ANNUAL REPORT 2022–23

Forestry Corporation

Acknowledgement of Country

Forestry Corporation of NSW acknowledges the traditional custodians of the land on which we live and work, and pay our respects to Elders past, present and future.

We recognise the connection to their land, their waters and surrounding communities and acknowledge their history here on this land.

We also acknowledge our Aboriginal and Torres Strait Islander employees who are an integral part of our diverse workforce and recognise the knowledge embedded forever in Aboriginal and Torres Strait Islander custodianship of Country and culture.

Contents

Letter of submission

31 October 2023

The Hon. Daniel Mookhey MLC
Treasurer
Parliament House
Macquarie Street
Sydney NSW 2000

The Hon. Courtney Houssos MLC
Minister for Finance
Parliament House
Macquarie Street
Sydney NSW 2000

Dear Treasurer and Minister

We are pleased to submit the Annual Report for Forestry Corporation of NSW (Forestry Corporation) for the year ended 30 June 2023 for tabling in Parliament.

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

The report was prepared in accordance with the *Government Sector Finance Act 2018*, the applicable provisions of 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

Stef Loader
Chair

Overview

Chair and CEO message

State forests are community assets that are managed to provide multiple benefits. As both the manager of two million hectares of land and public facilities, and a primary producer of commercial timber, Forestry Corporation of New South Wales has a unique set of responsibilities. We must balance delivery of essential timber resources that our communities rely upon with preservation of wildlife and biodiversity and provision of community access for tourism and recreation. This requires a long-term focus, because the seedlings that are placed in the ground today will grow for close to 40 years before they are ready to harvest. Decisions and investments in managing State forests are always made not just for today, but for the future.

Our statutory objectives all have equal weighting and we are committed to balancing these objectives responsibly, transparently and with the safety of our people, contractors and forest users of paramount importance.

This annual report for the financial year ended 30 June 2023 (FY23) details our financial performance but also provides an overview of our multiple objectives and our work to deliver balanced and sustainable outcomes. It is accompanied by our Sustainability Report, our online publication with detailed, transparent and interactive data on a range of environmental, social and governance measures.

For management purposes, our business is arranged into two separate operating divisions, the Softwood Plantations Division and the Hardwood Forests Division. These operational divisions are named to reflect the different forest types managed and timber products produced. We are also a land manager, a tourism provider, and a statutory firefighting authority, and the two operating divisions deliver these community services alongside renewable timber production.

During FY23, we continued to invest in regrowing and rebuilding resilience from natural disasters to ensure the forests we manage provide for future generations in perpetuity with each division's key highlights and challenges detailed in this report.

This year, we also launched our new strategy - Care, Connect and Grow - which encapsulates caring for our people and the environment, connecting local communities with the forest and growing the trees in our business. With this as our driver we are increasing our focus on growing the community benefits we deliver including enhancing environmental monitoring programs and delivering iconic new tourism destinations such as the Gulabaa – Place of Koala precinct on the mid-north coast. We also took the next steps towards facilitating an expansion of renewable energy for the NSW community. A market process underway to identify renewable energy opportunities in softwood plantation will ultimately boost the supply of renewable energy, supporting the state's drive to lower emissions and mitigate the impacts of climate change.

This strategy also maintains our focus on safety, including the safety of our people, of forest users, and of the broader community. In addition to ongoing risk assessment and safety management in forests, a current focus is reviewing safety across the supply chain in consultation with the National Heavy Vehicle Regulator to also drive safety improvements outside the forest and across the industry.

As we look to the future, we do expect changes as the government investigates the establishment of a Great Koala National Park on the north coast. Koala protection is something we are passionate about and it has been at the core of so much of our research, monitoring and management practices over the past 20 years. After the end of the reporting period, the NSW Government announced it would immediately cease harvesting in identified koala hubs within the State forests being considered as part of the Great Koala National Park. We are working with the government to establish those hubs as protected areas.

We have always been committed to managing forests to deliver multiple benefits that are sustained over the long term, and that commitment to responsible forest management will remain our guiding principle.

Stef Loader
Chair

Anshul Chaudhary
CEO

During FY23, we continued to invest in regrowing and rebuilding resilience from natural disasters to ensure the forests we manage provide for future generations in perpetuity...

About Forestry Corporation of NSW

Forestry Corporation of NSW sustainably grow and manage the ultimate renewable resource – our State forests. State forests both contribute to and complement NSW's conservation estate, delivering a range of benefits to communities, from access for tourism and recreation to protection of cultural heritage, fire protection and renewable timber production.

We manage around two million hectares of multiple-use public native forests, including coastal native forests, cypress forests and red gum forests, approximately 225,000 hectares of softwood timber plantations in the central west, south and north of NSW and just under 35,000 hectares of hardwood timber plantations in north east NSW.

Timber is the most renewable building product available, storing carbon for the life of products, using less energy than other alternatives and continually regrowing, and we are expanding our investment in a renewable future by exploring new opportunities for renewable energy production across the estate. NSW is a net importer of timber, and the renewable hardwood and softwood timber products we produce play a critical role in meeting the community's increasing demand for timber and wood products.

Our forest management is independently certified to the Australian Standard for Sustainable Forest Management, Responsible Wood, and our operations underpin a vital and vibrant renewable timber industry in regional NSW.

As a statutory firefighting authority, we play a key role in preventing and managing fires and protecting communities as part of the State's coordinated firefighting response. We employ a highly trained and skilled firefighting workforce and carry out annual hazard reduction, training and maintenance programs. We also maintain a firefighting fleet, equipment and heavy plant as well as a network of fire trails and fire towers to aid rapid detection and early suppression of fires in State forests.

We value innovation, integrity and the wellbeing of our people and communities, with respect for country, community, customers, suppliers and one another at the forefront of all that we do.

Charter

Forestry Corporation of NSW is a statutory State Owned Corporation constituted under the *Forestry Act 2012*, and is subject to the direction of a Board of Directors and the provisions of the *State Owned Corporations Act 1989*.

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

(a) to be a successful business and, to this end:

i. to operate at least as efficiently as any comparable businesses

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

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

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

(d) to contribute towards regional development and decentralisation

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

Each of the principal objectives is of equal importance. Forestry Corporation also has, in exercising its functions as the land manager of a forestry area, the objectives of a land manager under Part 5 of the Forestry Act.

The provisions of section 20E of the *State Owned Corporations Act* do not apply to the Corporation.

The principal functions of the Corporation are set out in the Forestry Act as follows:

(a) to carry out or authorise the carrying out of forestry operations in accordance with good forestry practice on Crown-timber land or land owned by the Corporation

(b) to take or authorise the taking of forest materials from State forests or land owned by the Corporation

(c) to sell, supply or process timber, forest products or forest materials taken or harvested under paragraph (a) or (b)

(d) to establish and maintain plantations

(e) to control and manage, subject to Part 5, forestry areas

(f) subject to the *Rural Fires Act 1997*, to carry out measures on Crown-timber land for the protection from fire of timber and forest products on that land

(g) to grant forestry rights in respect of State forests, timber reserves or land owned by it, including any such right that is for the benefit of the Corporation

(h) to acquire, hold, sell or otherwise deal with or trade in carbon sequestration rights (including for the benefit of other persons).

Board and governance

The Minister responsible for the *Forestry Act 2012* is The Hon. Tara Moriarty MLC, Minister for Agriculture. Under the *Forestry Act 2012*, Forestry Corporation has two voting shareholders, the NSW Treasurer and Minister for Finance, who appoint the Board of Directors.

The Board's accountability to its shareholders is set out in its constitution, which is published on the Forestry Corporation website, and the *State Owned Corporations Act 1989*. Shareholders also set out strategic operating guidance in the Statement of Expectations, which is published on the Forestry Corporation website.

As set out in the Board Charter, the Board's main purpose is to run a successful business and build the Corporation's long-term value that will benefit the people of NSW. Strong corporate governance is fundamental to achieving this purpose and strategic objectives.

The Board may comprise no fewer than three directors and no more than seven directors appointed by the voting shareholders in the manner set out in Part 2 of the Forestry Act. All non-executive director positions are skills-based and are considered independent in accordance with the NSW Treasury Guidelines for Boards of Government Businesses.

The Board is supported by an Audit and Risk Committee, a People Committee and a Safety Committee, which deliver more detailed analysis of safety, risk, audit, finance, remuneration, people and safety.

Board of Directors

Stefanie Loader BSc Hons (Geology), Grad Cert (Applied Stats) MAIG, GAICD
Non-Executive Director and Chair, Chair of People Committee

Mary Verschuer BApplSc (Chemistry), MSc, MBA, MA, FAICD
Non-Executive Director and Chair Audit and Risk Committee

Matthew Sexton BCom (Marketing), GAICD
Non-Executive Director, Chair of Safety Committee

Linda Sewell BSc (Botany), BCom (Accounting, Finance), GAICD
Non-Executive Director

Rob de Fégely AM BSc (Forestry), MSc (Forest Business Management), FAICD
Non-Executive Director

Anshul Chaudhary BCom (Accounting), CA, GAICD
Executive Director and CEO

Organisational structure

Board of Directors

CEO
Anshul Chaudhary
BCom (Accounting), CA, GAICD

General Manager Governance and Assurance
Company Secretary
Ross Dickson
BAgSc (Hons), MSc (Plant Science), PhD (Forestry Science), GAICD, Grad Dip AGIA

- Compliance
- Risk management and audit
- Governance and executive support
- Legal services
- Corporate affairs
- Assets and estates
- Strategic fire management and radio services
- Innovation

General Manager Hardwood Forests
Daniel Tuan
BA

- Hardwood marketing and timber sales
- Native forest stewardship and fire management
- Forest management planning
- Timber harvesting and roading operations
- Ecological surveys and monitoring
- Hardwood plantations

General Manager Softwood Plantations
Rachel Johnson
BSC Aeronautical Engineering Science, GAICD

- Softwood plantation establishment
- Management and planning
- Harvesting and roads
- Sales and procurement
- Fire and stewardship
- Seedling production

Chief Financial Officer
Grant Steen*
BEc, CPA

- Corporate finance
- Tax and treasury
- Commercial finance
- Accounts payable and staff expenses
- Credit control
- Information technology
- Strategic planning and analysis
- Fleet management
- Mapping and information services

General Manager People and Safety
Meredith Payne
BA (Psychology) DipEd Post Grad Diploma (HR)

- Human resources
- Health, safety and wellbeing
- Organisational development
- Diversity and inclusion
- Payroll

** Resigned 6 October 2023. Katy Van Poppel commenced as Chief Financial Officer on 23 October 2023.*

Strategy

Care, Connect and Grow

Forestry Corporation's Care, Connect and Grow strategy commenced in FY23. Our strategic goal is to be recognised as a valued forest manager and grow the business in all areas. Our three-year strategy sets out key focus areas that align with the Care, Connect and Grow pillars. Current strategic priorities are summarised on the following page.

Statement of Corporate Intent and Statement of Expectations

Each year, a Statement of Corporate Intent (SCI) is agreed with shareholders that sets out our strategic priorities for the year ahead. This is published on our website and includes financial targets and non-financial targets for safety and environmental management. Performance against the targets in the SCI is summarised in the operations and performance section of this report. Strategic guidance is also provided in the Statement of Expectations issued by the shareholding and portfolio Ministers and published on the Forestry Corporation website.

Our strategic goal is to be recognised as a valued forest manager and grow the business in all areas.

STRATEGY 2025

Our strategic goal:

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

CARE

Halve the number of injuries and eliminate serious injuries by 2025

CONNECT

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

GROW

Grow the value of the hardwood and softwood estates

This will be supported by our enabling strategies of:

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

Operations and performance

Softwood Plantations Division

This section provides an overview of the key activities and achievements of the Softwood Plantations Division during the reporting period. The division's financial performance is set out in the Financial Summary pages.

Softwood Plantations Division at a glance

The Softwood Plantations Division manages the largest commercial timber plantation estate in NSW, comprising approximately 225,000 hectares of predominately radiata pine, as well as southern and hoop pine assets. These plantations are spread between the Victorian and Queensland borders but are predominately concentrated around processing hubs in Bathurst and Oberon in the Central West and Tumut and Tumbarumba on the south west slopes, with smaller but notable assets around Bombala, Grafton and Walcha.

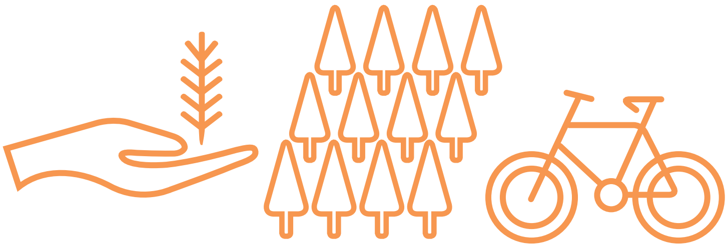
The primary products from these plantations are high quality sawlogs, which are processed into structural lumber for applications such as house frames, as well as low quality or pulp products, which are processed into goods ranging from medium density fibreboard to packaging products.

All State forests are managed for multiple uses and the division also manages conservation, tourism facilities, community access, fire management and pest and weed services. These activities are summarised for both operating divisions under forest management and community services.

Key statistics

Area managed

Approximately 350,000 hectares of forest, including 225,000 hectares of softwood plantations and adjoining areas of multiple-use native forest.

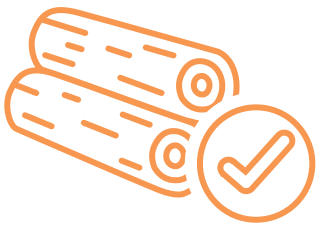


Key supply zones

- Bathurst/ Oberon
- Tumut / Tumbarumba
- Bombala
- Grafton
- Walcha / Nundle

Primary products

- Around 1.8 million cubic metres of high quality softwood products and 1.3 million cubic metres of lower grade softwood products supplied annually to around 20 customers in regional NSW.



Delivering essential softwood products to local markets

High quality sawlogs from softwood timber plantations are typically processed by local mills into structural lumber for use in construction of housing frames, delivering essential products to the community and strong monetary returns. In recent years, demand for structural lumber has been elevated, however sales of high quality softwood sawlogs significantly reduced during the final quarter of FY23 as customers reduced intake in response to inflationary pressure in the market and high interest rates.

Market factors also impacted operating costs, with inflationary pressure on all aspects of operations from roading materials, to fuel, equipment and labour, through to herbicides used in plantation establishment. The elevated costs were exacerbated by ongoing wet weather, which inflated roading costs across the board.

The full suite of softwood products has important applications and demand remained steady for lower grade products that are processed into a range of end uses including packaging materials. The division remained agile in response to shifts in demand, prioritising thinning operations to remove smaller and thinner trees from younger plantations, producing a sustainable supply of lower grade timber while promoting the growth of the remaining trees. While these operations deliver smaller margins as the cost of establishing roads and managing operations remains high but sales prices are lower, they are important for promoting future growth of high quality sawlogs.

Supporting regional development is one of our objectives and to this end a market process was held during the year to identify interest in developing new long-term timber processing capacity in the Grafton district. The 2019-20 fires burnt around half the Grafton softwood resource and destroyed the facility of the local processor, which will not be rebuilt. We went to the market with an opportunity for new 10-year contracts and expect to finalise contracts in FY24. These new long-term timber supply contracts will support regional employment in processing and harvest and haul into the future as the industry continues to rebuild and regrow from the fires.

Supply of essential products to NSW communities was further enhanced during the year with the completion of work to establish a rail connection to facilitate safer and more efficient timber freight from Walcha to Wagga Wagga. This investment was supported by grant funding as the result of a Ministerial direction to divert timber previously destined for export to offset some of the supply reduction to customers in Tumut and Tumbarumba necessitated by the impact of the 2019-20 fires on that region. Supply commenced in the final quarter of the year, with regular trains now transporting high quality timber from the northern tablelands to processors on the south west slopes.

> The prospect of establishing renewable energy projects side by side with the renewable timber estate moved one step closer …

Investing in future timber security

Reinvestment in future timber security continues following the widespread impacts of the 2019-20 fires on softwood plantations. A record-breaking replanting program commenced immediately after the fires and reached its halfway point during the reporting period, with a cumulative 40 million seedlings planted over three years. Replanting rates have peaked but will continue at a higher than average rate through to 2026 before returning to normal replacement levels.

The division also continued to explore opportunities to expand the plantation estate to bolster future timber supplies. Expansion plans suffered a setback during the year, with the late stage withdrawal of a bid to purchase a private plantation due to concerns raised by the Australian Competition and Consumer Commission. However, since the end of the financial year, some smaller parcels were acquired. New opportunities to expand and grow the softwood plantation asset will continue to be investigated.

Further strides taken towards a renewable future

The prospect of establishing renewable energy projects side by side with the renewable timber estate moved one step closer with a market process to identify potential projects nearing completion. The Forestry Act allows for renewable energy projects to be facilitated in exotic pine plantations under strict conditions that limit the footprint of developments and require any affected land to be replaced with twice the area of plantable land in the same supply zone, increasing the size of the plantation asset while allowing for the production of green power in suitable locations.

Feasible projects are expected to be given permits to commence investigations and community consultation in FY24. The normal government planning approval process applies, so new developments are not expected to be approved for several years, however some initial land purchases have commenced in strategic locations that could be added to the plantation estate should projects progress to construction.

Hardwood Forests Division

This section provides an overview of the key activities and achievements of the Hardwood Forests Division during the reporting period. The division's financial performance is set out in the Financial Summary pages.

Hardwood Forests Division at a glance

The Hardwood Forests Division manages coastal native forests, cypress forests, red gum forests and hardwood timber plantations. The primary timber products from native forests and hardwood plantations are high quality hardwood sawlogs, which are processed into products such as flooring, power poles, structural timbers and marine piles and low quality or pulp products, which are processed into goods ranging from pallets to palings, panels and firewood for affordable home heating. All State forests are managed for multiple uses and the division also manages conservation, tourism facilities, community access, fire management and pest and weed services. These activities are summarised for both operating divisions under forest management and community services.

