | |
| Change in operating assets and liabilities: | | |
| Decrease/(increase) in trade and other receivables | 2,935 | (2,658) |
| Decrease/(increase) in inventories | (53) | 216 |
| Decrease in trade and other payables | (427) | (3,056) |
| Increase/(decrease) in provision for income tax | (3,487) | 3,406 |
| Increase in deferred tax liabilities | 23,526 | 21,819 |
| Increase in other provisions | 55,758 | 1,029 |
| | | |
| Net cash from operating activities | 43,089 | 34,361 |

## Note 11. Current assets – trade and other receivables

| | 30 June 2016 $'000 | 30 June 2015 $'000 |
|---|---|---|
| Trade receivables | 39,490 | 40,688 |
| Less: Provision for impairment of receivables | (540) | (51) |
| | 38,950 | 40,637 |
| | | |
| Other debtors | 2,540 | 2,689 |
| Prepayments | 2,153 | 3,252 |
| | | |
| | 43,643 | 46,578 |

### Impairment of receivables

The ageing of the impaired receivables provided for above are as follows:

| | 30 June 2016 $'000 | 30 June 2015 $'000 |
|---|---|---|
| 0 to 3 months overdue | 537 | - |
| Over 6 months overdue | 3 | 51 |
| | | |
| | 540 | 51 |

# Notes to the financial statements *cont.*

Movements in the provision for impairment of receivables are as follows:

| | 30 June 2016 $'000 | 30 June 2015 $'000 |
|---|---|---|
| Opening balance | 51 | 97 |
| Additional provisions recognised | 537 | - |
| Receivables written off during the year as uncollectable | (33) | - |
| Unused amounts reversed | (15) | (46) |
| | | |
| Closing balance | 540 | 51 |

## Past due but not impaired

Customers with balances past due but without provision for impairment of receivables amount to $10,640,000 as at 30 June 2016 ($10,660,000 as at 30 June 2015).

The Corporation did not consider a credit risk on the aggregate balances after reviewing the credit terms of customers based on recent collection practices.

The ageing of the past due but not impaired receivables are as follows:

| | 30 June 2016 $'000 | 30 June 2015 $'000 |
|---|---|---|
| 31 to 60 days | 9,296 | 9,464 |
| 61 to 90 days | 626 | 482 |
| Over 91 | 718 | 714 |
| | | |
| | 10,640 | 10,660 |

## Note 12. Current assets – inventories

| | 30 June 2016 $'000 | 30 June 2015 $'000 |
|---|---|---|
| Work in progress and finished goods | 3,148 | 3,095 |

## Note 13. Current assets – biological assets

| | 30 June 2016 $'000 | 30 June 2015 $'000 |
|---|---|---|
| Biological assets at fair value | 68,189 | 66,145 |

The valuation of biological assets ("standing timber") is an accounting valuation carried out under AASB 141 Agriculture, and requires management to make certain judgements and estimates about its carrying value as outlined in note 2.

Refer to note 15 for reconciliations of biological assets between beginning and end of the reporting year.

Refer to note 26 for further information on fair value measurement.

## Note 14. Non-current assets – property, plant and equipment

| | 30 June 2016 $'000 | 30 June 2015 $'000 |
|---|---|---|
| Crown land | 873,542 | 1,029,284 |
| | | |
| Buildings | 24,329 | 28,707 |
| Less: Accumulated depreciation | (9,960) | (16,317) |
| | 14,369 | 12,390 |
| | | |
| Plant and equipment | 18,292 | 22,958 |
| Less: Accumulated depreciation | (6,834) | (13,773) |
| | 11,458 | 9,185 |
| | | |
| Roads and bridges | 138,685 | 109,937 |
| Less: Accumulated depreciation | (65,122) | (49,642) |
| | 73,563 | 60,295 |
| | | |
| Property work in progress - at cost | 540 | 52 |
| | | |
| | 973,472 | 1,111,206 |

### Reconciliations

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

| | Crown land $'000 | Buildings $'000 | Plant and equipment $'000 | Roads and bridges $'000 | Capital work in progress $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| Balance at 1 July 2014 | 1,029,604 | 14,650 | 10,868 | 63,844 | 19 | 1,118,985 |
| Additions | - | - | 2,239 | - | 199 | 2,438 |
| Disposals | (40) | (14) | (168) | - | - | (222) |
| Reversal of revaluation loss | - | 49 | - | - | - | 49 |
| Revaluation decrements | (41) | - | - | - | - | (41) |
| Transfer from work in progress | - | 109 | 57 | - | (166) | - |
| Impairment of assets | - | (866) | - | - | - | (866) |
| Asset revocation | (239) | - | - | - | - | (239) |
| Transfers in/(out) investment property | - | (783) | - | - | - | (783) |
| Depreciation expense | - | (755) | (3,811) | (3,549) | - | (8,115) |
| | | | | | | |
| Balance at 30 June 2015 | 1,029,284 | 12,390 | 9,185 | 60,295 | 52 | 1,111,206 |
| Additions | 159 | 6 | 3,963 | - | 567 | 4,695 |
| Disposals | (1,039) | (164) | (350) | - | - | (1,553) |
| Reversal of impairment loss | - | 1,271 | - | 3 | - | 1,274 |
| Revaluation increments/ (decrements) | (154,814) | 1,694 | 2,058 | 16,811 | - | (134,251) |
| Transfer from work in progress | - | 33 | 46 | - | (79) | - |
| Impairment of assets | - | (6) | - | - | - | (6) |
| Transfers in/(out) investment property | (48) | (161) | - | - | - | (209) |
| Depreciation expense | - | (694) | (3,444) | (3,546) | - | (7,684) |
| | | | | | | |
| Balance at 30 June 2016 | 873,542 | 14,369 | 11,458 | 73,563 | 540 | 973,472 |

Included within Crown land is freehold land amounting to $4,999,000 (2015: $4,835,000).

Refer to note 26 for further information on fair value measurement.