Key statistics

Area managed

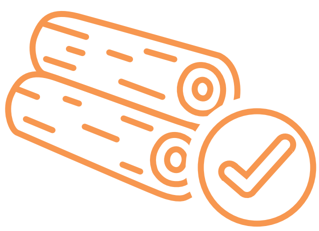
Approximately 1.8 million hectares of multiple-use native forest and 34,000 hectares of hardwood plantations.

Key operational areas

- North coast
- South coast
- Eden
- Western NSW Riverina and Pilliga regions

Primary activities

- Around 750,000 cubic metres of sawlog, specialty timbers and lower grade timbers supplied annually to more than 100 customers in regional NSW.
- 1 million hectares managed for environmental conservation and other values.
- Over 100 free visitor sites, an expansive road and trail network, and a variety of facilities managed by tourism providers and community groups under permit.
- Permits issued to facilitate a range of primary production activities including apiary, grazing and quarrying.



Ongoing demand for hardwood timber products

Hardwood timber products include high quality sawlogs used for structural applications including bridge decking, flooring, power poles, marine grade timbers used for wharf piles, veneer and appearance grade timbers and a range of lower grade products from pallets for goods transport to landscaping timbers, paper products and firewood for affordable home heating. Operations only take place in one per cent of the native forest estate each year and are spread across the landscape. As a result, log products are processed at a large number of facilities situated along the coast from Eden in the south to Grafton and Lismore in the north, and in western NSW towns near productive forests, including Barham and Baradine.

Demand for hardwood timber was not impacted by the market forces that drove down softwood sales, and instead remained strong during the reporting period. However, wet weather and flooding in the first half of the year impacted access to forests, which combined with environmental restrictions and road conditions resulted in force majeure provisions being relied upon as supply fell short of contracted volumes in some supply zones. The wet weather disproportionately impacted the north coast, which produces the high quality sawlog products that are most in demand by communities and deliver the greatest returns, however the wet conditions had abated by the second half of the year as drier conditions returned. Higher than average replanting rates continued in hardwood timber plantations on the north coast as these areas were preferentially harvested in the immediate post-fire period to reduce pressure on native forests, and must now be regrown for the future.

> Demand for hardwood timber was not impacted by the market forces that drove down softwood sales, and instead remained strong during the reporting period.

On the south coast, timber supply has been reduced following the impact of the 2019-20 fires. The long-term sustainable timber yield was reassessed to a level that is lower than it was prior to the fires, but sustainable over the long term and local processors have been supplied these lower volumes over short-term contracts. At the end of the year, the division commenced an expressions of interest process to identify proposals for new long-term sales agreements that include both timber supply and forest recovery. The objective is to partner with industry to deliver investments in the forests through road and infrastructure repairs and environmental recovery as part of a timber supply agreement. This process is ongoing.

State forests are managed to maintain a steady and sustainable supply of timber products in perpetuity. As a responsible forest manager, Forestry Corporation must maintain long-term forecasts that calculate the available timber yield over the 100-year forward outlook. A comprehensive review of the sustainable yield forecasts is carried out every five years and while an interim review was carried out following the 2019-20 fires, the next periodic review is due at the end of the 2023 calendar year. Significant field work was carried out during the year to remeasure a greater proportion of strategic inventory plots and permanent growth stands in the forest to gather detailed data on post-fire recovery to inform this robust resource review.

Compliance in focus

There are detailed environmental regulations for native forest operations and a number of changes have been made in recent years to improve compliance following a series of incidents and regulatory actions. The Auditor General completed an independent review of native forest regulation during the year and the recommendations will be fully implemented, bolstering improvements already made.

Several regulatory actions relating to previous years are still to be resolved, including a prosecution and penalty notices heard by the courts. There have also been a number of external legal challenges, which have either had judgements reserved or will be heard in the coming year.

While no new penalties were received during the reporting period, disappointingly, a penalty infringement notice and stop work order were received after financial year's end. Forestry Corporation will continue to cooperate with the regulator and fully investigate any potential breach to ensure systems and processes are robust and resources dedicated to improving regulatory compliance are appropriate and deployed effectively.

Implementing policy changes

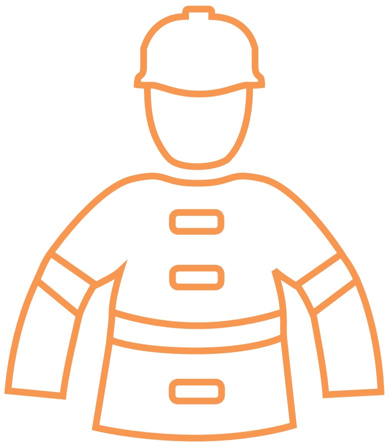
A general election for NSW was held in March 2023 and the incoming government committed to assessing around 175,000 hectares of State forest for potential inclusion in a Great Koala National Park on the north coast. In September 2023 the government announced timber harvesting would immediately be excluded from areas of identified koala hubs within State forests in the area for assessment for inclusion in the proposed park. Forestry Corporation will work with the government to establish these new protected areas. The government has indicated that environmental and economic analysis and consultation with stakeholders to inform the establishment of the Great Koala National Park will commence during FY24.

Forest management and community services

At a glance: forest management and community services

Forestry Corporation is appointed to manage State forests for multiple uses, including conservation, cultural heritage, tourism, access for primary production including grazing and apiary, and renewable timber production. As a land manager, Forestry Corporation has obligations to manage fire, pests and weeds and maintains significant assets for community benefit, including an expansive public road and fire trail network and substantial tourism infrastructure and facilities. Significant areas of State forests are also made available to local farmers and businesses under permit for commercial activities such as grazing and beekeeping.

Bolstering fire resources



As one of four statutory firefighting authorities in NSW, Forestry Corporation works in partnership with other fire agencies and land managers to collaboratively assess and manage the risk of fire and respond to fire in the landscape. Working partnerships with the NSW Rural Fire Service (RFS) and other firefighting agencies continued to strengthen during the reporting period as we work collaboratively to minimise the threat of fire and implement the recommendations of the 2019-20 fire inquiries.

Three new state-of-the-art category one fire tankers have been delivered, the first of up to 50 new tankers to be commissioned to replace the aging fleet under a multi-year renewal program. The new tankers are equipped with the latest technology and safety features and are interoperable with the RFS fleet, bringing efficiencies and safety gains to the fireground.

Upgrades to radio hardware also continued as part of the ongoing migration of radio communications to the government's Public Safety Network and fireground radio network. The hardware is being phased in over several years through retrofitting and replacement as part of the normal fleet renewal program.

Wet weather over the past few years has resulted in mild fire seasons, and these conditions persisted during the first half of the year. While wet conditions produce fewer wildfires, they also increase understorey growth and reduce opportunities for hazard reduction, as fuels are too damp to ignite. While drier conditions in the second half of the year allowed for more hazard reduction than previous years, the wet start to the year prevented the full planned program being implemented. With opportunities for burning limited and weather patterns drying out, priority was placed on ensuring our firefighting workforce is skilled, prepared and equipped to respond rapidly in the event of wildfire. Investments in equipment upgrades and maintaining high levels of staff training underpin our preparedness strategy.

An injection of funding during the year will build on work carried out over the past few years to partner with local Aboriginal communities to restore traditional fire management practices to forests. The Fire, Country and People program received matched funding from the Australian Government's Disaster Ready Fund to expand the use of traditional fire management to increase bushfire preparedness on the mid and north coasts. The program will be guided by communities and will combine professional fire management with traditional knowledge to deliver better outcomes.

Upgrading roads and fire trails

Flooding in previous years caused significant damage to roads and bridges across the State forest estate, including many roads used by local communities as alternative routes between towns, to access recreation areas, or for firefighting. Due to the extent of the damage, the NSW Government provided grant funding for a three-year forest infrastructure repair program, enabling the largest road and infrastructure repair program in Forestry Corporation's 100-year history.

The program commenced in February 2022 and during the reporting period 19 additional staff were employed to support the repair program. By 30 June 2023, 66 projects had been completed under the program, including seven major bridge replacements, four major landslip repairs, eight quarry expansions, 80 crossing repairs and 700 kilometres of road repairs. More than 150 more projects were either operational, upcoming or planned and will be completed in future reporting periods.

This major works program specifically targeted roads and infrastructure in local government areas impacted by the natural disaster flooding. Ongoing upgrades and maintenance to the rest of the State forest road and fire trail network continued alongside this program throughout the rest of the estate.

66 projects completed, including:

7 major bridge replacements

4 major landslip repairs

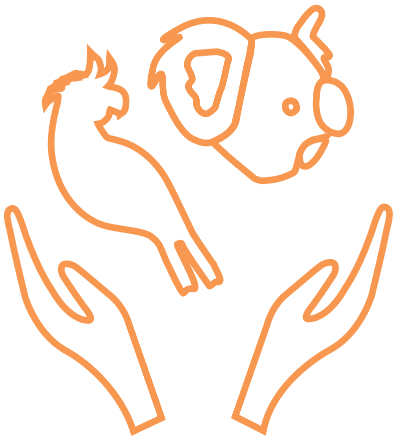
8 quarry expansions

80 crossing repairs

700 kilometres of road repairs

Enhancing environmental monitoring

A range of long-term monitoring programs that focus on specific species are continuing to deliver important data on the recovery of forests impacted by fires in 2019-20. Remarkably, the division's ecologists reported the first verified record of a long-footed potoroo in NSW history, discovered during monitoring on the south coast. Post-fire recovery has been promising for many species studied, including small mammal populations in the forests around Eden, Hastings River Mouse in Styx River State Forest in the New England region and koala populations in Kiwarrak State Forest near Taree. During the year, ecology staff also collaborated with NSW Department Planning and Environment's Save Our Species program to carry out environmental surveys in Bondo State Forest near Tumut for the critically endangered Northern Corroboree Frog as part of a broader population monitoring effort across the species' range.



Long-term monitoring programs provide data on both the areas managed for conservation and those areas that are periodically harvested and regrown. These programs are complemented by routine ecological surveys carried out prior to any harvest operations as well as a broad biodiversity monitoring program carried out in collaboration with the Natural Resources Commission to evaluate the effectiveness of the Coastal Integrated Forestry Operations Approval in protecting wildlife, which has entered its second year.

> Only one per cent of State forest is harvested each year and half the area managed is set aside for conservation...

Partnering to develop new tourism experiences

State forests support a wide range of diverse tourism opportunities, ranging from camping, mountain biking, trail biking, horse riding and four wheel driving to car rallies and unique activities such as dog sledding.

During the year, work continued to progress on the Guulabaa – Place of Koala precinct in Cowarra State Forest. The precinct is being developed in partnership with the Port Macquarie Koala Hospital, Bunyah Aboriginal Land Council, WildNets and the Hello Koala Sculpture Trail, supported by the NSW Government, and will include visitor experiences, learning spaces, a gallery and café and the world's first wild koala breeding facility.

In the Hunter region, a partnership with the University of Newcastle spawned a new network of artificial ponds in Olney State Forest to provide breeding habitat for iconic species such as the Littlejohn's tree frog and the giant burrowing frog. Walking trails have been developed in collaboration with a range of community groups and forest users to protect the ponds and provide a unique visitor experience and the project is enhanced by a collaboratively developed citizen science app developed with the Natural Resources Commission and Australian Museum.

Progress was also made on a major new tourism development in Bago State Forest, being developed in partnership with a range of community partners and supported by NSW Government funding. The project showcases the existing Pilot Hill Arboretum, includes a new wellbeing walk and timber sculpture trail, and over the longer term will also showcase the Sugar Pine Walk 2.0, a newly planted stand of sugar pine trees that is being grown to recreate the iconic and much loved Sugar Pine Walk that was destroyed by the 2019-20 fires.

Significant new mountain bike networks are also being developed on the south coast under the forest permit system, further expanding the extensive community-led mountain biking network in State forests.

Research and development

Forestry Corporation invests in a wide range of external research and development projects through an ongoing service level agreement with the Department of Primary Industries Forest Science Branch and through collaborative partnerships with other organisations such as industry groups and fire management bodies.

During the reporting period, research highlights included a range of fire management research such as assessment of the effectiveness of remote sensing technology to measure forest fuel moisture. If effective, this technology could be used to support the development of models to predict the moisture content of surface and near surface fuels. This will improve fire management planning and help assess fire risk more rapidly and across a larger area.

These research partnerships are complemented by an ongoing in-house program of applied research and development and environmental surveys and monitoring, which is directly linked to practical outcomes and process improvements. This program has seen a range of technology trialled in previous years that has now been adopted and operationalised as part of standard practice, such as the Map App, which supports a range of operational and forest management activities, precision Global Navigation Satellite System (GNSS) navigation systems used in harvest planning and operations, and remotely piloted aircraft, or drones, used to support a diverse range of field activities such as mapping, monitoring and fire operations.

A summary of research and development programs carried out during the year is published in the Sustainability Report.

Financial summary

Performance against Statement of Corporate Intent

Forestry Corporation creates a financial plan each year in its SCI that sets out its key financial targets. Performance against financial measures fell short of expectations as highlighted in the financial summary tables on page 27.

A sharp drop in demand for softwood timber in the final quarter combined with weather and escalating costs delivered a disappointing financial result for FY23.

Softwood sawlogs are primarily processed by customers into structural lumber, which is used in the construction of house frames. Changes in the housing construction market are quickly reflected in demand for high quality sawlogs, as evidenced by the strong returns over recent years on the back of government stimulus incentives boosting housing construction. During FY23, confidence in the new housing construction sector was suppressed by building cost escalation and delays and rising borrowing costs, which drove down new housing construction starts. As a result, customers built up inventory and reacted with a sharp decline in demand for structural softwood timber in the final quarter of the year. While demand for other log products, including high quality hardwood sawlogs and lower grade softwood and hardwood products, remained steady, the rapid reduction in high quality softwood sawlog sales drove the end-year results well below expectations.

Substantial rain events also drove down income while increasing costs. The wet weather and flooding in the first half of the year damaged infrastructure, constrained production and necessitated the preparation of more roads in both operating divisions to move operations to suitable wet weather sites. Simultaneously, high inflation across the board drove up expenses including fuel, equipment, labour and essential materials used in building roads and preparing areas for planting.

While demand for hardwood timber remained high, environmental constraints and accessibility issues along natural surface forest roads limited access to native forests during the extended wet weather experienced in the first half of the year, which again impacted production of hardwood timber in FY23 and reduced revenue from hardwood timber sales.

Total comprehensive income was lower than the previous year at $57 million (FY22: $81 million). The majority of the result in both FY23 and the previous year derived from revaluation and actuarial gains, with FY22 also benefitting from one-off insurance proceeds of $27 million. Normalised earnings[1], which is used for management purposes to evaluate the underlying financial position, were also well below the previous year at $3 million (FY22: $38 million, inclusive of insurance proceeds of $27 million) and fell short of the $13 million forecast in the budget.

At $385 million (FY22: $373 million), revenue was three per cent higher than the previous year but five per cent below budget. Revenue in FY23 included substantial grant income received for a major repair program to restore forest roads impacted by flooding. Some program expenditure was rephased into next year causing overall revenue to fall below projections. Other impacts to revenue included sawlog price increases, reduction in timber volume and an increase in lower value products.

At $382 million (FY22: $334 million), expenses were 14 per cent higher than the previous year, but below SCI expectations. The cost of essential items such as raw materials used in roading, chemicals used in site preparation, and fuel increased well beyond inflation by up to 20 per cent. Elevated equipment and labour costs impacted programs and activities, including the larger than normal roading and replanting programs. Consulting and legal costs were also higher due to major strategic projects including a withdrawn bid to acquire private plantation assets and a market process to investigate potential renewable energy developments in softwood plantations, as well as ongoing regulatory matters. The variance against SCI reflected lower employee costs associated with a quieter fire season.

1 Normalised earnings excludes significant items such as fair value movements, asset impairments and defined benefit actuarial movements and is unaudited.

Softwood Plantations Division

Market forces had a notable impact on the financial results for the Softwood Plantations Division, increasing prices in the first half and reducing sales volumes in the second half. Both revenue[2], at $246 million (FY22: $264 million) and normalised earnings[3], at $19 million (FY22: $47 million) were substantially lower than the previous year. This reduction was primarily due to the receipt of $27 million insurance proceeds in FY22, as the price increases in the first half were largely offset by volume reductions later in the year.

Reduced demand for high quality timber during the final quarter substantially reduced projected income from timber sales and also raised costs as more operational roads were prepared due to the impacts of wet weather and to facilitate a higher proportion of thinning operations. Inflationary pressure pushed up the costs of materials, equipment and labour, which increased the cost of operations. Substantial operating costs were also incurred in support of major strategic projects.

Replanting costs also increased as more areas were replanted to replenish fire-affected plantations and put more plantable ground under trees. In previous years, salvageable timber recovered from fire-affected plantations offset re-establishment costs, but costs have increased as unsalvageable areas must be cleared before replanting. The inflated cost of chemicals used in land establishment further pushed costs up. While replanting costs are substantial, these investments will deliver future timber supply benefits over the longer term.

While replanting costs are substantial, these investments will deliver future timber supply benefits over the longer term.

Hardwood Forests Division

While demand for hardwood timber remains firm, wet weather had a substantial impact on the production of hardwood timber and reduced the earnings of the Hardwood Forests Division in FY23. Native forestry operations cannot take place during wet weather due to environmental restrictions and as a result timber production was 20 per cent lower than projected. High quality sawlog production was particularly affected due to the concentration of wet weather impacts in areas that produce more high value products.

While revenue[2] increased to $129 million (FY22: $103 million), the majority of this increase did not flow through to earnings because it related to grant funding received for road and infrastructure repairs, which was directly expended.

General inflationary pressures on equipment and materials drove up costs and investment in compliance assurance also increased, as additional staff and resources were committed to planning operations and monitoring compliance. As a result of all of these factors, normalised earnings[3] for the division declined to -$15 million (FY22: -$9 million). It is important to note that this result includes the cost of delivering community services across the State forest estate. While services are delivered by both operating divisions, the financial cost is more notable in the accounts of the Hardwood Forests Division, which manages approximately ten times the land area of the Softwood Plantations Division. For information purposes, the divisional results for the Hardwood Forests Division have been broken down into Timber and Extractive Resources (which includes revenues from timber harvesting and extractive material such as gravel) and Land Management (which includes costs incurred in managing the much larger land area the division is responsible for to facilitate activities such as fire control, public access, recreation and tourism, pest and weed control).