# Notes to the financial statements *cont.*

## Note 15. Non-current assets – biological assets

| | 30 June 2016 $'000 | 30 June 2015 $'000 |
|---|---|---|
| Biological assets at fair value | 876,992 | 791,999 |

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

| | Biological assets $'000 |
|---|---|
| Balance at 1 July 2014 | 782,365 |
| Harvested timber | (28,159) |
| Change in fair value less estimated point of sale costs - due to change in discount rate | 39,009 |
| Change in fair value less estimated point of sale costs - due to changes in volumes, prices and markets | 64,929 |
| | |
| Balance at 30 June 2015 | 858,144 |
| Harvested timber | (28,202) |
| Change in fair value less estimated point of sale costs - due to change in discount rate | 45,853 |
| Change in fair value less estimated point of sale costs - due to changes in volumes, prices and markets | 69,386 |
| | |
| Balance at 30 June 2016 | 945,181 |

The valuation of biological assets ("standing timber") is an accounting valuation carried out under AASB 141 Agriculture, and requires management to make certain judgements and estimates about its carrying value as outlined in note 2.

Refer to note 26 for further information on fair value measurement and reconciliations of biological assets.

## Note 16. Non-current assets – investment assets

| | 30 June 2016 $'000 | 30 June 2015 $'000 |
|---|---|---|
| Investment assets | 6,821 | 8,540 |
| | | |
| *Reconciliation* | | |
| Reconciliation of the fair values at the beginning and end of the current and previous financial year are set out below: | | |
| | | |
| Opening fair value | 8,540 | 7,974 |
| Transfer from/(to) property, plant and equipment | 209 | 783 |
| Disposals | - | (217) |
| Revaluation decrements | (1,928) | - |
| | | |
| Closing fair value | 6,821 | 8,540 |

### Valuations of investment properties

The basis of the valuation of investment properties is fair value, being the amounts for which the properties could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition, subject to similar leases and takes into consideration occupancy rates and returns on investment. For FY16, the comprehensive valuation of investment properties is conducted by an independent valuer in accordance with NSW Treasury's accounting policy TPP14-01 'valuation of physical non-current assets at fair value', AASB 13 'Fair Value Measurement' and AASB 140 'Investment properties'.

Refer to note 26 for further information on fair value measurement.

### Lessor commitments

| | 30 June 2016 $'000 | 30 June 2015 $'000 |
|---|---|---|
| Minimum lease commitments receivable but not recognised in the financial statements: | | |
| Within one year | 711 | 773 |
| One to five years | 1,186 | 1,281 |
| More than 5 years | 1,433 | 1,314 |
| | | |
| | 3,330 | 3,368 |

## Note 17. Current liabilities – trade and other payables

| | 30 June 2016 $'000 | 30 June 2015 $'000 |
|---|---|---|
| Trade creditors | 26,034 | 26,217 |
| Revenue received in advance | 16,285 | 16,529 |
| | | |
| | 42,319 | 42,746 |

Refer to note 25 for further information on financial instruments.

## Note 18. Current liabilities - Dividend provided

| | 30 June 2016 $'000 | 30 June 2015 $'000 |
|---|---|---|
| Dividend provided | 22,229 | 19,190 |

## Note 19. Current liabilities – provisions

| | 30 June 2016 $'000 | 30 June 2015 $'000 |
|---|---|---|
| Employee benefits | 30,314 | 27,956 |
| Workers compensation | 782 | 610 |
| | | |
| | 31,096 | 28,566 |

### Employee benefits

The provision for employee benefits comprises annual leave, long service leave and other employee benefits.

### Workers compensation

The provision represents the estimated costs comprises workers compensation liability in accordance with Work Cover legislation.

### Movements in provisions

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

| | Workers compensation $'000 |
|---|---|
| Balance at 1 July 2015 | 610 |
| Amounts transferred from non-current | 172 |
| | |
| Balance at 30 June 2016 | 782 |

### Amounts not expected to be settled within the next 12 months

The current provision for employee benefits includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount is presented as current, since the Corporation does not have an unconditional right to defer settlement. However, based on past experience, the Corporation does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months. Employee benefits obligation expected to be settled within the next 12 month is $6,388,000 (2015: $4,423,000).

# Notes to the financial statements *cont.*

## Note 20. Non-current liabilities – borrowings

| | 30 June 2016 $'000 | 30 June 2015 $'000 |
|---|---|---|
| NSW Treasury Corporation loans | 63,521 | 88,746 |

Refer to note 25 for further information on financial instruments.

## Note 21. Non-current liabilities – provisions

| | 30 June 2016 $'000 | 30 June 2015 $'000 |
|---|---|---|
| Employee benefits | 730 | 790 |
| Onerous contracts | 2,518 | 3,420 |
| Workers compensation | 1,720 | 1,750 |
| | 4,968 | 5,960 |

### Employee benefits

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

### Onerous contracts

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

### Workers compensation

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

### Movements in provisions

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

| | Onerous contracts $'000 | Workers compensation $'000 |
|---|---|---|
| Balance at 1 July 2015 | 3,420 | 1,750 |
| Additional provisions recognised | - | 142 |
| Amounts transferred to current | - | (172) |
| Reversal during the year | (902) | - |
| Balance at 30 June 2016 | 2,518 | 1,720 |

## Note 22. Non-current liabilities – deferred tax

| | 30 June 2016 $'000 | 30 June 2015 $'000 |
|---|---|---|
| *Deferred tax liability comprises temporary differences attributable to:* | | |
| Amounts recognised in profit or loss: | | |
| Biological assets | 283,554 | 257,443 |
| Provisions | (58,781) | (42,359) |
| Revenue in advance | (4,885) | (4,959) |
| Others | (38) | 299 |
| | 219,850 | 210,424 |
| Amounts recognised in equity: | | |
| Revaluation of property, plant and equipment | 261,840 | 302,459 |
| Deferred tax liability | 481,690 | 512,883 |
| *Movements:* | | |
| Opening balance | 512,883 | 491,732 |
| Charged to profit or loss (note 8) | 23,526 | 21,819 |
| Credited to equity (note 8) | (54,317) | (36) |
| Recognised directly in equity | (402) | (632) |
| Closing balance | 481,690 | 512,883 |