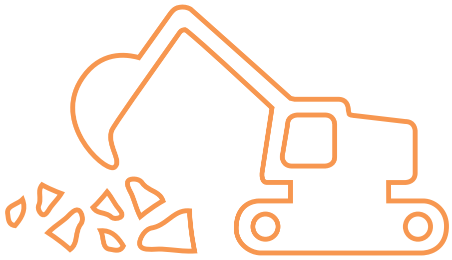
2 Revenue includes other income and interest

3 Normalised earnings excludes significant items such as fair value movements, asset impairments and defined benefit actuarial movements and is unaudited

Community services

Forestry Corporation receives community services obligation funding from the NSW Government each year to compensate for the delivery of services that a similar commercial business would not provide. Community services funding in FY23 totalled $31 million (FY22: $20 million) and was used to deliver services including road construction and maintenance for community purposes, firefighting and prevention for community purposes, recreation and tourism activities, community and government engagement, research and development and management of the parts of State forest not available for timber production.

This year's community services allocation included funds expended under the three-year Forest Infrastructure Repair Program. Additional grant funding expended to deliver community services during the year included $2 million to purchase upgraded fire tankers as well as expenditure of grant funds on several new tourism developments.



Forestry Corporation supplements grant funding with direct expenditure. A new Fire, Country and People: Aboriginal Community Disaster Ready partnership received $1.5 million in funding from the Australian Government's Disaster Ready Fund, which will be matched by Forestry Corporation. Other projects with substantial community benefit are fully funded by Forestry Corporation, such as the $5 million multi-year program to transition the organisation's radio systems to the Public Safety Network, which will support both operations and community firefighting.

Capital and shareholder return

A dividend of $13.5 million (FY22: $0.4 million) was accepted by NSW Treasury, reflecting the results that were projected prior to the rapid drop in market demand for softwood timber in the final quarter. This commitment reflected significant efforts to restore the corporation to a dividend-paying position after the 2019-20 fires.

Balance sheet

At $128 million (FY22: $101 million), the cash position remains robust. The increase reflects the receipt of a $27 million insurance payout compensating for the additional costs of working with salvage timber after the bushfires of 2019-20 and upfront grant payments to cover the forest infrastructure repair program. The grant funding is fully committed to be expended in future periods.

The strong cash position will allow for ongoing investment in the future of the forest estate, including $90 million worth of strategic asset acquisitions committed to following the end of the reporting period.

Other notable items include revaluation of the biological assets, being the softwood plantations and associated land and road infrastructure. For clarity, the tables overleaf reconcile the main items.

The strong cash position will allow ongoing investment in the future of the forest estate...

Financial highlights

Division financial results

Year ended 30 June ($ millions)	FY19	FY20	FY21	FY22	FY23
Softwood Plantations					
Revenue[1]	289	301	300	264	246
Normalised earnings[2]	73	59	47	47	19
Hardwood Forests					
Timber & Extractive Resources:					
Revenue[1]	105	91	73	84	94
Normalised earnings[2]	12	13	0	4	(2)
Land Management:					
Revenue[1]	17	30	16	19	35
Normalised earnings[2]	(10)	(13)	(20)	(12)	(13)
Total Hardwood Forests:					
Revenue[1]	123	121	89	103	129
Normalised earnings[2]	1	0	(20)	(9)	(15)

FY23 Divisional breakdown ($ millions)

	Softwood	Hardwood[3]		Corporate	Total
		Timber & Extractive Resources	Land Management		
Revenue[1]	246	94	35	8	383
Normalised earnings[2]	19	-2	-13	0	3

Key financial data

		FY19	FY20	FY21	FY22	FY23	2023 SCI targets: SCI	Variance
Year ended 30 June								
Revenue[1]	$m	417	428	396	373	383	407	(24)
Normalised earnings[2]	$m	74	60	27	38	3	13	(10)
Dividend payable	$m	33	0	0	0.4	13	13	0
Borrowings	$m	86	86	86	64	50	51	(1)
Biological asset valuation[4]	$m	N/A	1,444	1,471	1,471	1,543	1,471	72
Key ratios								
Return on equity	%	4.9	4.5	2.0	2.7	0.2	1.7	(1.5)
Normalised earnings[2] margin	%	17.7	14.0	6.9	10.2	0.8	3.2	(2.4)
Liquidity ratio	times	1.4	2.3	2.1	2.1	1.5	1.6	(0.1)
Gross debt to normalised earnings before depreciation and amortisation	times	1.0	1.2	2.3	1.3	3.8	2.2	1.6
Interest cover	times	11.8	11.2	6.2	10.0	1.1	4.6	(3.5)

1 Revenue includes other income and interest.

2 Normalised earnings excludes significant items such as fair value movements, asset impairments and defined benefit actuarial movements and is unaudited.

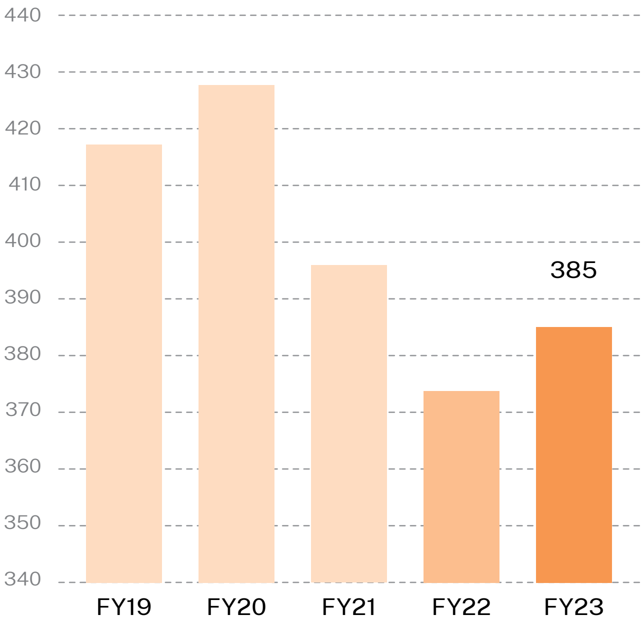
3 The breakdown within the Hardwood Forests Division is provided for information purposes only and is unaudited, the division is managed and assessed as a single Cash Generating Unit.

4 Valuation using the new methodology applied from FY20 including softwood plantation trees, land and roads.

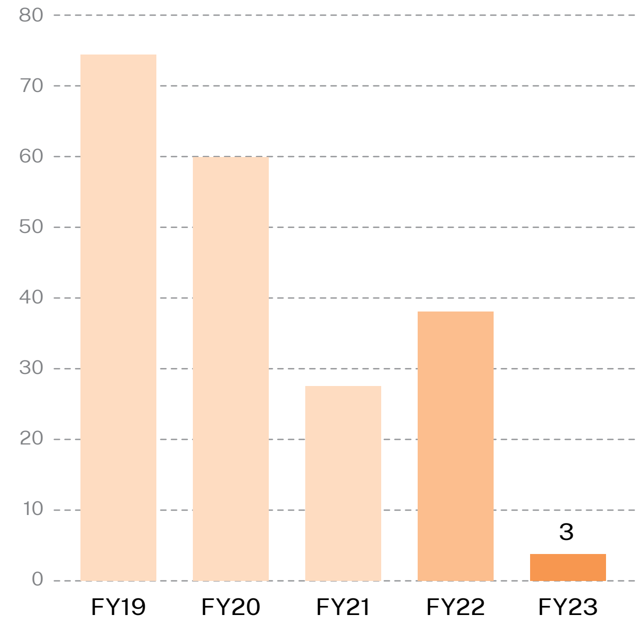
Reconciliation of normalised earnings to statutory results ($ millions)

	2022	2023
Total Comprehensive Income / (Loss) per the financial statements	81	57
Impact of actuarial assessment on the defined benefit superannuation liabilities (net of tax)	(22)	(7)
Impact of valuation of standing timber (net of tax)	91	(2)
Impact of revaluation and related impairment of property, plant and equipment (net of tax)	(126)	(48)
Normalised earnings[2] after tax	24	0
Interest and tax on normalised earnings[2]	14	3
Normalised earnings[2]	38	3

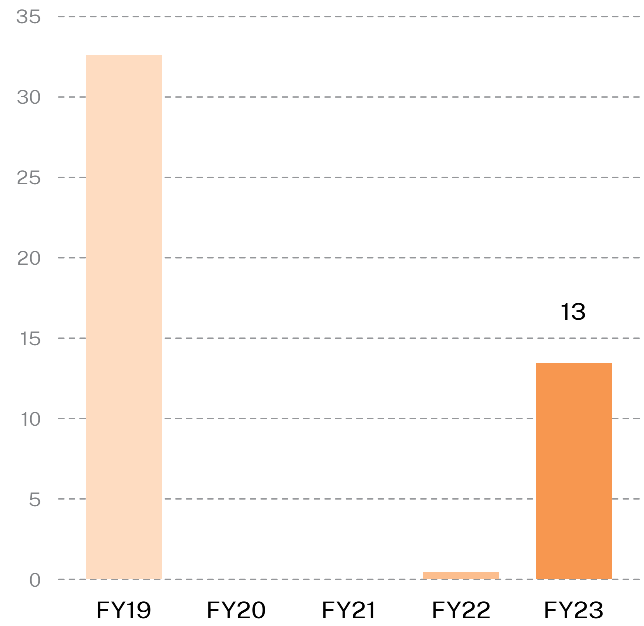
Revenue[1] ($m)



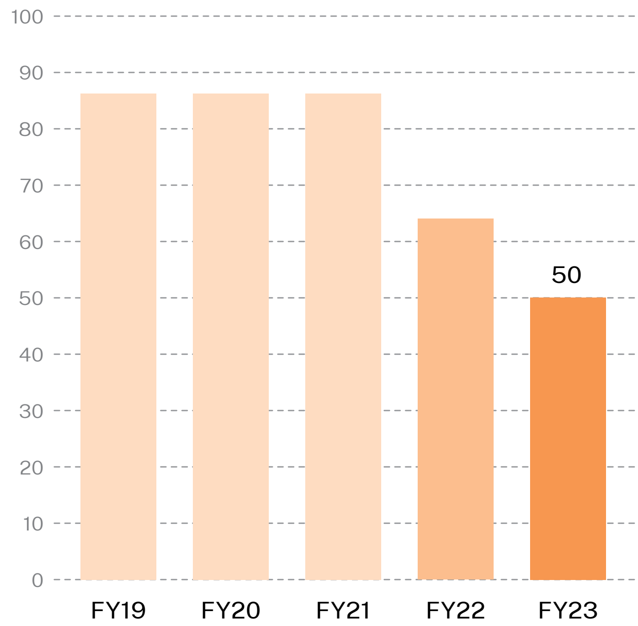
Normalised earnings[2] ($m)



Dividend payable ($m)



Borrowings ($m)



1 Revenue includes other income and interest.

2 Normalised earnings exlcudes significant items such as fair value movements, asset impairments and defined benefit actuarial movements and is unaudited.

Management and accountability

Human resources

Our people are our most valuable asset. Information about safety, employment conditions and workforce diversity can be found in the sustainability section of this annual report. The table below sets out changes in full-time equivalent (FTE) employee numbers and remuneration of senior executives. It is noted that many staff spend time in both the field and the office. For the purposes of this table, office-based roles include staff primarily involved in management, administration and technical roles, while field-based roles include staff primarily engaged in field contractor management, road construction and maintenance, tree planting and pruning, nursery work, forest conservation and fire protection. Staff figures are compiled at the end of each financial year and do not include all seasonal and casual staff engaged during the year, such as seasonal firefighters engaged over the summer months (some seasonal firefighters are retained over the winter months resulting in fluctuations in field-based FTE).

Staff number increases during the year reflected additional staff engaged to deliver major infrastructure repair projects and extra resources committed to operational planning and compliance.

Employee numbers – trend (full-time equivalent)

Year ended 30 June	Office-based	Field-based	Total
2020	316	218	534
2021	317	232	549
2022	331	231	562
2023*	367	245	612

** At final pay period 18 June 2023.*

Average remuneration of senior executives

Band	FY22 ($)	FY23 ($)
Band 4 or above	541,643	551,989
Band 3	385,438	-
Band 2	306,801	320,163
Band 1	272,084	279,491

Approximately three per cent (FY22: 3%) of total employee-related expenditure during the reporting year related to senior executives.

Consultants

Over $50,000 per engagement

Vendor	Subject matter	Amount
CBRE Valuations	Land procurement and asset management	70,750
UBS Securities	Advice on acquisitions	152,185
KPMG Financial Advisory Services	Business improvement advice	282,150
Ahmu Consulting Pty Ltd	Business improvement advice	56,096
Clayton Utz	Legal advice on strategic projects	500,000
Johnson Winter and Slattery	Legal advice on strategic projects	369,758
		1,430,939

Total engagements costing less than $50,000

	Total amount
Number of engagements: 99	526,799

Overseas visits

Company Secretary Dr Ross Dickson travelled to New Zealand on one occasion during the reporting period to attend a meeting of the Radiata Pine Breeding Company (RPBC). Forestry Corporation is a major shareholder of the RPBC and Dr Dickson is Chair, requiring him to travel to New Zealand in his capacity as Chair and to attend technical meetings.

In May 2023, five staff members attended the Wood Transport & Logistics Conference held in Rotorua, New Zealand. The safe and productive transport of logs is a critical element of forestry operations and the conference offered the group the opportunity to stay up to date on what is occurring internationally in the transport and logistics area. The delegates also attended field trips as part of the conference.

Legislation and legal matters

The Forestry Regulation 2022 commenced on 1 September 2022, replacing the Forestry Regulation 2012 which was repealed on the same date.

Three civil proceedings were heard during the reporting period, with judgment reserved in two cases, and three regulatory matters relating to operations in 2020 remain before the courts at the close of FY23, one of which has judgment reserved.

Risk management and internal audit

Forestry Corporation's Board has an Audit and Risk Committee established under a Board-approved internal audit charter. Forestry Corporation's risk management framework is aligned to the State-Owned Corporation requirements set out in the NSW Treasury Policy and Guidelines Paper 20-08, and Australian/New Zealand Standard Risk Management Guidelines (AS/NZS ISO 31000:2018 Risk Management). The Audit and Risk Manager prepares an internal audit plan, linked to Forestry Corporation's risks. The plan is approved by the Audit and Risk Committee and the audits are undertaken by external service providers. Audit reports and any required remedial actions are reviewed by the Audit and Risk Committee. Four internal audits were completed during the year, covering Forestry Corporation's procedures for plantation inventory, privacy management, records management and a review of how staff are undertaking risk management within a safety context. The audit plan was approved by the Audit and Risk Committee of the Board in July 2022.

Forestry Corporation implements a risk management framework which allocates the responsibility for risk management and includes a defined criteria for the assessment of likelihood and the consequence of different risk types within a risk assessment matrix. Risk management software enables consistent reporting, an assessment of incidents and hazards, risk identification, follow up of audit actions and risk mitigation measures.

Reviews of Forestry Corporation's risks are incorporated into the design and operation of the risk management framework. Business-wide (or enterprise) risks are assessed by the executive leadership team annually before being submitted to the Audit and Risk Committee for review and approval. Key enterprise risks, and the management strategies put in place to address them, are outlined below.

A fatality, serious injury or significant incident

Forestry Corporation's Health and Safety Management System is risk based and includes flexible risk-specific compliance guidelines. An active program of safety communication is used to build awareness, promote accountability and foster compliance. An improved incident reporting system provides for timely notification and investigation of hazards and incidents.

Forestry Corporation also plays an active role in safety leadership in the industry as part of the Australian Forest Products Association's national industry council on safety and participates in industry forums to maintain best practice. A review of our harvest and haulage contractors' adherence to Safe and Skilled is planned for FY23 and will be completed in FY24.

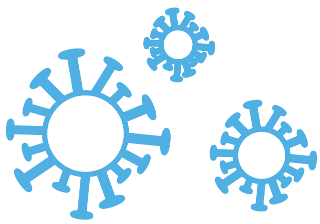
Widespread, ongoing bushfires

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 and drone technology. Staff are trained to an appropriate standard and are available for deployment across the State. Forestry Corporation maintains a hazard reduction burning program and grazing activities minimise fuel loads and an extensive network of roads and fire trails. Works are planned and prioritised in collaboration with other land managers and the NSW Rural Fire Service.

Environmental non-compliance

Forestry Corporation takes compliance with its environmental legislation extremely seriously. Staff are trained, and a range of procedural information provides appropriate direction. A scheduled monitoring and audit program contributes to a continuous improvement cycle, while a Compliance Assurance Team provides an additional level of oversight.

Biological incursion



Forestry Corporation completes systematic surveys of the forest estate, using industry experts, to assess forest health and detect exotic incursions and possible outbreaks of pests and diseases of forests and timber. Reports on health surveys detail the location, extent and severity of detected damaging pests, diseases, weeds and climatic factors with recommended corrective actions.

Climate variability

Silvicultural programs can support the maintenance of forest health, alongside other management activities. Where plantations are damaged through wind, snow, drought or fire, Forestry Corporation maintains the ability to act swiftly and these areas are salvaged. The ability to repair roads and other infrastructure damaged by storms is critical to maintaining access to the forest estate for forest management purposes and also allows for fire protection activities.

Meeting supply commitments

Forestry Corporation undertakes a range of activities, from long and medium term planning through to an assessment of operational requirements, forest health surveys and strategic fire planning to ensure timber stocks are maintained within forests and commitments to customers are met. Contracts also contain force majeure provisions.

Cyber risk

Forestry Corporation has an information technology steering group reporting to the executive leadership team on information security matters, including IT infrastructure and disaster recovery. Further details are provided in the attestation below.