## Note 23. Equity – Contributed equity

| | 30 June 2016 $'000 | 30 June 2015 $'000 |
|---|---|---|
| Ordinary shares - fully paid (2 shares) | - | - |
| Capital contribution | 421,706 | 421,706 |
| | 421,706 | 421,706 |

### Ordinary shares

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

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

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

### Capital contributions

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

### Capital management policy

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

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

# Notes to the financial statements *cont.*

## Note 24. Equity – reserves

| | 30 June 2016 $'000 | 30 June 2015 $'000 |
|---|---|---|
| Asset revaluation reserve | 594,295 | 686,315 |
| Reserve for deferred tax assets | 50,092 | 50,092 |
| | | |
| | 644,387 | 736,407 |

### Asset revaluation reserve

The reserve is used to recognise increments and decrements in the fair value of property, plant and equipment, excluding investment properties. Refer to the Statement of Changes in Equity for movements in the asset revaluation reserve during the year.

### Reserve for deferred tax assets

A specific reserve was created in 2013 for the initial recognition of deferred tax asset for employee benefits.

## Note 25. Financial instruments

### Financial risk management objectives

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

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

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

### Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Corporation's exposures to market risk are primarily through interest rate risk on the agency borrowings and other price risks associated with the movement in the unit price of the 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 The NSW Treasury Corporation (NSW TCorp.). The Corporation does not account for any fixed rate financial instruments at fair value through the Statement of Comprehensive Income or as available for sale. Therefore for these financial instruments, a change in interest rates would not affect the Statement of Comprehensive Income or equity. The agency exposure to interest rate risk is set out below.

The Corporation only holds units in the Hour Glass Investment Cash Facility trust. This trust only invests in Cash and money market instruments that have an investment horizon up to 3 years (2015: 3 years).

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

Investment in the 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 and therefore any change in unit price impacts directly on profit (rather than equity).

### *Interest rate sensitivity*

The NSW TCorp. Hour Glass cash facility has been subject to floating interest rates between 2.57% and 2.89% (2015: 2.73% and 3.11%). An official increase/decrease in interest rate of 0.5% (2015: 1%) would have an adverse/favourable effect on profit after tax of $222,000 (2015: $616,000).

## Credit risk

Credit risk arises when there is the possibility of the Corporation's debtors defaulting on their contractual obligations, resulting in a financial loss to the Corporation. The maximum exposure to credit risk is generally represented by the carrying amount of the financial assets (net of any allowance for impairment), as disclosed in the statement of financial position and notes to the financial statements.

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

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

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

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

The Corporation has established an allowance for impairment that represents its estimate of potential losses 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.

A substantial majority of our trade receivables are derived from sales to timber sawmills. Our 20 largest customers accounted for 80% of forests sales revenue for 2016 (2015: 80%). Additionally, these customers accounted for 79% of our accounts receivable as of June 30, 2016 (2015: 77%). The Corporation has various contractual measures as well as frequent credit control checks to ensure the credit risk exposure is managed.

## Liquidity risk

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

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

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

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

### *Remaining contractual maturities*

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

# Notes to the financial statements *cont.*

| 30 June 2016 | Weighted average interest rate % | 1 year or less $'000 | Between 1 and 2 years $'000 | Between 2 and 5 years $'000 | Over 5 years $'000 | Remaining contractual maturities $'000 |
|---|---|---|---|---|---|---|
| **Non-derivatives** | | | | | | |
| *Non-interest bearing* | | | | | | |
| Trade creditors | 1.50% | 42,319 | - | - | - | 42,319 |
| | | | | | | |
| *Interest-bearing - fixed rate* | | | | | | |
| NSW TCorp. loans | 5.43% | 3,577 | 9,060 | 51,800 | 12,880 | 77,317 |
| Total non-derivatives | | 45,896 | 9,060 | 51,800 | 12,880 | 119,636 |

| 30 June 2015 | Weighted average interest rate % | 1 year or less $'000 | Between 1 and 2 years $'000 | Between 2 and 5 years $'000 | Over 5 years $'000 | Remaining contractual maturities $'000 |
|---|---|---|---|---|---|---|
| **Non-derivatives** | | | | | | |
| *Non-interest bearing* | | | | | | |
| Trade creditors | 1.50% | 42,746 | - | - | - | 42,746 |
| | | | | | | |
| *Interest-bearing - fixed rate* | | | | | | |
| NSW TCorp. loans | 5.50% | 5,010 | 18,434 | 62,070 | 23,940 | 109,454 |
| Total non-derivatives | | 47,756 | 18,434 | 62,070 | 23,940 | 152,200 |

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

## Fair value of financial instruments

The carrying values of cash and short-term deposits, trade receivables, trade payables and other current liabilities are equal to the fair value due to the short-term maturities of these instruments except for loans and borrowings.

The fair value measurements for interest bearing loan and borrowings of $72,348,000 (2015: $99,328,000) are determined by NSW TCorp. and have been categorised as Level 2 fair values using the observable curves combined with margins derived from appropriate benchmarks/comparators.

The fair values of financial assets and liabilities, together with their carrying amounts in the statement of financial position, for the Corporation are as follows:

| | 30 June 2016 | | 30 June 2015 | |
|---|---|---|---|---|
| | Carrying amount $'000 | Fair value $'000 | Carrying amount $'000 | Fair value $'000 |
| *Liabilities* | 63,521 | 72,348 | 88,746 | 99,328 |
| Borrowings | 63,521 | 72,348 | 88,746 | 99,328 |

## Note 26. Fair value measurement

### Fair value hierarchy

The following tables detail the Corporation's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3: Unobservable inputs for the asset or liability

| 30 June 2016 | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|
| *Assets* | | | | |
| Land (including Crown and Freehold land) | - | 873,542 | - | 873,542 |
| Building | - | - | 14,369 | 14,369 |
| Plant and equipment | - | 10,375 | 1,083 | 11,458 |
| Roads and bridges | - | - | 73,563 | 73,563 |
| Investment property | - | 6,821 | - | 6,821 |
| Biological assets | - | - | 945,181 | 945,181 |
| Total assets | - | 890,738 | 1,034,196 | 1,924,934 |
| | | | | |
| *Liabilities* | | | | |
| Onerous contracts provision | - | - | 2,518 | 2,518 |
| Total liabilities | - | - | 2,518 | 2,518 |

| 30 June 2015 | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|
| *Assets* | | | | |
| Land (including Crown and Freehold land) | - | 1,029,284 | - | 1,029,284 |
| Building | - | - | 12,390 | 12,390 |
| Plant and equipment | - | - | 9,185 | 9,185 |
| Roads and bridges | - | - | 60,295 | 60,295 |
| Investment property | - | 8,540 | - | 8,540 |
| Biological assets | - | - | 858,144 | 858,144 |
| Total assets | - | 1,037,824 | 940,014 | 1,977,838 |
| | | | | |
| *Liabilities* | | | | |
| Onerous contracts provision | - | - | 3,420 | 3,420 |
| Total liabilities | - | - | 3,420 | 3,420 |

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

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

# Notes to the financial statements *cont.*

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

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

### *Land (includes Crown and Freehold Land), Investment property and Plant and equipment (Level 2)*

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

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

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

### *Buildings, Roads and bridges and other plant and equipment (Level 3)*

For FY16, a comprehensive valuation was performed where depreciated replacement cost (DRC) was used for building, roads and bridges assets. Key inputs for DRC were:

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

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

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

### *Biological assets: Current standing timber (Level 3)*

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

The key inputs used:

- Estimated three years average timber market prices per tonne or square metre.
- Estimated yield per hectare or estimated timber projections.
- Estimated three years average direct and indirect costs.
- Discount rate of 7.50%

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

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

### *Onerous contracts provision (Level 3)*

Discounted net future income/(expenses): Onerous contracts provision is the present value estimation of the net future income/(expenses) expected to be generated from existing contracts. The projections include the remaining period of the contract for one rotation of the plantation. The expected net future income/(expenses) are discounted using appropriate discount rate.

The key inputs used:

- 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 7.50%

The estimated fair value would increase/(decrease) if the discount rate is lower/(higher). The estimated fair value would increase/(decrease) if the estimated three years average direct and indirect cost were higher/(lower).

*Level 3 assets and liabilities*

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

| | Buildings $'000 | Plant and equipment $'000 | Roads and bridges $'000 | Total $'000 |
|---|---|---|---|---|
| **Balance at 1 July 2014** | 14,650 | 10,868 | 63,844 | 89,362 |
| Transfers out level 3 | (783) | - | - | (783) |
| Additions | - | 2,239 | - | 2,239 |
| Disposals | (14) | (168) | - | (182) |
| Impairment of assets and reversal of impairment loss | (817) | - | - | (817) |
| Depreciation | (755) | (3,811) | (3,549) | (8,115) |
| Transfer from work in progress | 109 | 57 | - | 166 |
| | | | | |
| **Balance at 30 June 2015** | 12,390 | 9,185 | 60,295 | 81,870 |
| Transfers out level 3 | (161) | (10,375) | - | (10,536) |
| Additions | 6 | 3,963 | - | 3,969 |
| Disposals | (164) | (350) | - | (514) |
| Impairment of assets and reversal of impairment loss | 1,265 | - | 3 | 1,268 |
| Revaluation increments/(decrements) | 1,694 | 2,058 | 16,811 | 20,563 |
| Depreciation | (694) | (3,444) | (3,546) | (7,684) |
| Transfer from work in progress | 33 | 46 | - | 79 |
| | | | | |
| **Balance at 30 June 2016** | 14,369 | 1,083 | 73,563 | 89,015 |

In FY16, $10,536,000 was transferred from level 3 to level 2 due to the revaluation of property, plant and equipment using market based evidence. In FY15, these assets were valued largely using unobservable inputs.

Movements in level 3 assets for Onerous contracts provision are provided in note 21.

Movements in level 3 assets for Biological assets are provided in note 15.

# Notes to the financial statements *cont.*

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

| Description | Unobservable inputs | Range (weighted average) | Sensitivity ($000) |
|---|---|---|---|
| **2016** | | | |
| a. Biological assets | (i) Discount rate | 8.5% | 1% increase would decrease fair value by $87,954 |
| | | 6.5% | 1% decrease would increase fair value by $104,770 |
| | (ii) Expected future sales values | +/- 5% | 5% change would increase/(decrease) the fair value by $130,805 |
| | (iii) Expected future costs | +/- 5% | 5% change would increase/(decrease) the fair value by $83,546 |
| | (iv) Expected future changes in volume | +/- 5% | 5% change would increase/(decrease) the fair value by $66,668 |
| b. Onerous contracts provision | (i) Discount rate | 8.5% | 1% increase would increase fair value by $2 |
| | | 6.5% | 1% decrease would decrease fair value by $30 |
| | (ii) Expected 3 years direct/indirect costs | +/- 5% | 5% change would increase/(decrease) the fair value by $448 |
| **2015** | | | |
| a. Biological assets | (i) Discount rate | 9% | 1% increase would decrease fair value by $74,862 |
| | | 7% | 1% decrease would increase fair value by $89,036 |
| | (ii) Expected future sales values | +/- 5% | 5% change would increase/(decrease) the fair value by $116,439 |
| | (iii) Expected future costs | +/- 5% | 5% change would increase/(decrease) the fair value by $75,532 |
| | (iv) Expected future changes in volume | +/- 5% | 5% change would increase/(decrease) the fair value by $60,620 |
| b. Onerous contracts provision | (i) Discount rate | 9% | 1% increase would decrease fair value by $70 |
| | | 7% | 1% decrease would increase fair value by $45 |
| | (ii) Expected 3 years direct/indirect costs | +/- 5% | 5% change would increase/(decrease) the fair value by $479 |