Fraudulent activity

A series of protocols are in place to ensure an appropriate level of oversight. Clear reporting lines and separation of duties, as well as preventative and detective features inbuilt in the configuration of systems, help to ensure this risk is addressed.

Workforce capability

Forestry Corporation has a number of programs in place to ensure it is well placed to attract staff, develop existing staff and allow for succession planning.

Cyber security attestation

Governance is in place to manage the cyber security maturity and initiatives of Forestry Corporation of NSW. Risks to the information and systems of Forestry Corporation have been assessed and are managed. There exists a current cyber incident response plan for Forestry Corporation which is tested annually, or more frequently as required. Forestry Corporation has an Information Security Management System (ISMS) or Cyber Security Framework (CSF) in place.

Forestry Corporation is implementing the following to continuously improve the management of cyber security governance and resilience:

- The latest anti-virus, ransomware, email and web content filtering and firewall software are used to protect all in-house systems and security protocols are in place for cloud-based systems and monitored by a managed security operation centre.
- Security of systems is routinely tested throughout the year and detailed IT security audits are conducted by specialist external service providers in accordance with the internal audit plan and as required.

- A third party expert has reviewed Forestry Corporation's systems for ACSC Essential 8 maturity and has produced a report, which is being used to drive a review of IT policies, processes and procedures and implementation of updated approaches through newer technologies and solutions.

Insurance

Forestry Corporation maintains extensive insurance coverage. Policies in place for the year were for Worker's Compensation as per current NSW Legislation, Public Liability, Professional Indemnity, Product Liability, Directors & Officers, Personal Accident (volunteers, travel domestic and abroad) Property and Motor Vehicle. From 30 June 2015, all insurance cover has been administered under the Treasury Managed Fund (TMF), which is the NSW Government's self-insurance scheme. Forestry Corporation no longer holds a Workcover NSW self-insurance licence, however remains responsible for the tail management of workers' compensation claims incurred whilst licensed as a self-insurer.

Public Interest Disclosures

Forestry Corporation has a Public Interest Disclosures (PID) policy, which is available on the website. Procedures for making and dealing with PIDs are also provided to assist staff. The policy and procedures were are available to staff via the intranet and staff newsletter. One PID was made by a public official performing their normal day to day function as a public official during FY23, related to maladministration. This was finalised after the reporting period.

Government Information Public Access

Forestry Corporation makes a range of information available to the public proactively. Forestry Corporation maintains an open data site for proactive publication of GIS spatial data that is continually updated as operations progress and proactively enhanced with additional datasets. Information released proactively during FY23 included additional spatial datasets, harvest plans and associated reports for native forest operations, other information about operations and projects the community may be interested in, reports, policies, timber yield forecasts and reconciliations, operational guides and processes, maps and spatial data. Information is continually reviewed for proactive release and the Forestry Corporation website is continually updated to enhance publicly available information and publish documents identified for proactive release. The website details the information available as well as how to apply for access to information under the *Government Information (Public Access) Act 2009* (GIPA Act).

Between 1 July 2022 and 30 June 2023, Forestry Corporation received 21 formal and valid applications for information under the GIPA Act. In line with the requirements of Section 8 of the GIPA Act, information about the applications determined during the reporting period is detailed in the tables below and has been supplied to the Information and Privacy Commission (IPC).

Table A: Number of applications by type of applicant and outcome*

	Access granted in full	Access granted in part	Access refused in full	Information not held	Information already available	Refuse to deal with application	Refuse to confirm/ deny whether information is held	Application withdrawn
Media	0	1	0	0	0	0	0	0
Members of Parliament	0	0	0	0	0	0	0	0
Private sector business	0	0	0	0	0	0	0	0
Not for profit organisations or community groups	5	6	0	0	0	0	0	2
Members of the public (application by legal representative)	1	1	0	0	0	0	0	1
Members of the public (other)	0	3	0	1	0	0	0	0

* *More than one decision can be made in respect of a particular access application. If so, a recording must be made in relation to each such decision. This also applies to Table B.*

Table B: Number of applications by type of application and outcome

	Access granted in full	Access granted in part	Access refused in full	Information not held	Information already available	Refuse to deal with application	Refuse to confirm/ deny whether information is held	Application withdrawn
Personal information applications*	0	0	0	0	0	0	0	0
Access applications (other than personal information applications)	6	11	0	1	0	0	0	3
Access applications that are partly personal information applications and partly other	0	0	0	0	0	0	0	0

* *A personal information application is an access application for personal information (as defined in clause 4 of Schedule 4 to the Act) about the applicant (the applicant being an individual).*

Table C: Invalid applications

Reason for invalidity	No of applications
Application does not comply with formal requirements (section 41 of the Act)	0
Application is for excluded information of the agency (section 43 of the Act)	0
Application contravenes restraint order (section 110 of the Act)	0
Total number of invalid applications received	0
Invalid applications that subsequently became valid applications	0

Table D: Conclusive presumption of overriding public interest against disclosure: matters listed in Schedule 1 to Act

	Number of times consideration used*
Overriding secrecy laws	0
Cabinet information	1
Executive Council information	0
Contempt	1
Legal professional privilege	3
Excluded information	0
Documents affecting law enforcement and public safety	0
Transport safety	0
Adoption	0
Care and protection of children	0
Ministerial code of conduct	0
Aboriginal and environmental heritage	0
Information about complaints to Judicial Commission	0
Information about authorised transactions under *Electricity Network Assets (Authorised Transactions) Act 2015*	0
Information about authorised transaction under *Land and Property Information NSW (Authorised Transaction) Act 2016*	0

** More than one public interest consideration may apply in relation to a particular access application and, if so, each such consideration is to be recorded (but only once per application). This also applies in relation to Table E.*

Table E: Other public interest considerations against disclosure: matters listed in table to section 14 of Act

	Number of occasions when application not successful
Responsible and effective government	3
Law enforcement and security	0
Individual rights, judicial processes and natural justice	4
Business interests of agencies and other persons	7
Environment, culture, economy and general matters	1
Secrecy provisions	0
Exempt documents under interstate Freedom of Information legislation	0

Table F: Timeliness

	Number of applications
Decided within the statutory timeframe (20 days plus any extensions)	12
Decided after 35 days (by agreement with applicant)	6
Not decided within time (deemed refusal)	0
Total	18

Table G: Number of applications reviewed under Part 5 of the Act (by type of review and outcome)

	Decision varied	Decision upheld	Total
Internal review	0	2	2
Review by Information Commissioner*	0	1	1
Internal review following recommendation under section 93 of Act	0	0	0
Review by NCAT	0	0	0
Total	0	3	3

* *The Information Commissioner does not have the authority to vary decisions, but can make recommendations to the original decision-maker. The data in this case indicates that a recommendation to vary or uphold the original decision has been made by the Information Commissioner.*

Table H: Applications for review under Part 5 of the Act (by type of applicant)

	Number of applications for review
Applications by access applicants	4
Applications by persons to whom information the subject of access application relates (see section 54 of the Act)	0

Table I: Applications transferred to other agencies under Division 2 of Part 4 of the Act (by type of transfer)

	Number of applications transferred
Agency-initiated transfers	0
Applicant-initiated transfers	0

Cost of annual report

The total external costs incurred in the production of the Forestry Corporation Annual Report for FY23 were $10,458 excluding GST. The Annual Report is available at www.forestrycorporation.com.au.

Sustainability

Sustainability is a core principle underpinning our forest management and is built into every aspect of our business, from environmental management to community partnerships, staff wellbeing and profitability. Our sustainability framework sets out our key focus areas and we publish detailed data on our website and in our annual sustainability report each year.

https://www.forestrycorporation.com.au/about/pubs/corporate/sustainability-reports

Environmental sustainability

When forests are managed well and managed sustainably, they deliver a vast range of benefits for our communities, including places to visit and enjoy, clean waterways, habitat for protected wildlife, biodiversity, carbon storage and, of course, wood products. The same State forests have been harvested and regrown for more than a century, generating renewable timber products like house framing, flooring, furniture and packaging while preserving forest values and regrowing in perpetuity.

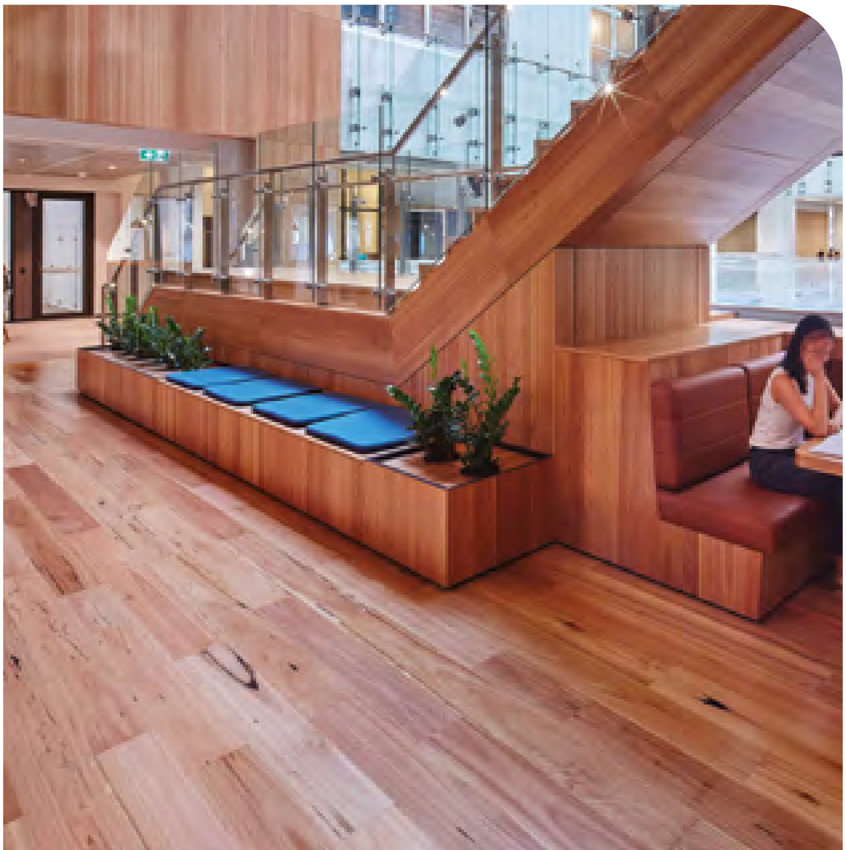
PEFC™ PEFC/21-23-06

Responsible Wood RW/1-21-5

Timber is one of the most sustainable building materials available and the Intergovernmental Panel on Climate Change recognises that managing forests for sustainable timber production plays a role in mitigating climate change. Management of NSW State forests is certified sustainable to the internationally-recognised environmental, social, economic and sustainability criteria of Responsible Wood, the Australian Standard for Sustainable Forest Management (AS4708:2013), which is part of the largest global certification scheme – the Programme for Endorsement of Certification (PEFC). This certification independently verifies that our forest management is world-class.

The Sustainability Report, which is published on the Forestry Corporation website as a supplement to this Annual Report, includes detailed reporting on a wide range of environmental sustainability measures.

> Timber is one of the most sustainable building materials available and the Intergovernmental Panel on Climate Change recognises that managing forests for sustainable timber production plays a role in mitigating climate change.



Social sustainability

Our people

Our people are our most important asset and the success of our business is built on maintaining a skilled, safe and engaged workforce.

The majority of staff are employed under the conditions set out in the Forestry Corporation Enterprise Agreement, although senior staff are employed under common law contracts. Both instruments provide the terms and conditions of employment including wage, salary and allowance movements. The Enterprise Agreement was due to expire in the reporting period, and negotiations were held with staff and unions to progress a new agreement. However, the agreement was not renewed prior to expiry due to changes in the government's wages policy. The agreement will now end on 30 June 2024 and we will work collaboratively during the coming year to ensure the new agreement meets legislative requirements as well as the mutual needs of our people and business.

Forestry Corporation's Code of Conduct and supporting policies provide staff with a clear and consistent understanding of what is expected of them. In addition, Forestry Corporation maintains a Values and Behaviours Framework to guide the decisions and actions of staff.

Workforce diversity

Improving workforce diversity, and gender diversity in particular, has been a key focus for several years. A wide range of initiatives has been implemented to successfully deliver year on year improvements to gender diversity.

A new sexual harassment prevention policy was implemented during the year, with staff attending Respect @ Work sessions to enhance understanding of identifying, reporting and preventing discrimination and maintaining a safe workplace. Work continues to embed a respectful and inclusive workplace.

Female representation has steadily increased from 23 per cent to 26 per cent over the past two years, with females now also occupying fifty per cent of Board positions and one-third of the Executive Leadership Team. The Diversity & Inclusion Strategy aims to grow female participation and leadership in operational and field-based roles, including through initiatives to support parental leave.

Building on this success, the focus has broadened to include improving age diversity. A new graduate program took its first intake of young professionals during the year, while older members of the workforce were supported through transition to retirement programs. Flexible working arrangements have been embedded in many roles, with hybrid working arrangements supporting balance for those who need it. Work will continue to enhance the diversity of our workforce into FY24.

Investment in leadership development continued with managers and supervisors throughout the business engaged in the Leadership Excellence at Forestry Corporation (LEAF) programs. The LEAF program was completed by senior managers and a refreshed program for mid-level managers was piloted in FY23.

Workforce diversity

Trends in the representation of Equal Employment Opportunity (EEO) groups

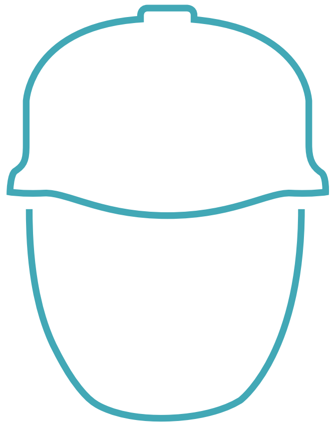
EEO group Year ended 30 June	Benchmark or target	2019	2020	2021	2022	2023
Women*	50%	21%	22%	23%	25%	27%
Aboriginal and Torres Strait Islander peoples	2.6%	4.2%	4.7%	4.2%	5%	5%
People whose first language is not English	19%	6.4%	6.4%	7.0%	6.4%	7%
People with a disability	N/A	12.7%	19.1%	15%	13%	11%
People with a disability requiring work-related adjustment	1.5%	0.6%	0.3%	0.3%	0.3%	0.3%

** Excludes seasonal staff*

Gender distribution of senior executives

Band	Female		Male	
	FY22	FY23	FY22	FY23
Band 4 or above	–	-	1	1
Band 3	–	-	1	-
Band 2	1	1	2	2
Band 1	-	1	1	1

Safety



Safety is a priority. Forestry Corporation's goal is for everyone to return home, injury free, every day and our strategic target is to halve the number of injuries and eliminate serious injuries by 2025.

Disappointingly both the lost time injury frequency rate and the total recordable injury rate were higher than the previous year due to an increase in incidents during the first quarter. While injury and incident rates stabilised during the rest of the year, the target was not achieved. Efforts have redoubled to increase staff education and awareness about critical risks to prevent major injuries and a major review of Chain of Responsibility practices is underway to ensure heavy vehicle safety is managed appropriately across the supply chain.

Management's Executive Safety Committee and the Board's Safety Committee continue to meet regularly to review incidents and near misses, and ensure lessons are identified, documented and effectively communicated to staff and contractors to drive continuous improvement of safety management systems and processes. This work will continue with the objective to reduce the risk of future incidents.

Despite the overall safety results missing target, some positive trends were observed. Musculoskeletal injuries typically make up the largest proportion of injuries recorded, and a proactive injury prevention program drove a significant reduction in this category of injury. The program involves on-site physiotherapists assessing and redesigning manual labour tasks as well as providing early intervention support and treatment of muscular stress in workers. Building on this success, programs are also being implemented to provide additional proactive support, including mental health first aid training.

Musculoskeletal injuries typically make up the largest proportion of injuries recorded, and a proactive injury prevention program drove a significant reduction in this category of injury.

Lost time injury frequency rate

	FY22	FY23 Target	FY23
Rolling 12-month LTIFR including contractors	9.3	7.8	9.6

Total recordable injury frequency rate

	FY22	FY23 Target	FY23
Rolling 12-month TRIFR including contractors	17.6	14.7	18.2

Modern slavery

Forestry Corporation has implemented a framework of actions to ensure compliance with the *Modern Slavery Act 2018*, applying a continual improvement approach. A risk assessment of our supply chain has been conducted, to identify high risk categories, with a series of actions planned for FY24.

Financial performance

Investment performance

At 30 June 2023, Forestry Corporation's financial investments totalled $52 million (FY21: $91 million). The investment portfolio's performance is benchmarked against the NSW Treasury Corporation's TCorpIM Cash Fund, consistent with NSW Treasury guidelines and to maximise investment returns while maintaining appropriate risk controls.

Amounts have been lodged in the TCorpIM Cash Fund and Forestry Corporation has also invested surplus cash in short term funds within the investment portfolio of TCorp, which allow funds to be withdrawn as required. The table below details these investments and returns at 30 June 2023.

TCorp Fund Type	FY23			FY22		
	Investment ($)	Return ($)	%	Investment ($)	Return ($)	%
TCorp Cash Fund (closed Nov 23)	-	85,626	0.77	41,391,618	(5,784)	(0.18)
TCorp Short Term	51,799,829	1,886,682	3.78	49,913,146	(336,993)	(0.67)
TCorp Medium Term (closed March 2022)	-	-	-	-	(991,218)	(1.67)

Debt management

At 30 June 2023, Forestry Corporation's total borrowings were $50 million (2022: $64 million). The debt portfolio was sourced almost entirely through NSW Treasury Corporation (TCorp) and is actively managed to limit the cost of funds. At 30 June 2023, Forestry Corporation's debt was subject to interest charges at fixed rates from TCorp.