## Note 27. Key management personnel disclosures

### Directors

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

- James M. Millar AM — Chairman – Board Member (Non-Executive)
- Noel Cornish — Board Member (Non-Executive)
- Geoffrey Applebee — Board Member (Non-Executive)
- Sarah Kearney — Board Member (Non-Executive)
- Nick Roberts — Chief Executive Officer

### *Other key management personnel*

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

- Anshul Chaudhary — Chief Financial Officer
- Dean Anderson — General Manager Hardwood Forests Division
- Ian Brown — General Manager Softwood Plantations Division
- Ross Dickson — Chief Forester and Company Secretary

*Compensation*

The aggregate compensation paid or due to Directors and other members of key management personnel of the Corporation is set out below:

| | 30 June 2016 $'000 | 30 June 2015 $'000 |
|---|---|---|
| Short-term employee benefits | 2,046,742 | 1,970,076 |
| Post-employment benefits | 115,106 | 114,405 |
| Long-term benefits | 75,111 | 69,929 |
| | | |
| | 2,236,959 | 2,154,410 |

## Note 28. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by The Audit Office of New South Wales, the auditor of the Corporation:

| | 30 June 2016 $'000 | 30 June 2015 $'000 |
|---|---|---|
| *Audit services - The Audit Office of New South Wales* | | |
| Audit of the financial statements (excluding GST) | 289,050 | 289,500 |

## Note 29. Commitments

| | 30 June 2016 $'000 | 30 June 2015 $'000 |
|---|---|---|
| *Capital commitments* | | |
| Committed at the reporting date but not recognised as liabilities, payable: | | |
| Property, plant and equipment | 177 | 492 |
| | | |
| *Lease commitments - operating* | | |
| Committed at the reporting date but not recognised as liabilities, payable: | | |
| Within one year | 1,137 | 868 |
| One to five years | 1,450 | 1,777 |
| More than five years | 6,285 | 9,349 |
| | | |
| | 8,872 | 11,994 |

## Note 30. Contingent Liabilities\Assets

At 30 June 2016, 672,020 hectares (2015: 629,928 hectares) of operational timber reserves were subject to claims under the Native Title Act. The impact of these claims cannot be quantified at this time.

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

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

At 30 June 2016, the Corporation has no contingent assets.

## Note 31. Events after the reporting period

No matter or circumstance has arisen since 30 June 2016 that has significantly affected, or may significantly affect the Corporation's operations, the results of those operations, or the Corporation's state of affairs in future financial years.

# Notes to the financial statements *cont.*

## Note 32. Non-current liabilities - retirement benefit obligations

### Statement of financial position amounts

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

| | 30 June 2016 $'000 | 30 June 2015 $'000 |
|---|---|---|
| Present value of the defined benefit obligation | 370,125 | 322,651 |
| Fair value of defined benefit plan assets | (206,200) | (212,946) |
| | | |
| Net liability in the statement of financial position | 163,925 | 109,705 |

The information disclosed in this note has been provided by Pillar Administration in accordance with AASB 119.

### Nature of the benefits provided by the fund

The Pooled Fund holds in trust the investments of the closed NSW public sector superannuation schemes:

- State Authorities Superannuation Scheme (SASS)
- State Superannuation Scheme (SSS)
- State Authorities Non-contributory Superannuation Scheme (SANCS).

These schemes are all defined benefit schemes – at least a component of the final benefit is derived from a multiple of member salary and years of membership. Members receive lump sum or pension benefits on retirement, death, disablement and withdrawal. All the schemes are closed to new members.

### Description of the regulatory framework

The schemes in the Pooled Fund are established and governed by the following NSW legislation: *Superannuation Act 1916, State Authorities Superannuation Act 1987, State Authorities Non-Contributory Superannuation Act 1987*, and their associated regulations.

The schemes in the Pooled Fund are exempt public sector superannuation schemes under the *Commonwealth Superannuation Industry (Supervision) Act 1993* (SIS). The SIS Legislation treats exempt public sector superannuation funds as complying funds for concessional taxation and superannuation guarantee purposes.

Under a Heads of Government agreement, the New South Wales Government undertakes to ensure that the Pooled Fund will conform with the principles of the Commonwealth's retirement incomes policy relating to preservation, vesting and reporting to members and that members' benefits are adequately protected.

The New South Wales Government prudentially monitors and audits the Pooled Fund and the Trustee Board activities in a manner consistent with the prudential controls of the SIS legislation. These provisions are in addition to other legislative obligations on the Trustee Board and internal processes that monitor the Trustee Board's adherence to the principles of the Commonwealth's retirement incomes policy.

An actuarial investigation of the Pooled Fund is performed every three years. The last actuarial investigation was performed as at 30 June 2015. The next actuarial investigation will be performed at 30 June 2018

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

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

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

## Description of risks

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

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

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

## Description of significant events

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

## Reconciliation of the Net Defined Benefit Liability/(Asset)

| Financial Year to 30 June | SASS | | SANCS | | SSS | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 2016 $000 | 2015 $000 | 2016 $000 | 2015 $000 | 2016 $000 | 2015 $000 | 2016 $000 | 2015 $000 |
| *Net Defined Benefit Liability/(Asset) at start of year* | 10,843 | 12,614 | (516) | 27 | 99,378 | 93,272 | 109,705 | 105,914 |
| Current service cost | 1,146 | 1,297 | 296 | 389 | 132 | 476 | 1,574 | 2,161 |
| Net Interest on the net defined benefit liability/(asset) | 311 | 429 | (20) | (4) | 3,009 | 3,325 | 3,300 | 3,751 |
| Actual return on Fund assets less Interest income | (121) | (4,641) | (13) | (528) | (157) | (11,047) | (291) | (16,217) |
| Actuarial (gains)/losses arising from changes in demographic assumptions | 357 | 583 | (27) | 57 | 10,227 | (21) | 10,557 | 618 |
| Actuarial (gains)/losses arising from changes in financial assumptions | 7,452 | 3,278 | 586 | 262 | 32,019 | 17,941 | 40,057 | 21,482 |
| Actuarial (gains)/losses arising from liability experience | 2,377 | (1,545) | 141 | (453) | (1,898) | (4,301) | 620 | (6,299) |
| Employer contributions | (1,168) | (1,172) | (256) | (266) | (173) | (268) | (1,597) | (1,705) |
| *Net Defined Benefit Liability/(Asset) at end of year* | 21,197 | 10,843 | 191 | (516) | 142,537 | 99,378 | 163,925 | 109,705 |

## Reconciliation of the Fair Value of Fund Assets

| Financial Year to 30 June | SASS | | SANCS | | SSS | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 2016 $000 | 2015 $000 | 2016 $000 | 2015 $000 | 2016 $000 | 2015 $000 | 2016 $000 | 2015 $000 |
| *Fair value of Fund assets at beginning of the year* | 62,003 | 61,563 | 7,536 | 8,307 | 143,407 | 137,725 | 212,946 | 207,595 |
| Interest income | 1,817 | 2,125 | 223 | 291 | 4,167 | 4,720 | 6,207 | 7,135 |
| Actual return on Fund assets less Interest income | 121 | 4,641 | 13 | 528 | 157 | 11,047 | 291 | 16,217 |
| Employer contributions | 1,168 | 1,172 | 256 | 266 | 173 | 268 | 1,597 | 1,705 |
| Contributions by participants | 568 | 666 | 0 | 0 | 99 | 294 | 667 | 960 |
| Benefits paid | (3,589) | (9,962) | (464) | (1,961) | (11,602) | (11,782) | (15,655) | (23,704) |
| Taxes, premiums & expenses paid | (381) | 1,799 | (66) | 105 | 594 | 1,135 | 147 | 3,039 |
| *Fair value of Fund assets at end of the year* | 61,707 | 62,003 | 7,498 | 7,536 | 136,995 | 143,407 | 206,200 | 212,946 |

# Notes to the financial statements *cont.*

## Reconciliation of the Defined Benefit Obligation

| Financial Year to 30 June | SASS 2016 $000 | SASS 2015 $000 | SANCS 2016 $000 | SANCS 2015 $000 | SSS 2016 $000 | SSS 2015 $000 | Total 2016 $000 | Total 2015 $000 |
|---|---|---|---|---|---|---|---|---|
| *Present value of defined benefit obligations at beginning of the year* | 72,846 | 74,177 | 7,021 | 8,335 | 242,784 | 230,997 | 322,651 | 313,509 |
| Current service cost | 1,146 | 1,297 | 296 | 388 | 132 | 476 | 1,574 | 2,161 |
| Interest cost | 2,128 | 2,554 | 203 | 287 | 7,176 | 8,045 | 9,507 | 10,886 |
| Contributions by participants | 568 | 666 | 0 | 0 | 99 | 294 | 667 | 960 |
| Actuarial (gains)/losses arising from changes in demographic assumptions | 357 | 583 | (27) | 57 | 10,227 | (21) | 10,557 | 618 |
| Actuarial (gains)/losses arising from changes in financial assumptions | 7,452 | 3,278 | 586 | 262 | 32,019 | 17,941 | 40,057 | 21,482 |
| Actuarial (gains)/losses arising from liability experience | 2,377 | (1,545) | 141 | (453) | (1,898) | (4,301) | 620 | (6,299) |
| Benefits paid | (3,589) | (9,962) | (464) | (1,961) | (11,602) | (11,782) | (15,655) | (23,704) |
| Taxes, premiums & expenses paid | (381) | 1,799 | (66) | 105 | 594 | 1,135 | 147 | 3,039 |
| *Present value of defined benefit obligations at end of the year* | 82,904 | 72,846 | 7,690 | 7,021 | 279,531 | 242,784 | 370,125 | 322,651 |

## Fair value of Fund assets

All Pooled Fund assets are invested by SAS Trustee Corporation (STC) at arm's length through independent fund managers, assets are not separately invested for each entity and it is not possible or appropriate to disaggregate and attribute fund assets to individual entities. As such, the disclosures below relate to total assets of the Pooled Fund.

| Asset category | As at 30 June 2016 Total $'000 | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | As at 30 June 2015 Total $'000 | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 |
|---|---|---|---|---|---|---|---|---|
| Short Term Securities | 2,050,414 | 2,044,454 | 5,960 | - | 2,641,516 | 95,603 | 2,545,913 | - |
| Australian Fixed Interest | 2,720,590 | 2,724 | 2,717,865 | - | 2,656,598 | 958 | 2,638,759 | 16,881 |
| International Fixed Interest | 834,374 | (1,358) | 835,731 | - | 1,003,849 | (110) | 1,003,959 | - |
| Australian Equities | 9,720,877 | 9,171,767 | 549,087 | 24 | 10,406,940 | 9,898,541 | 503,999 | 4,400 |
| International Equities | 12,093,667 | 9,026,207 | 2,078,766 | 988,694 | 13,111,481 | 9,963,287 | 2,585,150 | 563,044 |
| Property | 3,650,267 | 1,113,253 | 618,946 | 1,918,068 | 3,452,609 | 948,421 | 718,406 | 1,785,782 |
| Alternatives | 7,115,949 | 470,130 | 3,122,185 | 3,523,634 | 7,170,187 | 622,102 | 3,020,225 | 3,527,860 |
| Total * | 38,186,138 | 21,827,178 | 9,928,540 | 6,430,420 | 40,443,180 | 21,528,802 | 13,016,411 | 5,897,967 |

## Fund assets

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

| As at 30 June | 2016 % | 2015 % |
|---|---|---|
| Short Term Securities | 5.4% | 6.5% |
| Australian Fixed Interest | 7.1% | 6.6% |
| International Fixed Interest | 2.2% | 2.5% |
| Australian Equities | 25.5% | 25.7% |
| International Equities | 31.7% | 32.4% |
| Property | 9.6% | 8.6% |
| Alternatives | 18.6% | 17.7% |
| Total | 100.0% | 100.0% |

**Additional to the assets disclosed above, at 30 June 2016 Pooled Fund has provisions for receivables/(payables) estimated to be around $2.83 billion. This gives total estimated assets of $41.01 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 where quoted prices are available in active markets for identical assets or liabilities.
- Level 3 – inputs for the asset or liability that are not based on observable market data. The assets in this level are unlisted property; unlisted shares; unlisted infrastructure; distressed debt; hedge funds.