Debt portfolio performance

	Forestry Corporation	Benchmark
Market valuation 30 June 2023*	56,080,000	N/A
Generalised cost of funds	2.14%	5.35%

** Market valuation 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.*

Financial statements

30 June 2023

Forestry Corporation of New South Wales
ABN 43 141 857 613

Start of the audited financial statements

Forestry Corporation of New South Wales

Statement of profit or loss and other comprehensive income

For the year ended 30 June 2023

	Note	30 June 2023 $'000	30 June 2022 $'000
Revenue from transactions			
Revenue from contracts with customers	4	335,914	314,124
Other income	5	40,384	56,017
Investment revenue	6	7,075	3,429
Total revenue		383,373	373,570
Expenses from transactions			
Other operating expenses	8	(296,072)	(259,467)
Employee benefits expense	9	(76,631)	(66,352)
Depreciation and amortisation expense		(10,047)	(10,361)
Finance costs	10	(2,503)	(3,441)
Total expenses		(385,253)	(339,621)
Other gains/(losses)	7	3,789	(136,322)
Net impairment loss of right-of-use asset		(274)	(1,375)
Net impairment loss of property, plant and equipment		(598)	(1,853)
Fair value gains on revaluation of non-current assets		1,701	3,035
Net impairment gain/(loss) on financial and contract assets		157	(31)
Net profit/(loss) before income tax benefit/(expense)		2,895	(102,597)
Income tax benefit/(expense)	11	(2,227)	29,483
Net profit/(loss) after income tax benefit/(expense) for the year attributable to the owners of Forestry Corporation of New South Wales		668	(73,114)
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Net gain on the revaluation of assets, net of tax		48,596	131,671
Actuarial gain/(loss) on defined benefit plans, net of tax		7,956	22,932
Other comprehensive income for the year, net of tax		56,552	154,603
Total comprehensive income for the year attributable to the owners of Forestry Corporation of New South Wales		57,220	81,489

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

Forestry Corporation of New South Wales

Statement of financial position

As at 30 June 2023

	Note	30 June 2023 $'000	30 June 2022 $'000
Assets			
Current assets			
Cash and cash equivalents	12	128,418	100,983
Trade and other receivables	14	52,119	81,977
Inventories	15	4,934	4,933
Biological assets	16	50,831	33,322
Income tax refund due		-	4,645
Total current assets		236,302	225,860
Non-current assets			
Property, plant and equipment	17	1,412,528	1,322,678
Right-of-use assets	18	1,671	1,642
Biological assets	16	575,429	590,446
Investment properties	19	6,520	6,082
Intangible assets	20	507	511
Total non-current assets		1,996,655	1,921,359
Total assets		2,232,957	2,147,219
Liabilities			
Current liabilities			
Trade and other payables	21	83,949	52,292
Contract liabilities	22	11,238	9,727
Borrowings	23	8,083	13,463
Dividend payable	24	13,456	400
Lease liabilities	25	599	618
Employee benefits	26	30,494	30,069
Provisions	27	589	391
Income tax	11	14,191	-
Total current liabilities		162,599	106,960
Non-current liabilities			
Borrowings	23	42,409	50,688
Lease liabilities	25	4,120	4,536
Employee benefits	26	3	679
Provisions	27	1,026	1,094
Retirement benefit obligations	28	21,743	32,056
Deferred tax liability	11	522,515	516,842
Total non-current liabilities		591,816	605,895
Total liabilities		754,415	712,855
Net assets		1,478,542	1,434,364
Equity			
Contributed equity	29	491,706	491,706
Reserves		920,613	873,080
Retained profits		66,223	69,578
Total equity		1,478,542	1,434,364

The above statement of financial position should be read in conjunction with the accompanying notes.

Forestry Corporation of New South Wales

Statement of changes in equity

For the year ended 30 June 2023

	Contributed equity	Asset revaluation reserve	Deferred tax asset reserve	Retained profits	Total equity
	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2021	491,706	694,987	50,092	114,918	1,351,703
Loss after income tax benefit for the year	-	-	-	(73,114)	(73,114)
Other comprehensive income for the year, net of tax	-	131,671	-	22,932	154,603
Total comprehensive income/(loss) for the year	-	131,671	-	(50,182)	81,489
Transfer of asset revaluation to retained profits	-	(337)	-	481	144
Land revoked and transferred from other NSW state government agency	-	(3,333)	-	4,761	1,428
Transactions with owners in their capacity as owners:					
Dividends paid or payable	-	-	-	(400)	(400)
Balance at 30 June 2022	491,706	822,988	50,092	69,578	1,434,364

	Contributed equity	Asset revaluation reserve	Deferred tax asset reserve	Retained profits	Total equity
	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2022	491,706	822,988	50,092	69,578	1,434,364
Profit after income tax expense for the year	-	-	-	668	668
Other comprehensive income for the year, net of tax	-	48,596	-	7,956	56,552
Total comprehensive income for the year	-	48,596	-	8,624	57,220
Transfer of asset revaluation to retained profits	-	(1,063)	-	1,520	457
Transactions with owners in their capacity as owners:					
Dividends paid or payable	-	-	-	(13,499)	(13,499)
Balance at 30 June 2023	491,706	870,521	50,092	66,223	1,478,542

Asset revaluation reserve

The reserve is used to recognise increments and decrements in the fair value of property, plant and equipment, excluding investment properties.

Deferred tax asset reserve

A specific reserve was created in 2013 for the recognition of deferred tax asset relating to employee benefit obligations on adoption of the AASB Standards.

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Forestry Corporation of New South Wales

Statement of cash flows

For the year ended 30 June 2023

	Note	30 June 2023 $'000	30 June 2022 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		446,794	371,444
Payments to suppliers and employees (inclusive of GST)		(375,616)	(354,491)
Interest received		4,207	(1,301)
Interest and other finance costs paid		(3,210)	(4,043)
Income taxes paid (net)		(1,496)	(682)
Net cash from operating activities	13	70,679	10,927
Cash flows from investing activities			
Purchase of Property, Plant and Equipment	17	(31,251)	(8,687)
Purchase of Biological assets		-	(869)
Proceeds from disposal of property, plant and equipment		2,650	1,741
Net cash used in investing activities		(28,601)	(7,815)
Cash flows from financing activities			
Dividends paid		(443)	-
Repayment of borrowings	13	(13,353)	(21,285)
Payment of principal portion of lease liabilities	13	(847)	(954)
Net cash used in financing activities		(14,643)	(22,239)
Net increase/(decrease) in cash and cash equivalents		27,435	(19,127)
Cash and cash equivalents at the beginning of the financial year		100,983	120,110
Cash and cash equivalents at the end of the financial year	12	128,418	100,983

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

Forestry Corporation of New South Wales

Notes to the financial statements

30 June 2023

Forestry Corporation of New South Wales

Notes to the financial statements

30 June 2023

Note 1. General information

The financial statements of the 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 New South Wales ('NSW') state owned corporation, incorporated and domiciled in Australia. Its registered office and principal place of business is:

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

The Corporation's principal activities involve tree 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 29 September 2023.

Note 2. Significant accounting policies

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

Basis of preparation

The Corporation's financial statements are general purpose financial statements which have been prepared on an accrual basis in accordance with applicable Australian Accounting Standards (including Australian Accounting Interpretations), the requirements of the *Government Sector Finance Act 2018* (GSF Act), the Government Sector Finance Regulations 2018, the Treasurer's directions and the *State Owned Corporations Act 1989*.

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

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of certain forest, non-forest assets, property, plant and equipment and investment properties, 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.

Judgements, key assumptions and estimations management has made are disclosed in the relevant notes to the financial statements.

Foreign currency transactions and balances

Foreign currency transactions are converted to Australian currency at the exchange rates at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are converted to Australian currency at the exchange rates at the end of the reporting date. Differences arising on translation or settlement of monetary items are recognised as a net result.

Current and non-current classification

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

Forestry Corporation of New South Wales

Notes to the financial statements

30 June 2023

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.

Impairment of non-financial assets

The Corporation assesses at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the Corporation estimates the recoverable amount of the asset. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the depreciation / amortisation method or period.

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.

The Corporation carries an impairment provision for its substantial Hardwood assets relating to property, plant and equipment, excluding land. The Corporation also carries a revaluation reserve for the portion of Softwood roads and bridges relating to public use.

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.

Comparative figures

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

New or amended Accounting Standards and Interpretations adopted

There are no new accounting standards that are expected to impact amounts recognised in prior periods, nor impact current and future periods.

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 early adopted by the Corporation for the annual reporting period ended 30 June 2023. The Corporation does not expect there to be any material impact on adoption of these new or amended Accounting Standards and Interpretations.

Forestry Corporation of New South Wales

Notes to the financial statements

30 June 2023

Note 3. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires the use of accounting estimates, judgments and assumptions based on historical events and other available factors, including expectations of future events that may have a financial impact on the Corporation and that are believed to be reasonable under the circumstances.

Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. These judgements, estimates and assumption are further discussed below.

(i) Key judgements

Climate change

The Corporation acknowledges the potential impact of climate change on the sustainability of the forests it manages. The key areas of risk from climate change are intense and prolonged bushfire seasons, floods, droughts, impact on forest health, biodiversity and tree growth. Identifying and establishing controls to mitigate these risks are central to the Corporation's risk management strategy and is a key feature in its strategic plan.

Key initiatives around early fire detection, redesigning plantations and fuel load management are pre-emptive controls for bushfire risk, while the Corporation invests in research and development on monitoring forest health and biodiversity for long-term sustainability. The Corporation is investing in initiatives such as the setup of all-weather harvesting roads to assist with ongoing timber supply.

The Intergovernmental Panel on Climate Change recognises forestry as a climate change mitigation activity, and Forestry Corporation tracks and reports on carbon balance as well as energy use and contribution to carbon emissions in its annual Sustainability Report. Research into the effect and mitigation of climate change continues to be undertaken by the broader industry research bodies, which the Corporation participates in.

The Corporation invests in research and development on monitoring forest health and biodiversity for long-term sustainability and implemented pre-emptive controls for bushfire risks by redesigning plantations and fuel load management. In addition, the Corporation looks to diversify its product mix to seek and promoting growth in the renewable energy and non-timber products sector.

The Corporation's long term asset strategy will focus on timely replacement of fleet vehicles, including research into vehicles that can be electrified or run-on renewable energy.

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.

Refer to note 31 of fair value hierarchy and assessment for property, plant and equipment and biological assets and note 28 of fair value hierarchy and assessment for fair value of fund assets.

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. Please refer to note 17 for further details.

Forestry Corporation of New South Wales

Notes to the financial statements

30 June 2023

Superannuation defined benefit liability

As discussed in note 28, 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.

(ii) Key estimates

Allowances for expected credit losses

AASB 9 'Financial Instruments' requires an entity to recognise a loss allowance for expected credit losses on financial assets. Examples of financial assets include lease receivables, contract assets, trade receivables, loan commitments and financial guarantees.

The key impact for the Corporation is on trade receivables (note 14). The trade receivables impairment model measures the expected credit losses using a probability-weighted estimate of credit losses over the expected life of the financial asset. The impairment model considers a broad range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the asset.

Some key model considerations for the Corporation include the:

- short dated nature of the debts;
- financial standing of customers;
- security coverage over the contracts; and
- housing market – current and forecast.

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 (note 17), right-of-use assets (note 18) and finite life intangible assets (note 20). 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, or technically obsolete or non-strategic assets that have been abandoned or sold is written off or written down.

Forestry Corporation of New South Wales

Notes to the financial statements

30 June 2023

Note 4. Revenue from contracts with customers

	30 June 2023 $'000	30 June 2022 $'000
Sales revenue from contracts with customers		
Forest products	322,588	299,576
Miscellaneous forests products	4,327	5,724
Permits and licence fees	4,226	3,576
Other forestry management services	4,773	5,248
Revenue from contracts with customers	335,914	314,124

	30 June 2023 $'000	30 June 2022 $'000
Timing of sales revenue recognition		
Goods transferred at a point in time	326,915	305,300
Services transferred over time	8,999	8,824
	335,914	314,124

Recognition and measurement

Revenue is recognised at the amount that reflects the consideration to which the Corporation is expected to be entitled in exchange for transferring control of goods or services to a customer. The transaction price takes into account estimates of variable consideration such as discounts and refunds as well as the time value of money. Revenue is recognised when or as each separate performance obligation is satisfied.

Sale of forest products

Revenue from the sale of timber and other forest products is recognised at the point in time when product is delivered to the customer. Timber is delivered in accordance with the specifications in the sales contract, such as log length, diameter and species, and delivery is confirmed. Delivery in accordance with the contract denotes acceptance by the customer and confirms that the performance obligations are met for the revenue recognition to occur.

Sales of permits and licence fees and other forest management services

Revenue from permits and licence fees and forest management services is recognised over a period of time. Revenue is typically received in advance, with the amount received representing a net present value aligned with individual contractual arrangements. Revenue is then recognised on an activity basis when the transfer of services to the customer occurs. Estimates of revenues, costs, or extent of progress towards completion are revised if circumstances change.

Forestry Corporation of New South Wales

Notes to the financial statements

30 June 2023

Recognition and measurement

Other services rendered

Other revenue is recognised when it is received or when the rights to receive payment is established and or once performance obligations have been met.

Interest revenue

Interest revenue is recognised on an accrual basis using the effective interest method.

Rental income

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

Note 5. Other income

	30 June 2023 $'000	30 June 2022 $'000
Grants revenue - community service obligations	31,064	19,527
Insurance proceeds for 2019/2020 bushfires	-	27,544
Grants revenue - other state government grants	5,217	5,772
Section 44 reimbursement*	275	(930)
Other services rendered	3,828	4,104
	40,384	56,017

** Revenue recoupment for expenditure incurred by the Corporation for firefighting activities.*

Recognition and measurement

Government grants are disclosed separately in the financial statements in accordance with AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*. Income of government funded projects is recognised in profit or loss when the related expenditures are incurred.

Community Service Obligations ('CSO')

The Corporation incurred $31,454,000 (2022: $20,478,000) costs against grants revenue which included provision of recreation facilities, education and advisory services, government liaison and regulatory services, community fire protection, infrastructure works and research. The costs are included in operating expenditure in note 8. Any unspent CSO grants (note 21) are carried forward to the next financial year for on-going projects.

Other Government Grants

The State Government also paid the Corporation $5,217,000 (2022: $5,772,000) for the performance of specific services which includes, tourism precincts, cybersecurity, light fleet fire spray protection and strategic fire trails. Any unspent other government grants are carried forward (see note 21) to the next financial year for on-going projects.

Forestry Corporation of New South Wales

Notes to the financial statements

30 June 2023

Note 6. Investment revenue

	30 June 2023 $'000	30 June 2022 $'000
Land rental income - Forest Management Income	134	134
Realised gain on TCorpIM funds	1,974	687
Bank interest	2,030	33
Rental income - buildings & cottages	622	344
Other rental	2,315	2,231
	7,075	3,429

Recognition and measurement

Rental income

Rental income from operating leases is recognised on a straight-line basis over the term of the contract.

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.

Realised gains

Net gain on disposal of investments is recognised when an investment is disposed of, which includes the sale, redemption, or other form of disposal. The net gain is determined by calculating the difference between the proceeds from disposal and the carrying amount of the investment at the time of disposal.

Note 7. Other gains/(losses)

	30 June 2023 $'000	30 June 2022 $'000
Net change in valuation of biological assets	2,492	(130,679)
Disposal of non-current assets	1,094	(3,715)
Unrealised net fair value movement in T-Corp funds	203	(2,021)
Net foreign exchange gain	-	93
	3,789	(136,322)

Refer to note 16 for biological assets movement.

Forestry Corporation of New South Wales

Notes to the financial statements

30 June 2023

Note 8. Other operating expenses

	30 June 2023 $'000	30 June 2022 $'000
Contract harvest and haulage	166,015	161,167
External contractor costs	80,543	58,418
Other operating expenses	16,387	12,011
Materials	21,411	17,145
Occupancy costs other than long-term leases	1,901	1,462
Forest management and licence costs	1,621	2,929
Travel and accommodation	2,239	1,206
Communication and computer costs	4,360	3,643
Insurance and state taxes	1,595	1,486
	296,072	259,467

Recognition and measurement

Other operating expenses generally represent running costs incurred as part of operations and are recognised in the reporting period in which they are incurred.

Insurance

The Corporation's insurance activities are conducted through the NSW Treasury Managed Fund Scheme of self-insurance for Government entities.

Note 9. Employee benefits expense

	30 June 2023 $'000	30 June 2022 $'000
Salaries, wages, and on-costs*	69,047	59,150
Defined contribution superannuation expense	5,283	4,886
Defined benefit contributions	2,301	2,316
	76,631	66,352

* *Salaries and wages including long service leave, annual leave, workers' compensation insurance, payroll tax and fringe benefit tax, excluding superannuation expenses. Refer to note 28 for further details on defined benefit superannuation obligation.*

Forestry Corporation of New South Wales

Notes to the financial statements

30 June 2023

Note 10. Finance costs

	30 June 2023 $'000	30 June 2022 $'000
Amortisation - Premium on borrowings	(305)	(384)
Government guarantee fee	862	1,199
Interest expenses	1,619	2,292
Lease interest	280	279
Other finance costs	47	55
Finance costs expensed	2,503	3,441

Recognition and measurement

Government guarantee fee

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

Finance costs

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

- interest on short-term and long-term borrowings;
- interest cost of significant financing;
- amortisation of discounts relating to borrowings;
- government guarantee fees; and
- interest cost on lease liabilities.