Derivatives, including futures and options, can be used by investment managers. However, each manager's investment mandate clearly states that derivatives may only be used to facilitate efficient cashflow management or to hedge the portfolio against market movements and cannot be used for speculative purposes or gearing of the investment portfolio. As such managers make limited use of derivatives.

## Fair value of entity's own financial instruments

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

The fair value of the Pooled Fund assets as at 30 June 2016 include $189.6 million in NSW government bonds. Of the direct properties owned by the Pooled Fund:

- SAS Trustee Corporation occupies part of a property 100% owned by the Pooled Fund with a fair value of $222 million (30 June 2015: $159 million).
- Health Administration Corporation occupies part of a property 50% owned by the Pooled Fund with a fair value of $243 million (30 June 2015: $204 million).

## Significant Actuarial Assumptions at the Reporting Date

| As at 30 June | 2016 | 2015 |
|---|---|---|
| Discount rate | 1.99% | 3.03% pa |
| Salary increase rate (excluding promotional increases) | 2.50% 2016/2017 to 2018/2019; 3.50% 2019/2020 and 2020/2021; 3.00% pa 2021/2022 to 2025/2026; 3.50% pa thereafter | 2.50% 2015/2016 to 2018/2019; 3.50% 2019/2020; 3.00% pa 2021/2022 to 2024/2025; 3.50% pa thereafter |
| Rate of CPI increase | 1.5% 2015/2016; 1.75% 2016/2017; 2.25% 2017/2018; 2.50% pa thereafter | 2.50% 2015/2016; 2.75% 2016/2017 & 2017/2018; 2.50% pa thereafter |
| Pensioner mortality | The pensioner mortality assumptions are as per the 2015 Actuarial Investigation of the Pooled Fund. These assumptions are disclosed in the actuarial investigation report available from the trustee's website. The report shows the pension mortality rates for each age. | The pensioner mortality assumptions are as per the 2012 Actuarial Investigation of the Pooled Fund. These assumptions are disclosed in the actuarial investigation report available from the trustee's website. The report shows the pension mortality rates for each age. |

## Sensitivity Analysis

The entity's total defined benefit obligation as at 30 June 2016 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 2016.

Scenarios A to F relate to sensitivity of the total defined benefit obligation to economic assumptions, and scenarios G and H relate to sensitivity to demographic assumptions.

| As at 30 June | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | 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 | 1.99% | 0.99% | 2.99% | 3.03% | 2.03% | 4.03% |
| Rate of CPI increase | as above | as above | as above | as above | as above | as above |
| Salary inflation rate | as above | as above | as above | as above | as above | as above |
| Defined benefit obligation $'000 | 370,125 | 428,916 | 325,213 | 322,651 | 366,899 | 286,265 |

# Notes to the financial statements *cont.*

| As at 30 June | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Base Case | Scenario C<br>+0.5% rate of CPI increase | Scenario D<br>-0.5% rate of CPI increase | Base Case | Scenario C<br>+0.5% rate of CPI increase | Scenario D<br>-0.5% rate of CPI increase |
| Discount rate | as above | as above | as above | as above | as above | as above |
| Rate of CPI increase | as above | above rates plus 0.5% pa | above rates less 0.5% pa | as above | above rates plus 0.5% pa | above rates less 0.5% pa |
| Salary inflation rate | as above | as above | as above | as above | as above | as above |
| Defined benefit obligation $'000 | 370,125 | 395,143 | 347,972 | 322,651 | 342,198 | 304,788 |

| As at 30 June | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Base Case | Scenario E<br>+0.5% salary increase rate | Scenario F<br>-0.5% salary increase rate | Base Case | Scenario E<br>+0.5% salary increase rate | Scenario F<br>-0.5% salary increase rate |
| Discount rate | as above | as above | as above | as above | as above | as above |
| Rate of CPI increase | as above | as above | as above | as above | as above | as above |
| Salary inflation rate | as above | above rates plus 0.5% pa | above rates less 0.5% pa | as above | above rates plus 0.5% pa | above rates less 0.5% pa |
| Defined benefit obligation $'000 | 370,125 | 372,014 | 368,321 | 322,651 | 324,298 | 321,070 |

| As at 30 June | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Base Case | Scenario G<br>Higher mortality* | Scenario H<br>Lower mortality** | Base Case | Scenario G<br>Higher mortality* | Scenario H<br>Lower mortality** |
| Defined benefit obligation $'000 | 370,125 | 366,036 | 376,177 | 322,651 | 318,806 | 326,733 |

**Assumes the long term pensioner mortality improvement factors for years post 2021 also apply for years 2016 to 2021*

***Assumes the short term pensioner mortality improvement factors for years 2016–2021 also apply for years after 2021*

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

## Asset-Liability matching strategies

The Trustee monitors its asset-liability risk continuously in setting its investment strategy. It also monitors cashflows to manage liquidity requirements. No explicit asset-liability matching strategy is used by the Trustee.

## Funding arrangements

Funding arrangements are reviewed at least every three years following the release of the triennial actuarial review and was last reviewed following completion of the triennial review as at 30 June 2015. Contribution rates are set after discussions between the employer, STC and NSW Treasury.

Funding positions are reviewed annually and funding arrangements may be adjusted as required after each annual review.