Forestry Corporation of New South Wales

Notes to the financial statements

30 June 2023

Note 11. Income tax

	30 June 2023 $'000	30 June 2022 $'000
Income tax expense		
Current tax	19,416	(261)
Deferred tax -origination and reversal of temporary differences	(18,107)	(28,462)
Adjustment recognised for prior periods	918	(760)
Aggregate income tax expense/(benefit)	2,227	(29,483)
Numerical reconciliation of income tax expense/(benefit) and tax at the statutory rate		
Net result before income tax benefit/(expense)	2,895	(102,597)
Tax at the statutory tax rate of 30%	869	(30,779)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Non-deductible expenses	(16)	484
Non-deductible loss on disposals	222	1,394
Non-deductible revaluation	234	178
	1,309	(28,723)
Adjustment recognised for prior periods	918	(760)
Income tax expense/(benefit)	2,227	(29,483)

	30 June 2023 $'000	30 June 2022 $'000
Amounts charged directly to equity		
Deferred tax liabilities	23,780	64,685

Forestry Corporation of New South Wales

Notes to the financial statements

30 June 2023

	30 June 2023 $'000	30 June 2022 $'000
Deferred tax liability		
Deferred tax liability comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Investment properties	459	354
Biological assets	174,373	173,627
Insurance proceeds	-	8,263
Employee benefits	(8,961)	(9,057)
Community service obligations and other government grants	(11,009)	(521)
Contract liability	(3,371)	(3,372)
Property, Plant and Equipment	(1,808)	(1,646)
Other	(1,721)	(1,893)
	147,962	165,755
Amounts recognised in equity:		
Revaluation of property, plant and equipment	381,076	360,704
Retirement benefit obligations	(6,523)	(9,617)
	374,553	351,087
Deferred tax liability	522,515	516,842
Movements:		
Opening balance	516,842	481,379
Credited to profit or loss	(18,107)	(29,222)
Charged to equity	23,780	64,685
Closing balance	522,515	516,842

	30 June 2023 $'000	30 June 2022 $'000
Income Tax Payable		
Income Tax Payable	14,191	-

Recognition and measurement

The Corporation operates in accordance with the National Tax Equivalent Regime ('NTER'), under which 'equivalent' taxes are payable to the NSW Government through the Revenue NSW. 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 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.

Forestry Corporation of New South Wales

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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.

Note 12. Cash and cash equivalents

	30 June 2023 $'000	30 June 2022 $'000
Cash at bank	75,642	9,678
NSW Treasury Corporation TCorpIM Funds	51,800	91,305
Restricted Cash*	976	-
	128,418	100,983

** The cash and cash equivalents disclosed above include Workers Compensation Security Deposit of $976,000, which are held by State Insurance Regulatory Authority. These deposits are subject to regulatory restrictions and therefore not available for general use.*

Recognition and measurement

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short and medium term, highly liquid investments 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.

Forestry Corporation of New South Wales

Notes to the financial statements

30 June 2023

Note 13. Cash flow information

Reconciliation of net result after income tax to net cash from operating activities

	30 June 2023 $'000	30 June 2022 $'000
Net result after income tax benefit/(expense) for the year	668	(73,114)
Adjustments for:		
Depreciation and amortisation	10,047	10,362
Impairment of non-current assets	598	1,853
Impairment of right-of-use assets	-	1,375
Impairment of financial and contract assets	(157)	31
Fair value gains on non-current assets revaluations	(1,701)	(3,035)
Net loss/(gain) on disposal of property, plant and equipment	(1,094)	5,456
Change in fair value of biological assets	(2,492)	130,679
Other non-cash item	(635)	(203)
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	29,859	(33,326)
Decrease/(increase) in inventories	(1)	271
Increase in trade and other payables	11,575	5,234
Increase/(decrease) in provision for income tax	19,057	(682)
Increase/(decrease) in deferred tax liabilities	5,199	(29,483)
Decrease in other provisions	(244)	(4,491)
Net cash from operating activities	70,679	10,927

Changes in liabilities arising from financing activities

	Borrowings $'000	Lease liabilities $'000	Total $'000
Balance at 1 July 2021	85,826	4,530	90,356
Net cash used in financing activities	(21,285)	(954)	(22,239)
Other charges	(390)	-	(390)
Remeasurement of lease liabilities	-	445	445
New leases	-	980	980
Derecognition	-	(126)	(126)
Interest expense (included in finance costs)	-	279	279
Balance at 30 June 2022	64,151	5,154	69,305
Net cash used in financing activities	(13,353)	(847)	(14,200)
Other charges	(306)	-	(306)
Remeasurement of lease liabilities	-	287	287
New leases	-	125	125
Balance at 30 June 2023	50,492	4,719	55,211

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Notes to the financial statements

30 June 2023

Note 14. Trade and other receivables

	30 June 2023 $'000	30 June 2022 $'000
Current assets		
Trade receivables	48,012	41,363
Less: Allowance for expected credit losses	(126)	(151)
	47,886	41,212
Other debtors	1,585	34,768
Less: Allowance for expected credit losses	(342)	(475)
	1,243	34,293
Prepayments	2,990	6,472
	52,119	81,977

Allowance for expected credit losses

The Corporation has recognised a reversal of $157,461 (2022: ($30,602)) in profit or loss in respect of the expected credit losses for the year ended 30/06/2023.

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

	Expected credit loss rate		Carrying amount		Allowance for expected credit losses	
	30 June 2023 %	30 June 2022 %	30 June 2023 $'000	30 June 2022 $'000	30 June 2023 $'000	30 June 2022 $'000
Not overdue under 30 days	-	-	50,008	51,242	-	-
31 Days	1.57%	1.57%	2,068	30,731	(32)	(50)
61 Days	4.97%	4.97%	3	43	-	(2)
90 Days	49.92%	49.92%	144	26	(72)	(13)
180 Days	100.00%	100.00%	364	561	(364)	(561)
			52,587	82,603	(468)	(626)

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

	30 June 2023 $'000	30 June 2022 $'000
Opening balance	626	596
Additional provisions recognised	-	30
Unused amounts reversed	(158)	-
Closing balance	468	626

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Recognition and measurement

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

The Corporation has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables through the use of a provisions matrix using fixed rates of credit loss provisioning. These provisions are considered representative across all customers of the Corporation based on recent sales experience, historical collection rates and forward-looking information that is available. Other receivables are recognised at amortised cost, less any allowance for expected credit losses. Changes to expected credit losses are recognised within other expenses. For receivables found to be uncollectable, the carrying value is directly reduced, and a bad debt recognised within other expenses.

Note 15. Inventories

	30 June 2023 $'000	30 June 2022 $'000
Current assets		
Work in progress and finished goods	4,934	4,933

Recognition and measurement

Inventories including work in progress and finished goods 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 work in progress and finished goods is based on direct costs and an appropriate proportion of production overheads.

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

Forestry Corporation of New South Wales

Notes to the financial statements

30 June 2023

Note 16. Biological assets

	30 June 2023 $'000	30 June 2022 $'000
Current assets		
Softwood at fair value	50,831	33,322
Non-current assets		
Softwood at fair value	575,429	590,446
	626,260	623,768

Reconciliations

Reconciliation of the fair values at the beginning and end of the current and previous financial year are set out below:

	Softwood $'000
Balance at 1 July 2021	753,578
Purchase of standing timber	869
Harvested timber recognised in profit or loss	(31,396)
Changes in fair value less estimated point of sale costs recognised in profit or loss due to: • change in the discount rate	(68,626)
• changes in volumes, prices, costs and markets	(30,657)
Balance at 30 June 2022	623,768
Harvested timber recognised in profit or loss	(32,272)
Changes in fair value less estimated point of sale costs recognised in profit or loss due to: • change in the discount rate	(29,285)
• changes in volumes, prices, costs and markets	64,049
Balance at 30 June 2023	626,260

Refer to note 31 for further information on fair value measurement.

Recognition and measurement

Biological assets are measured at their fair value less estimated costs to sell in accordance with AASB 13 'Fair Value Measurement' and AASB 141 'Agriculture'. The Corporation's biological assets primarily consist of plantation timber (softwood or standing timber).

Softwood

The Corporation manages approximately 225,000 (2022:225,000) hectares of softwood plantations.

The plantation estate valuation was independently valued during the financial year ended 30 June 2023. The independent valuer applied a market-based valuation approach, which involves a combination of the sales comparison method and income approach under a discounted cash flow framework.

Forestry Corporation of New South Wales

Notes to the financial statements

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Key assumptions used in the sales comparison approach include:

- Weighting adjustments applied to the selected comparable market transactions; and
- Net cash flows from the softwood estate discounted with an implied discount rate.

Key assumptions used in the income approach include:

- Growth and yield;
- Forest management, production, sales, general, administrative and land holding costs;
- Log and wood products markets and prices; and
- Discount rate calculation: evidence based and theoretical costs of capital.

The net increment or decrement in the value movement of the softwood plantation estate has been recognised in profit or loss and other comprehensive income.

Hardwood

The Corporation manages approximately 34,000 (2022:34,000) hectares of hardwood plantations and approximately 1,901,000 (2022:1,901,000) hectares of native forests.

Hardwood assets have been fully impaired, and the tree crop value is not recognised in the financial statements. Other related assets, except for land, are also fully impaired.

Forestry Corporation of New South Wales

Notes to the financial statements

30 June 2023

Note 17. Property, plant and equipment

	30 June 2023 $'000	30 June 2022 $'000
Non-current assets		
Land	1,246,560	1,172,969
Buildings	27,618	26,474
Less: Accumulated depreciation	(14,472)	(14,279)
	13,146	12,195
Plant and equipment	44,605	32,465
Less: Accumulated depreciation	(9,796)	(4,490)
	34,809	27,975
Roads and bridges	273,335	194,664
Less: Accumulated depreciation	(161,078)	(86,836)
	112,257	107,828
Property work in progress-at cost	5,756	1,711
	1,412,528	1,322,678

Reconciliation

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

	Land $'000	Buildings $'000	Plant and equipment $'000	Roads and bridges $'000	Capital work in progress $'000	Total $'000
Balance at 1 July 2021	1,039,336	10,441	27,182	57,802	6,907	1,141,668
Additions	-	-	-	-	8,687	8,687
Impairment	-	(26)	-	(875)	-	(901)
Disposals	(113)	-	(416)	(141)	-	(670)
Transfer to NSW State agencies	(4,787)	-	-	-	-	(4,787)
Revaluation increments	137,941	586	495	49,937	-	188,959
Transfer from work in progress	597	2,164	7,856	3,266	(13,883)	-
Transfers to investment properties (note 19)	(5)	-	-	-	-	(5)
Depreciation expense	-	(970)	(7,142)	(2,161)	-	(10,273)
Balance at 30 June 2022	1,172,969	12,195	27,975	107,828	1,711	1,322,678
Additions	-	-	-	-	31,251	31,251
Disposals	(113)	-	(1,393)	-	-	(1,506)
Revaluation increments	63,620	-	-	7,180	-	70,800
Transfer from work in progress	10,084	1,727	14,619	687	(27,117)	-
Impairment/Reverse	-	110	-	(607)	-	(497)
Transfers to investment properties (note 19)	-	(175)	-	-	(89)	(264)
Depreciation expense	-	(711)	(6,392)	(2,831)	-	(9,934)
Balance at 30 June 2023	1,246,560	13,146	34,809	112,257	5,756	1,412,528

Refer to note 31 for further information on fair value measurement.

Forestry Corporation of New South Wales

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Recognition and measurement

The Corporation's property, plant and equipment is governed by NSW Treasury's accounting policy TPP06-6 'Guidelines for Capitalisation of Expenditure on Property, Plant and Equipment'

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 TPP21-09 '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 was carried out during the financial year ended 30 June 2022 under TPP 21-09 'Valuation of Physical Non-Current Assets at Fair Value'.

Revaluation increments for each class of asset are credited to the asset revaluation reserve within other comprehensive income. Revaluation decrements are initially recognised in other comprehensive income to the extent of a previous revaluation surplus of the same asset. Thereafter the decrements are recognised in 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 to 20 years
- Roads - Pavements — 30 years (2022: 25 years)
- Roads - Earthworks — 100 years (2022: 50 years)
- Roads and bridges - Concrete and Steel Crossing — 50 to 100 years

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

Following the comprehensive valuation of Road and Bridges performed in FY22 by independent valuers, the Corporation adopted proposed changes to the useful life estimate of its Roads and bridges. Pavements changed from 25 to 30 years and Earthworks changed from 50 to 100 years. This change will be accounted for prospectively from 1 July 2022. The depreciation for the year ended 30 June 2023 was $691,418 for Pavements and $2,107,927 for Earthworks. Using the previous useful lives, the depreciation would have been $1,386,641 and $4,227,437 respectively.

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.

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Notes to the financial statements

30 June 2023

Note 18. Right-of-use assets

	30 June 2023 $‘000	30 June 2022 $‘000
Non-current assets		
Land and buildings - right-of-use	6,932	6,608
Less: Accumulated depreciation	(356)	(247)
Less: Impairment	(4,905)	(4,719)
	1,671	1,642

The Corporation entity leases land and buildings for its forestry operations and offices. As at the reporting date, the remaining terms range from one month to 26 years, but these may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The Corporation entity does not provide residual value guarantees in relation to leases.

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Land and building $‘000
Balance at 1 July 2021	1,749
Additions	980
Lease Remeasurement	445
Derecognition	(73)
Impairment of assets	(1,374)
Depreciation expense	(85)
Balance at 30 June 2022	1,642
Additions	125
Lease Remeasurement	287
Impairment of assets	(274)
Depreciation expense	(109)
Balance at 30 June 2023	1,671

For other lease related disclosures refer to the following:

- note 10 for details of interest on lease liabilities and other lease payments;
- note 13 for changes in lease liabilities;
- note 25 for lease liabilities as at the reporting date;
- note 30 for undiscounted future lease commitments; and
- the statement of cash flows for repayment of lease liabilities.

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Recognition and measurement

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the Corporation expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of-use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The Corporation has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

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30 June 2023

Note 19. Investment properties

	30 June 2023 $'000	30 June 2022 $'000
Non-current assets		
Investment properties	6,520	6,082
Reconciliation		
Reconciliation of the fair values at the beginning and end of the current and previous financial year are set out below:		
Opening fair value	6,082	4,903
Net transfers (to)/from property, plant and equipment (note 17)	175	5
Transfer from work in progress	89	-
Disposals	(50)	-
Revaluation increments	224	1,174
Closing fair value	6,520	6,082

Lease commitments (income)

	30 June 2023 $'000	30 June 2022 $'000
Minimum lease commitments receivable but not recognised in the financial statements:		
One year or less	474	497
Between one and five years	1,228	1,283
	1,702	1,780

Amount disclosed as lease commitments includes GST of $155,000 (2022: $162,000) payable to the Australian Taxation Office.

Recognition and measurement

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 profit or loss.

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

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

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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. A comprehensive valuation of investment properties was conducted during the year ended 30 June 2022 by an independent valuer in accordance with NSW Treasury's accounting policy TPP 21-09 '*Valuation of Physical Non-Current Assets at Fair Value*', AASB 13 '*Fair Value Measurement*' and AASB 140 '*Investment Properties*'.

Refer to note 31 for further information on fair value measurement.

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Notes to the financial statements

30 June 2023

Note 20. Intangible assets

	30 June 2023 $‘000	30 June 2022 $‘000
Non-current assets		
Software - at cost	21	21
Less: Accumulated amortisation	(14)	(10)
	7	11
Right of access land easement	500	500
	507	511

Reconciliation

Movements of the written down values for the current financial year is set out below:

	Software $’000	Right of access land easement $’000	Total $’000
Balance at 1 July 2021	15	500	515
Amortisation expense	(4)	-	(4)
Balance at 30 June 2022	11	500	511
Amortisation expense	(4)	-	(4)
Balance at 30 June 2023	7	500	507

Recognition and measurement

Intangibles are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Software

Significant costs associated with software are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite useful life of five years.

Right of access land easement

Right of access land easement has been determined to have an indefinite life and is not amortised. Instead, it is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired.

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Notes to the financial statements

30 June 2023

Note 21. Trade and other payables

	30 June 2023 $'000	30 June 2022 $'000
Current liabilities		
Trade creditors	42,518	43,278
Other current liabilities	4,735	5,764
Community service obligations and other government grants	36,696	3,250
	83,949	52,292

Refer to note 30 for further information for financial instruments.

Recognition and measurement

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.

Note 22. Contract liabilities

	30 June 2023 $'000	30 June 2022 $'000
Current liabilities		
Contract liabilities	11,238	9,727
Reconciliation		
Reconciliation of the written down values at the beginning and end of the current and previous financial year are set out below:		
Opening balance	9,727	10,853
Contract liabilities incurred in the current period	20,226	15,696
Revenue recognised from performance obligation satisfied	(18,715)	(16,822)
Closing balance	11,238	9,727

Recognition and measurement

Contract liabilities represent the Corporation's obligation to transfer goods or services to a customer and are recognised when a customer pays consideration, or when the Corporation recognises a receivable to reflect its unconditional right to consideration (whichever is earlier) before the Corporation has transferred the goods or services to the customer.

Forestry Corporation of New South Wales

Notes to the financial statements

30 June 2023

Note 23. Borrowings

	30 June 2023 $'000	30 June 2022 $'000
Current liabilities		
NSW Treasury Corporation loans	8,083	13,463
Non-current liabilities		
NSW Treasury Corporation loans	42,409	50,688
	50,492	64,151

Refer to note 30 for further information on financial instruments.

Recognition and measurement

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.

Note 24. Dividend payable

	30 June 2023 $'000	30 June 2022 $'000
Current liabilities		
Dividend payable	13,456	400

The Board of Directors has recommended that the above dividend payable of $13,456,000 for the financial year ended 30 June 2023. This has been accepted by the NSW Treasury, on behalf of the shareholders.

Recognition and measurement

The dividends are calculated on adjusted net profit after tax in accordance with NSW Treasury's accounting policy TPG21-10 '*Capital Structure and 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.

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Note 25. Lease liabilities

	30 June 2023 $'000	30 June 2022 $'000
Current liabilities		
Lease liability	599	618
Non-current liabilities		
Lease liabilities	4,120	4,536
	4,719	5,154

Refer to note 30 for further information on financial instruments.

Measurement and recognition

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Corporation's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of-use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

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Note 26. Employee benefits

	30 June 2023 $'000	30 June 2022 $'000
Current liabilities		
Employee benefits	30,494	30,069
Non-current liabilities		
Employee benefits	3	679
	30,497	30,748

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

Amounts not expected to be settled within the next 12 months

The current liability for employee benefits includes all unconditional entitlements where employees have completed the required period of service and 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:

	30 June 2023 $'000	30 June 2022 $'000
Employee benefits obligation not expected to be settled within the next 12 months	24,727	22,902

Measurement and recognition

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be wholly settled within 12 months of the reporting date are recognised in current liabilities for employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

Sick leave is non-vesting and is expensed as incurred.

Other long-term employee benefits

Long-term employee benefits are all employee benefits other than short-term employee benefits and are recognised in non-current liabilities, provided there is an unconditional right to defer settlement of the liability for more than 12 months. The liability is measured at the present value of expected future payments to be made for services provided by employees up to the reporting date. 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 high-quality corporate bond rates with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

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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.

Refer to note 28 for defined benefit superannuation schemes.

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.

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Note 27. Provisions

	30 June 2023 $'000	30 June 2022 $'000
Current liabilities		
Workers compensation	589	391
Non-current liabilities		
Onerous contracts	89	252
Workers compensation	937	842
	1,026	1,094
	1,615	1,485

Onerous contracts

The provision represents the present value of the estimated costs, net of any sub-lease revenue, which will be incurred until the end of the lease terms where the obligation is expected to exceed the economic benefit to be received.

Workers compensation

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

Movements in provisions

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

30 Jun 2023	Onerous contracts $'000	Workers compensation $'000
Carrying amount at the start of the year	252	1,233
Additional provisions recognised	-	293
Amounts reversed	(163)	-
Carrying amount at the end of the year	89	1,526

Measurement and recognition

Provisions are recognised when the Corporation has a present (legal or constructive) obligation as a result of a past event, it is probable the Corporation 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.

Note 28. Retirement benefit obligations

The information disclosed in this note has been provided by Mercer Administration Services (Australia) Pty Ltd in accordance with AASB 119 *'Employee Benefits'*.

Statement of financial position amounts

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

	30 June 2023 $'000	30 June 2022 $'000
Present value of the defined benefit obligation	226,223	234,154
Fair value of defined benefit plan assets	(204,480)	(202,098)
Net liability in the statement of financial position	21,743	32,056

Nature of the benefits provided by the fund

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

- State Authorities Superannuation Scheme ('SASS');
- State Superannuation Scheme ('SSS');
- Police Superannuation Scheme ('PSS'); and
- 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, Police Regulation (Superannuation) Act 1906, 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 NSW Government undertakes to ensure that the Pooled Fund will conform with the principles of the Commonwealth's retirement incomes policy relating to preservation, vesting and reporting to members and that members' benefits are adequately protected.

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

An actuarial investigation of the Pooled Fund is performed every three years. The last actuarial investigation was performed as at 30 June 2021. The next actuarial investigation will be performed as at 30 June 2024.

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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)

30 Jun 2023	SASS $'000	SANCS $'000	SSS $'000	Total $'000
Net defined benefit liability/(asset) at 1 July 2022	(5,051)	(3,000)	40,107	32,056
Current service cost	215	156	-	371
Net interest on the net defined benefit liability/(asset)	(288)	(162)	2,109	1,659
Actual return on fund assets less interest income	(2,643)	(312)	(5,144)	(8,099)
Actuarial (gains)/losses arising from changes in demographic assumptions	-	-	-	-
Actuarial (gains)/losses arising from changes in financial assumptions	(924)	(27)	(3,679)	(4,630)
Actuarial (gains)/losses arising from liability experience	133	(333)	1,564	1,364
Employer contributions	(831)	(146)	-	(977)
Net defined benefit liability/(asset) at 30 June 2023	(9,389)	(3,824)	34,957	21,744

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30 Jun 2022	SASS $'000	SANCS $'000	SSS $'000	Total $'000
Net defined benefit liability/(asset) at 1 July 2021	2,352	(2,859)	63,941	63,434
Current service cost	349	186	-	535
Net interest on the net defined benefit liability/(asset)	56	(83)	1,810	1,783
Actual return on fund assets less interest income	2,572	293	4,941	7,806
Actuarial (gains)/losses arising from changes in demographic assumptions	-	-	-	-
Actuarial (gains)/losses arising from changes in financial assumptions	(9,911)	(551)	(35,860)	(46,322)
Actuarial (gains)/losses arising from liability experience	306	176	5,275	5,757
Employer contributions	(775)	(162)	-	(937)
Net defined benefit liability/(asset) at 30 Jun 2022	(5,051)	(3,000)	40,107	32,056

Reconciliation of the fair value of Fund Assets

30 Jun 2023	SASS $'000	SANCS $'000	SSS $'000	Total $'000
Fair value of fund assets at 1 July 2022	66,196	7,451	128,451	202,098
Interest income	3,316	373	6,427	10,116
Actual return on Fund assets less interest income	2,642	312	5,144	8,098
Employer contributions	831	146	-	977
Contributions by participants	398	-	-	398
Benefits paid	(5,147)	(386)	(12,112)	(17,645)
Taxes, premiums and expenses paid	(274)	(26)	737	437
Fair value of fund assets at 30 Jun 2023	67,962	7,870	128,647	204,479

30 Jun 2022	SASS $'000	SANCS $'000	SSS $'000	Total $'000
Fair value of fund assets at 1 July 2021	70,467	8,028	140,677	219,172
Interest income	1,915	219	3,810	5,944
Actual return on fund assets less interest income	(2,571)	(293)	(4,941)	(7,805)
Employer contributions	775	162	-	937
Contributions by participants	428	-	-	428
Benefits paid	(4,807)	(638)	(12,356)	(17,801)
Taxes, premiums and expenses paid	(11)	(27)	1,261	1,223
Fair value of fund assets at 30 Jun 2022	66,196	7,451	128,451	202,098

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Reconciliation of the Defined Benefit Obligation

30 Jun 2023	SASS $'000	SANCS $'000	SSS $'000	Total $'000
Present value of defined benefit obligations at 1 July 2022	61,145	4,451	168,556	234,152
Current service cost	215	156	-	371
Interest cost	3,028	211	8,537	11,776
Contributions by participants	398	-	-	398
Actuarial (gains)/losses arising from changes in demographic assumptions	-	-	-	-
Actuarial (gains)/losses arising from changes in financial assumptions	(924)	(27)	(3,680)	(4,631)
Actuarial (gains)/losses arising from liability experience	133	(333)	1,564	1,364
Benefits paid	(5,147)	(386)	(12,112)	(17,645)
Taxes, premiums and expenses paid	(274)	(26)	737	437
Present value of defined benefit obligations at 30 Jun 2023	58,574	4,046	163,602	226,222

30 Jun 2022	SASS $'000	SANCS $'000	SSS $'000	Total $'000
Present value of defined benefit obligations at 1 July 2021	72,819	5,169	204,618	282,606
Current service cost	349	186	-	535
Interest cost	1,971	136	5,620	7,727
Contributions by participants	428	-	-	428
Actuarial (gains)/losses arising from changes in demographic assumptions	-	-	-	-
Actuarial (gains)/losses arising from changes in financial assumptions	(9,910)	(551)	(35,861)	(46,322)
Actuarial (gains)/losses arising from liability experience	306	176	5,275	5,757
Benefits paid	(4,807)	(638)	(12,356)	(17,801)
Taxes, premiums and expenses paid	(11)	(27)	1,260	1,222
Present value of defined benefit obligations at 30 Jun 2022	61,145	4,451	168,556	234,152

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:

30 Jun 2023	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Asset category				
Short term securities	2,896	2,434	-	5,330
Australian fixed interest	-	100	-	100
International fixed interest	-	1,289	12	1,301
Australian equities	4,353	797	4,529	9,679
International equities	13,943	155	40	14,138
Property	-	-	770	770
Alternatives	-	1,206	4,853	6,059
Total assets	21,192	5,981	10,204	37,377

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30 Jun 2022	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Asset category				
Short term securities	1,854,969	3,186,223	-	5,041,192
Australian fixed interest	-	244,972	-	244,972
International fixed interest	4,287	1,415,027	20,329	1,439,643
Australian equities	5,893,947	622,584	2,246	6,518,777
International equities	12,002,063	169,289	3,055	12,174,407
Property	-	-	2,362,344	2,362,344
Alternatives	(637)	2,160,192	6,936,165	9,095,720
Total assets	19,754,629	7,798,287	9,324,139	36,877,055

Refer to note 31 for information of the three level hierarchy.

Fund assets

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

	30 Jun 2023 %	30 Jun 2022 %
Short term securities	14.3%	13.7%
Australian fixed interest	0.3%	0.7%
International fixed interest	3.5%	3.9%
Australian equities	25.9%	17.7%
International equities	37.8%	33.0%
Property	2.0%	6.4%
Alternatives	16.2%	24.6%
Total	100.0%	100.0%

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.

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 $338 million (30 June 2022: $362 million).
- Health Administration Corporation occupies part of a property 50% owned by the Pooled Fund with a fair value (100% interest) of $570 million (30 June 2022: $540 million).

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Significant actuarial assumptions at the reporting date

	30 Jun 2023	30 Jun 2022
Discount rate	5.57%	5.26%
Salary increase rate (excluding promotional increases	4.45% for 23/24, 2.95% for 24/25, 2.74% for 25/26, 3.20% pa thereafter	3.15% for 2022/2023, 3.62% for 2023/2024; 2.87% for 2024/2025, 2.74% for 2025/2026; 3.2% pa thereafter
Rate of CPI increase	6.65% for 22/23; 3.50% for 23/24; 3.00% for 24/25; 2.50% pa thereafter	4.00% for 2021/2022; 5.50% for 2022/2023; 3.00% for 2023/2024 and 2024/2025; 2.75% for 2025/2026 and 2026/2027; 2.50% pa thereafter
Pensioner mortality	The pensioner mortality assumptions are those used for the 2021 Actuarial Investigation of the Pooled Fund. These assumptions are disclosed in the actuarial investigation report on the trustee's website. The report shows the pension mortality rates for each age.	The pensioner mortality assumptions are those used for the 2021 Actuarial Investigation of the Pooled Fund. These assumptions are disclosed in the actuarial investigation report on 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 Jun 2023 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 Jun 2023.

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.

30 Jun 2023	Base case	Scenario A -0.5% discount rate	Scenario B +0.5% discount rate	Scenario C +0.5% rate of CPI increase	Scenario D -0.5% rate of CPI increase	Scenario E +0.5% salary increase rate	Scenario F -0.5% salary increase rate
Discount rate	as above	as above: -0.5% pa	as above: +0.5% pa	as above	as above	as above	as above
Rate of CPI increase	as above	as above	as above	as above: +0.5% pa	as above: -0.5% pa	as above	as above
Salary inflation rate	as above	as above	as above	as above	as above	as above: +0.5% pa	as above: -0.5% pa
Defined benefit obligation $'000	226,223	236,572	216,610	236,494	216,630	226,744	225,715

30 Jun 2023	Base case	Scenario G Lower mortality*	Scenario H Higher mortality**
Defined benefit obligation $'000	226,223	228,327	224,194

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30 June 2022	Base case	Scenario A -0.5% discount rate	Scenario B +0.5% discount rate	Scenario C +0.5% rate of CPI increase	Scenario D -0.5% rate of CPI increase	Scenario E +0.5% salary increase rate	Scenario F -0.5% salary increase rate
Discount rate	as above	as above: -0.5% pa	as above: +0.5% pa	as above	as above	as above	as above
Rate of CPI increase	as above	as above	as above	as above: +0.5% pa	as above: -0.5% pa	as above	as above
Salary inflation rate	as above	as above	as above	as above	as above	as above: +0.5% pa	as above: -0.5% pa
Defined benefit obligation $'000	234,153	245,408	223,730	245,208	223,858	234,776	233,547

30 Jun 2022	Base Case	Scenario G Lower mortality*	Scenario H Higher mortality**
Defined benefit obligation $'000	234,153	236,237	232,127

** Assumes the short-term pensioner mortality improvement factors for years 2022-2026 also apply for years after 2026.*

*** Assumes the long-term pensioner mortality improvement factors for years post 2026 also apply for years 2022 to 2026.*

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. 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 2023 financial position of the fund calculated in accordance with AASB 1056 'Superannuation Entities':

30 Jun 2023	SASS $'000	SANCS $'000	SSS $'000	Total $'000
Accrued benefits*	56,172	4,420	141,853	202,445
Net market value of fund assets	(67,963)	(7,870)	(128,646)	(204,479)
Net (surplus)/deficit	(11,791)	(3,450)	13,207	(2,034)

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30 Jun 2022	SASS $'000	SANCS $'000	SSS $'000	Total $'000
Accrued benefits*	56,420	4,658	136,751	197,829
Net market value of fund assets	(66,196)	(7,451)	(128,451)	(202,098)
Net (surplus)/deficit	(9,776)	(2,793)	8,300	(4,269)

* *There is no allowance for a contribution tax provision within the accrued benefits figure for AASB 1056. Allowance for contributions tax is made when setting the contribution rates.*

Contribution recommendations

Recommended contribution rates for the entity are:

	SASS 30 Jun 2023	SASS 30 Jun 2022	SANCS 30 Jun 2023	SANCS 30 Jun 2022	SSS 30 Jun 2023	SSS 30 Jun 2022
Multiple of member contributions	1.9	1.9	-	-	1.6	1.6
% member salary		-	2.50%	2.50%	-	-

Economic assumptions

The economic assumptions adopted for 30 Jun 2023 AASB 1056 'Superannuation Entities':

Weighted-average assumptions	
Expected rate of return on fund assets backing current pension liabilities	7.0% pa
Expected rate of return on fund assets backing other liabilities	6.2% pa
Expected salary increase rate (excluding promotional salary increases)	4.45% for 23/24, 2.95% for 24/25, 2.74% for 25/26, 3.20% pa thereafter
Expected rate of CPI increase	6.65% for 22/23; 3.50% for 23/24; 3.00% for 24/25; 2.50% pa thereafter

Scenarios A and B relate to the sensitivity of the Accrued Benefits under AASB 1056 to changes in the expected return on Fund assets.

Sensitivity analysis - AASB 1056

30 Jun 2023	Base Case %	Scenario A -0.5 % Discount rate	Scenario B +0.5 % Discount rate
Expected rate of return on Fund assets	7.0%/6.2%	6.5%/5.7%	7.5%/6.7%
Rate of CPI increase	as above	as above	as above
Salary inflation rate	as above	as above	as above
Accrued Benefits $'000	202,445	209,625	195,742

30 Jun 2022	Base Case %	Scenario A -0.5 % Discount rate	Scenario B +0.5 % Discount rate
Expected rate of return on fund assets	7.0%/6.2%	6.5%/5.7%	7.5%/6.7%
Rate of CPI increase	as above	as above	as above
Salary inflation rate	as above	as above	as above
Accrued Benefits $'000	197,830	204,931	191,209

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Expected contributions

30 June 2024	SASS $'000	SANCS $'000	SSS $'000	Total $'000
Expected employer contributions	694	131	-	825

30 June 2023	SASS $'000	SANCS $'000	SSS $'000	Total $'000
Expected employer contributions	756	141	-	897

Maturity profile of defined benefit obligation

The weighted average duration of the defined benefit obligation is 9.1 years (2012: 9.6 years).

Profit or loss impact

For the year ended 30 Jun 2023	SASS $'000	SANCS $'000	SSS $'000	Total $'000
Current service cost	215	156	-	371
Net interest	(288)	(162)	2,110	1,660
Profit or loss component of the defined benefit cost	(73)	(6)	2,110	2,031

For the year ended 30 Jun 2022	SASS $'000	SANCS $'000	SSS $'000	Total $'000
Current service cost	349	186	-	535
Net interest	55	(83)	1,810	1,782
Profit or loss component of the defined benefit cost	404	103	1,810	2,317

Other comprehensive income

For the year ended 30 Jun 2023	SASS $'000	SANCS $'000	SSS $'000	Total $'000
Actuarial (gains) losses on liabilities	(791)	(361)	(2,115)	(3,267)
Actual return on fund assets less interest income	(2,642)	(312)	(5,144)	(8,098)
Total remeasurement in other comprehensive Income	(3,433)	(673)	(7,259)	(11,365)

For the year ended 30 Jun 2022	SASS $'000	SANCS $'000	SSS $'000	Total $'000
Actuarial (gains) losses on liabilities	(9,605)	(375)	(30,585)	(40,565)
Actual return on fund assets less interest income	2,571	293	4,941	7,805
Total remeasurement in other comprehensive income	(7,034)	(82)	(25,644)	(32,760)

Forestry Corporation of New South Wales

Notes to the financial statements

30 June 2023

Recognition and measurement

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 Pooled Fund Schemes) include SAAS, SSS and SANCS.

The Corporation's net obligation for defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; this benefit is discounted to determine its present value. Any unrecognised past service costs and the fair value of any plan assets are deducted. Expected future payments are discounted using market yields at the reporting date on high-quality corporate bonds. Terms to maturity and currency match as closely to the estimated future cash outflows.

Calculations are performed by the Pooled Fund's actuary using various assumptions such as discount rate, future salary increases, mortality rates and future pension increases.

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.

Forestry Corporation of New South Wales

Notes to the financial statements

30 June 2023

Note 29. Contributed equity

	30 June 2023 $'000	30 June 2022 $'000
Capital contribution	491,706	491,706

Ordinary shares

The Corporation's capital comprises two fully paid $1 ordinary shares issued to:

- The Minister for Finance and Natural Resources 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 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 Corporation. The Board and senior management monitor the return on capital as well as the level of debt and dividends payable to NSW Government.

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.

Recognition and measurement

Contributed equity represents the NSW Government's investment in the Corporation. There were no changes in the year ended 30 June 2023.

Forestry Corporation of New South Wales

Notes to the financial statements

30 June 2023

Note 30. 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 Corporation's Board of Directors has overall responsibility for the establishment and oversight of risk management. The Audit and Risk Committee (sub-committee of the Board) endorses the policies for managing each of these risks. Risk management policies are established to identify and analyse the risks faced by the Corporation, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Compliance with policies is reviewed and audited on a continuous basis.

Market risk

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

NSW Treasury Corporation (TCorp) manages interest rate risk exposures applicable to Fixed Loans State Guaranteed borrowings of the Corporation in accordance with a debt portfolio mandate agreed between the two parties. At reporting date, the book carrying value of borrowings managed by TCorp stood at $51.8m (2022: $91.3m).