## Surplus/deficit

The following is a summary of the 30 June 2016 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 | |
|---|---|---|---|---|---|---|---|---|
| | 2016 $000 | 2015 $000 | 2016 $000 | 2015 $000 | 2016 $000 | 2015 $000 | 2016 $000 | 2015 $000 |
| Accrued benefits* | 55,916 | 53,251 | 5,947 | 5,503 | 141,181 | 132,894 | 203,044 | 191,648 |
| Net market value of Fund assets | (61,707) | (62,003) | (7,498) | (7,536) | (136,995) | (143,407) | (206,200) | (212,946) |
| Net (surplus)/deficit | (5,791) | (8,752) | (1,551) | (2,033) | 4,186 | (10,513) | (3,156) | (21,298) |

** 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 | |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Multiple of member contributions | 1.9 | 1.9 | - | - | 1.6 | 1.6 |
| % member salary | - | - | 2.50% | 2.5% | - | - |

## Economic assumptions

The economic assumptions adopted for the 30 June 2015 actuarial investigation of the Pooled Fund are:

| For the period 30 June | 2016 % | 2015 % |
|---|---|---|
| Expected rate of return on Fund assets backing current pension liabilities | 7.8% pa | 8.3% pa |
| Expected rate of return on Fund assets backing other liabilities | 6.8% pa | 7.3% pa |
| Expected salary increase rate (excluding promotional salary increase) | 3.0% to 30 June 2019 then 3.5% pa thereafter | SASS, SANCS, SSS 2.7% pa (PSS 3.5% pa) to 30 June 2018, then 4.0% pa thereafter |
| Expected rate of CPI increase | 2.5% pa | 2.5% pa |

## Future expected contributions

| Financial Year to 30 June | SASS | | SANCS | | SSS | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 2016 $000 | 2015 $000 | 2016 $000 | 2015 $000 | 2016 $000 | 2015 $000 | 2016 $000 | 2015 $000 |
| Future expected employer contributions for the following year | 1,080 | 1,265 | 250 | 321 | 158 | 471 | 1,488 | 2,057 |

## Maturity profile of defined benefit obligation

The weighted average duration of the defined benefit obligation is 13.6 years.

# Notes to the financial statements *cont.*

## Profit and Loss Impact

| Financial Year to 30 June | SASS | | SANCS | | SSS | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 2016 $000 | 2015 $000 | 2016 $000 | 2015 $000 | 2016 $000 | 2015 $000 | 2016 $000 | 2015 $000 |
| Current service cost | 1,146 | 1,297 | 296 | 388 | 132 | 476 | 1,574 | 2,161 |
| Net interest | 311 | 429 | (20) | (4) | 3,009 | 3,325 | 3,300 | 3,751 |
| Profit or loss component of the Defined Benefit Cost | 1,457 | 1,726 | 276 | 384 | 3,141 | 3,801 | 4,874 | 5,911 |

## Other Comprehensive Income

| Financial Year to 30 June | SASS | | SANCS | | SSS | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 2016 $000 | 2015 $000 | 2016 $000 | 2015 $000 | 2016 $000 | 2015 $000 | 2016 $000 | 2015 $000 |
| Actuarial (gains) losses on liabilities | 10,186 | 2,316 | 700 | (134) | 40,347 | 13,619 | 51,233 | 15,801 |
| Actual return on Fund assets less Interest income | (121) | (4,641) | (13) | (528) | (157) | (11,047) | (291) | (16,217) |
| Total remeasurement in Other Comprehensive Income | 10,065 | (2,326) | 687 | (662) | 40,190 | 2,572 | 50,942 | (416) |

## End of the Audited Financial Statements

# Directors' declaration

## 30 June 2016

Pursuant to Section 41C (1B) and (1C) of the *Public Finance and Audit Act 1983*, the *Forestry Act 2012* and in accordance with a resolution of the Board of Directors, we declare on behalf of Forestry Corporation of New South Wales that in our opinion:

- The financial statements have been prepared in accordance with Australian Accounting Standards and interpretations, the *State Owned Corporations Act 1989*, the *Public Finance and Audit Act 1983* and the Public Finance and Audit Regulations 2015;
- We are not aware of any circumstances at the date of this declaration that would render any particulars included in the financial report to be misleading or inaccurate;
- the attached financial statements and notes give a true and fair view of the Corporation's financial position as at 30 June 2016 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the Corporation will be able to pay its debts as and when they become due and payable.

On behalf of the Directors

| | |
|---|---|
| James M. Millar AM<br>Chairman | Nick Roberts<br>Chief Executive Officer |

Dated this: 6 September 2016

INDEPENDENT AUDITOR'S REPORT

**Forestry Corporation of New South Wales**

To Members of the New South Wales Parliament

## Opinion

I have audited the accompanying financial statements of the Forestry Corporation of New South Wales (the Corporation), which comprise the statement of financial position as at 30 June 2016, the statement of profit or loss and other 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.

In my opinion, the financial statements:

- give a true and fair view of the financial position of the Corporation as at 30 June 2016, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (PF&A Act) and the Public Finance and Audit Regulation 2015.

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

## Basis for Opinion

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

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

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

I have also fulfilled my other ethical responsibilities in accordance with the Code.

The PF&A Act further promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

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

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

## Directors' Responsibility for the Financial Statements

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

In preparing the financial statements, the directors must assess the Corporation's ability to continue as a going concern unless they intend to liquidate the Corporation or cease operations. The assessment must include, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

## Auditor's Responsibility for the Audit of the Financial Statements

My objectives are to:

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

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the financial statements.

A further description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/Home.aspx.
The description forms part of my auditor's report.

My opinion does *not* provide assurance:

- that the Corporation carried out its activities effectively, efficiently and economically
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented.

C J Giumelli
Director, Financial Audit Services

8 September 2016
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 Standard for Sustainable Forestry Management (AS4708:2013) and Environmental Management System (ISO 14001:2004).

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