Foreign currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Forward exchange contracts are used to hedge foreign currency risk for all committed foreign exchange exposures that are more than $500,000.

Derivative financial Instruments

The Corporation may use derivative financial instruments, such as forward currency contracts, to hedge its foreign currency risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting date.

Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Interest rate risk

Exposure to interest rate risk arises primarily through the Corporation's interest-bearing liabilities and investment in TCorpIM Funds trust. 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 other comprehensive income. Therefore, for these financial instruments, a change in interest rates would not affect other comprehensive income or equity.

The Corporation only holds units in the TCorpIM Funds trust. This trust only invests in cash and money market instruments that have an investment horizon between 1.5 to 3 years (2022: 3 years).

Forestry Corporation of New South Wales

Notes to the financial statements

30 June 2023

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

Investment in the TCorpIM Funds 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 TCorpIM Funds are designated at fair value and therefore any change in unit price impacts directly in profit or loss.

	30 June 2023	30 June 2022
	$'000	$'000
Approximate increase (decrease) in fair value of financial liabilities assuming 1 percentage point decrease (increase) in interest rates	2,102	2,600

Price risk sensitivity

The NSW TCorp TCorpIM Funds are subject to rates between 0.31% and 3.77% (2022: -0.03% and -6.42%).

For the financial year ended 30 June 2023, the price sensitivity from change in unit prices (as advised by the NSW TCorp) +/-10 % (2022: +/-10%) multiplied by redemption value as of 30 June is +/-$5,179,983 (2022: +/-$9,130,000).

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 expected credit losses), as disclosed in the statement of financial position and notes to the financial statements.

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

The Corporation has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables through the use of a provisions matrix using fixed rates of credit loss provisioning. These provisions are considered representative across all customers of the Corporation based on recent sales experience, historical collection rates and forward-looking information that is available.

Credit risk associated with the Corporation's financial assets, other than receivables, is managed through the selection of counterparties and establishment of minimum credit rating standards. Authority deposits held with NSW T-Corp are guaranteed by the State and are rated as S&P AA+ (stable).

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 expected credit loss.

Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than one year.

The Corporation has a credit policy, which aims to mitigate the credit risk exposure from its 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.

Forestry Corporation of New South Wales

Notes to the financial statements

30 June 2023

The Corporation has established an allowance for expected credit losses that represents its estimate of potential losses of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for losses that have been incurred but not yet identified. The collective loss allowance is based on historical data of payment statistics.

In the current environment, post COVID-19 and with inflation and other financial pressures, there has been a heightened credit risk exposure. The Corporation has proactively managed customer exposure through implementation of payment plans and the use of frequent credit assessments. A substantial majority of trade receivables are derived from sales to timber sawmills. The 10 largest customers in each of the operating divisions, accounted for 78% of forests sales revenue for 2023 (2022:76%). Additionally, these customers accounted for 69% of our accounts receivable as of 30 June 2023 (2022:74%).

Liquidity risk

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

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

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

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

Remaining contractual maturities

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

	Weighted average interest rate	1 year or less	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Remaining contractual maturities
30 Jun 2023	%	$'000	$'000	$'000	$'000	$'000
Non-derivatives						
Non-interest bearing						
Trade creditors	-	42,518	-	-	-	42,518
Other current liabilities	-	4,735	-	-	-	4,735
Community services obligation and government grants	-	36,696	-	-	-	36,696
Interest-bearing -Fixed						
NSW TCorp loans	2.14%	9,225	5,879	8,023	32,953	56,080
Interest-bearing						
Lease liability	5.35%	42	226	607	3,844	4,719
Total non-derivatives		93,216	6,105	8,630	36,797	144,748

Forestry Corporation of New South Wales

Notes to the financial statements

30 June 2023

30 Jun 2022	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	-	43,278	-	-	-	43,278
Other current liabilities	-	5,764	-	-	-	5,764
Community service obligation and other government grants	-	3,250	-	-	-	3,250
Interest-bearing						
NSW TCorp loans	2.70%	15,084	9,225	7,618	39,237	71,164
Interest-bearing						
Lease liability	5.40%	143	49	289	4,673	5,154
Total non-derivatives		67,519	9,274	7,907	43,910	128,610

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

Forestry Corporation of New South Wales

Notes to the financial statements

30 June 2023

Note 31. 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; and
- Level 3: Unobservable inputs for the asset or liability.

30 Jun 2023	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Land (including Crown and Freehold land)	-	1,246,560	-	1,246,560
Building	-	-	13,146	13,146
Plant and equipment	-	29,805	5,004	34,809
Roads and bridges	-	-	112,257	112,257
Investment properties	-	6,520	-	6,520
Biological assets	-	-	626,260	626,260
Total assets	-	1,282,885	756,667	2,039,552

30 Jun 2022	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Land (including Crown and Freehold land)	-	1,172,969	-	1,172,969
Building	-	-	12,195	12,195
Plant and equipment	-	26,774	1,201	27,975
Roads and bridges	-	-	107,828	107,828
Investment properties	-	6,082	-	6,082
Biological assets	-	-	623,768	623,768
Total assets	-	1,205,825	744,992	1,950,817

Refer to note 28 for fair value of fund assets associated with retirement benefit obligations.

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

The fair value measurements for interest bearing loan and borrowings 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.

Forestry Corporation of New South Wales

Notes to the financial statements

30 June 2023

	30 Jun 2023		30 Jun 2022	
	Carrying amount	Fair value	Carrying amount	Fair value
	$'000	$'000	$'000	$'000
Liabilities				
Borrowings	50,492	44,174	64,151	58,105
Lease liabilities	4,719	4,719	5,154	5,154
	55,211	48,893	69,305	63,259

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

The valuation for non-current assets was conducted by a land and property valuer, covering land, roads, and building structures. The valuation techniques, inputs, and relationship of unobservable inputs in the fair value are provided below:

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

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

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

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

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

The valuer used depreciated replacement cost ('DRC') method to perform a fair value assessment of the building, roads and bridges assets. The calculation for roads and bridges is based on forestry operation requirements. Key inputs for DRC are:

- estimated construction cost for each type of structure;
- estimated useful life for each type of structure; and
- assets condition as at valuation date.

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 cost of disposal.

Forestry Corporation of New South Wales

Notes to the financial statements

30 June 2023

Biological assets: current standing timber - softwood (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 an appropriate discount rate.

The key inputs used:

- current and estimated future timber market prices per tonne or square metre;
- estimated yield per hectare or estimated timber projections;
- current and industry benchmark direct and indirect costs; and
- discount rate of 10.60% (2022:10.13%).

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

- current and estimated future timber market price was higher/(lower);
- estimated yield per hectare or estimated timber projections were higher/(lower);
- current and industry benchmark direct and indirect costs were lower/(higher); and
- discount rate was lower/(higher).

Level 3 assets

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

	Plant and equipment $'000
Balance at 1 July 2021	876
Additions	815
Transfer to level 2 transport equipment	(65)
Depreciation charge to profit or loss	(425)
Balance at 30 June 2022	1,201
Disposals	(2)
Depreciation charged to profit or loss	(324)
Transfer from work in progress	4,130
Balance at 30 June 2023	5,005

Forestry Corporation of New South Wales

Notes to the financial statements

30 June 2023

For movements in level 3 assets disclosures refer to the following:

- note 16 for biological assets;
- note 17 for buildings, roads and bridges; and
- note 20 for intangible assets.

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

30 June 2023 Description	Unobservable inputs	Range (weighted average)	Sensitivity ($'000)
Biological assets	(i) Discount rate	+/-1%	1% change would (decrease)/increase fair value by ($46,975)/$55,183
	(ii) Expected future sales values	+/-5%	5% change would increase/(decrease) the fair value by $93,149/($93,149)
	(iii) Expected future costs	+/-5%	5% change would (decrease)/increase the fair value by ($66,379)/$66,379
	(iv) Expected future changes in volume	+/-5%	5% change would increase/(decrease) the fair value by $44,176/($44,176)

30 Jun 2022 Description	Unobservable inputs	Range (weighted average)	Sensitivity ($'000)
Biological assets	(i) Discount rate	+/-1%	1% change would (decrease)/increase fair value by ($49,478)/$58,332
	(ii) Expected future sales values	+/-5%	5% change would increase/(decrease) the fair value by $92,149/($92,149)
	(iii) Expected future costs	+/-5%	5% change would (decrease)/increase the fair value by ($66,336)/$66,336
	(iv) Expected future changes in volume	+/-5%	5% change would increase/(decrease) the fair value by $47,062/($47,062)

Recognition and 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.

Forestry Corporation of New South Wales

Notes to the financial statements

30 June 2023

Note 32. Commitments

	30 Jun 2023 $'000	30 Jun 2022 $'000
Lease commitments -operating		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	-	1
Capital expenditure commitments		
Committed at the reporting date but not recognised as liabilities, payable:		
Property, plant and equipment	14,978	3,934

Amount disclosed as operating lease commitments includes GST of $0 (2022: $100) recoverable from the Australian Taxation Office.

Amount disclosed as capital commitments includes GST of $1,361,000 (2022: $358,000) recoverable from the Australian Taxation Office.

Other lease commitments

	30 Jun 2023 $'000	30 Jun 2022 $'000
Receivable as lessor		
Future rentals:		
Not later than one year	475	417
Later than one year and not later than five years	1,227	1,275
	1,702	1,692

Note 33. Contingent assets and liabilities

As at 30 June 2023, 709,498 hectares (2022: 669,014 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.

Climatic events occur from time to time that impact the Corporation's ability to meet wood supply agreement volumes. The Corporation includes force majeure provisions in contracts to protect against force majeure events such as climatic events. Force majeure is currently declared on the NSW north coast and in Eden. Force majeure relieves FCNSW from contractual obligations to customers, such as minimum supply volumes, due to the force majeure events. It is therefore considered that potential claims are covered by force majeure and no estimate has been included at this stage.

Notices have been received for various alleged non-performances under environmental regulations. The Corporation is awaiting further information from the regulator and intends to defend its actions. It is not practical to estimate the potential effect of the notices at this stage.

Forestry Corporation of New South Wales

Notes to the financial statements

30 June 2023

Note 34. Key management personnel disclosures

Directors

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

Stefanie Loader	Chair (Non-Executive)
Mary Verschuer	Board Member (Non-Executive)
Matthew Sexton	Board Member (Non-Executive)
Linda Sewell	Board Member (Non-Executive)
Rob de Fegely	Board Member (Non-Executive)
Anshul Chaudhary	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:

Meredith Payne	General Manager Human Resources
Daniel Tuan	General Manager Hardwood Forests Division
Mike Beardsell *(effective to 7 August 2022)*	General Manager Softwood Plantation Division
Rachel Johnson *(appointed 8 August 2022)*	General Manager Softwood Plantation Division
Ross Dickson	General Manager Governance & Assurance and Company Secretary
Grant Steen	Chief Financial Officer

In accordance with the Treasury Circular TC16-12, the Portfolio and Shareholder Ministers of the Corporation are also regarded as key management personnel. The Corporation has not made any monetary or non-monetary compensation to the Ministers during the financial year.

Compensation

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

	30 Jun 2023 $'000	30 Jun 2022 $'000
Short-term employee benefits	2,418	2,471
Post-employment benefits	180	167
Long-term benefits	91	91
	2,689	2,729

Forestry Corporation of New South Wales

Notes to the financial statements

30 June 2023

Other transactions with key management personnel

Any transactions undertaken with key management personnel or entities related to them are conducted on an arm's length basis on commercial terms and conditions. In accordance with the requirements of TPG23-16 Related Party Disclosures, the Corporation discloses arm's length transactions in excess of $100,000.

During the financial year, the Corporation entity paid biological valuation audit fees conducted by Margules Groome Consulting Pty Ltd. The amount paid for work performed in the financial totalling $113,961 (including GST - $11,396), of which $12,058 relates to CPI fees adjustment for FY21; (2022: $115,610 – including GST $11,561). One of the Non-Executive Board members of the Corporation entity was a Director and Shareholder of Margules Groome Consulting Pty Ltd and held this position as at 30 June 2023.

Government-related entities

Government-related entities are those that are controlled or jointly controlled or significantly influenced by the NSW Government. For consistency, Treasury is requiring agencies to describe such transactions qualitatively. This approach is supported by AASB 124 para BC21 which states the intention is "not to identify every government-related entity or to quantify in detail every transaction with such entities".

The government agencies where the Corporation has transactions with during the year are listed below:

Government Agencies	Nature of transaction	Note reference
Regional NSW	Grant funding – Community Service Obligation	Note 5. Other Income
Water NSW	Bulk water supply	Note 8. Other operating expense
NSW Treasury Corporation	Borrowings and interest repayment	Note 10. Finance costs, Note 23. Borrowings
NSW Treasury	Dividends	Note 24. Dividends payable
	Government Guarantee Fee	Note 10. Finance costs
Revenue NSW	Income Tax, Land Tax, Payroll Tax	Note 8. Other operating expenses; Note 9. Employee benefits expense; Note 11. Income tax

Note 35. 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 Jun 2023 $	30 Jun 2022 $
Audit services - The Audit Office of New South Wales		
Audit of the financial statements (excluding GST)	340,000	358,400

Note 36. Events after the reporting period

The Corporation has committed to approximately $90 million of asset acquisitions between the end of the reporting period and the signing date of these financial statements. The acquisitions are funded from cash on hand.

Forestry Corporation of New South Wales

Directors' declaration

30 June 2023

Pursuant to the *Government Sector Finance Act 2018*, the Government Sector Finance Regulation, 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 the Australian Accounting Standards, the relevant requirements of the *Government Sector Finance Act 2018*, the Government Sector Finance Regulation 2018, the Treasurer's Directions and the *State Owned Corporations Act 1989*.

- We are not aware of any circumstances at the date of this declaration that would render any particulars included in the financial statements to be misleading or inaccurate;
- the attached financial statements and notes presents fairly the Corporation's financial position, financial performance and cash flows.
- 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

Stefanie Loader
Chair

Anshul Chaudhary
Chief Executive Officer

29 September 2023

End of the audited financial statements

INDEPENDENT AUDITOR'S REPORT

Forestry Corporation of New South Wales

To Members of the New South Wales Parliament

Opinion

I have audited the accompanying financial statements of Forestry Corporation of New South Wales (the Corporation), which comprises the Director's declaration, the Statement of profit of loss and other comprehensive income for the year ended 30 June 2023, the Statement of financial position as at 30 June 2023, the Statement of changes in equity and the Statement of cash flows, for the year then ended, notes comprising significant accounting policies, and other explanatory information.

In my opinion, the financial statements:

- have been prepared in accordance with Australian Accounting Standards and the applicable financial reporting requirements of the *Government Sector Finance Act 2018* (GSF Act), the Government Sector Finance Regulation 2018 (GSF Regulation) and the Treasurer's Directions
- presents fairly the Corporation's financial position, financial performance and cash flows.

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

Basis for Opinion

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

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

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

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

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

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

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

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial statements for the year ended 30 June 2023. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon. I do not provide a separate opinion on these matters. I have determined the matters described below to be the key audit matters to be communicated in my report.

<table>
<tr><th>Key Audit Matter</th><th>How my audit addressed the matter</th></tr>
<tr><td colspan="2">Fair value measurement of biological assets</td></tr>
<tr><td>At 30 June 2023, the Corporation reported $626.3 million in biological assets measured at fair value with the assistance of an independent valuation expert. A fair value gain of $2.5 million was recognised in the statement of profit and loss and other comprehensive income in the current financial year.

We consider this to be a key audit matter because:
• the biological assets are financially significant to the statement of financial position
• the softwood plantation valuation model used to value the biological assets is complex and involved significant judgements and assumptions
• changes in assumptions, such as the discount rate, timber demand, forest management, prices and cost assumptions, can significantly affect the fair value.

Further information on valuation techniques, inputs and sensitivity for biological assets is disclosed in Note 16 and Note 31.</td><td>Key audit procedures included:
• obtaining an understanding of the Corporation's approach to estimating fair value of biological assets
• testing design and operational effective of key controls over the biological assets data and inputs
• engaging a forestry valuation expert to review the mechanics of the methodology and key assumptions for reasonableness
• validating the significant inputs to the valuation, including the growth and yield assumptions, timber selling prices, harvest and operating costs, and discount rate
• testing the mathematical accuracy of the valuation model.
• assessing the valuation methodology and disclosures for compliance with the requirements of the Australian Accounting Standards.</td></tr>
<tr><td colspan="2">Valuing of defined benefit superannuation liabilities</td></tr>
<tr><td>At 30 June 2023, the Corporation's statement of financial position reported net defined benefit superannuation liabilities totalling $21.7 million. This liability balance is provided to the Corporation by the Administrator of the SAS Trustee, based on an independent actuarial assessment.

We consider this to be a key audit matter because:
• the defined benefit superannuation liability is financially significant to the statement of financial position
• the underlying liability valuation model (the model) is complex due to the significant degree of judgement required to determine key assumptions used to value the liability
• the value of the liability is sensitive to minor changes in valuation inputs.

Further information on the significant actuarial assumptions and sensitivity analysis is disclosed in Note 28.</td><td>Key audit procedures included:
• obtaining an understanding of the processes and key controls in place supporting the:
– membership data used in the model
– defined benefit superannuation liability calculation.
• assessing the completeness and accuracy of the membership data used in the model
• with the assistance of actuarial experts reviewing the methodology and key assumptions for reasonableness
• assessing qualifications, competence and objectivity of actuarial experts
• assessing the adequacy of the financial statement disclosures against the requirements of Australian Accounting Standards and Treasurer's Directions.</td></tr>
</table>

Directors' Responsibilities for the Financial Statements

The Directors are responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards, the GSF Act, GSF Regulation and Treasurer's Directions and the *State Owned Corporations Act 1989*. The Directors' responsibility also includes such internal control as the Directors determine is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Corporation's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to:

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

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

A description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar6.pdf . The description forms part of my auditor's report.

The scope of my audit does not include, nor provide assurance:

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

Karen Taylor

Karen Taylor
Delegate of the Auditor-General for New South Wales

4 October 2023
SYDNEY

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CAT

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