



# Annual Report 2016/17

PROUDLY GROWING TASMANIAN TIMBER



Forestry Tasmania



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Front cover photo: Russel Rigby, Forest Officer and Jonathan Rudd, Senior Forest Officer from Forestry Tasmania’s Southern Region flying a drone to conduct aerial visual assessments of harvested forests.

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The Hon Guy Barnett  
Minister for Resources  
Level 5 Parliament Square  
4 Salamanca Place  
Hobart 7000

### **Statement of Compliance**

Dear Minister,

In accordance with Section 55 of the *Government Business Enterprise Act 1995*, we hereby submit for your information and presentation to Parliament, the Report of Forestry Tasmania for the year ended 30 June 2017.

The Report has been prepared in accordance with the provisions of the *Government Business Enterprise Act 1995*.

Yours faithfully

A blue ink signature of Suzanne Baker, consisting of a large loop followed by a smaller loop and a horizontal stroke.

Suzanne Baker  
Director  
The Board of Forestry Tasmania

A black ink signature of Steve Whiteley, featuring a series of connected loops and a long horizontal tail.

Steve Whiteley  
Chief Executive Officer  
Forestry Tasmania



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## **vision**

Forestry Tasmania will be recognised for its sustainable management of Tasmania's public production forests, and as a progressive, commercially viable supplier of wood to a strong Tasmanian forest industry.

## **mission**

Forestry Tasmania is professional, consultative and innovative in sustainably managing Tasmania's public production forests for the benefit of current and future generations, and in commercially supplying wood to the Tasmanian forest industry.

## **corporate objectives**

1. Make available agreed wood volumes to underpin a sustainable Tasmanian forest industry
2. Maximise the commercial recovery, utilisation and value of harvested wood
3. Sustainably manage Tasmania's public production forests to maintain wood resources and other environmental, cultural and economic values
4. Actively engage with stakeholders to build trust and inform decision making
5. Transition to a new operating model and achieve financial self sustainability for Forestry Tasmania's commercial operations through innovation and ongoing improvement
6. A safe, healthy and productive workplace.

## **values**

We care for people and their environment

We get things done - safely and efficiently

We do what we say we will do

We are proud of who we are and what we do

We think before we act.

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## message from the chairman and chief executive officer

### SAFETY

The safety of our operations and our people is our highest priority and so it is pleasing to once again report that there were a low number of Lost Time injuries during 2016/17. It is however disappointing that we were not able to match or better our best ever safety performance achieved during 2015/16.

In 2016/17 the three Lost Time Injuries sustained resulted in a Lost Time Injury Frequency Rate of 8.72. In contrast, we had only one Lost Time Injury in 2015/16 and our Lost Time Injury Frequency Rate in 2015/16 was down to 2.41.

The inherent risks associated with working in the forests are borne out by these results however any injury is one too many. We have increased our focus on safety through our strategy going forward so all our people can go home safely to their families at the end of each working day.

On a positive note, real improvement was achieved in driving/ vehicle safety issues during the year after a focus on driver training to identify and manage risks while behind the steering wheel.

### PRODUCTION

Once again the weather created significant challenges for forest operations and wood production during 2016/17. In 2015/16 it was bushfires and in June 2016 heavy rainfall and flooding caused significant disruptions as a result of extensive damage to the large network of roads, bridges and culverts across Permanent Timber Production Zone land. The work to assess and repair this damage commenced immediately after the floods subsided, but the very large and complex task of repairs such as on the Mersey Forest Road took nearly the whole year to complete.

Despite all these challenges, Forestry Tasmania's total production of forest products in 2016/17 was about 1.43 million tonnes. This was a result of the ongoing professionalism and commitment of our employees and contractors. This was a slight decrease on the 1.47 million tonnes production of 2015/16. Volumes in all product categories decreased with the exception of peeler logs (3,000 tonnes increase) and native forest pulpwood (9,000 tonnes increase in comparison to 2015/16). Over 117,000 m<sup>3</sup> of high quality sawlogs were produced in 2016/17 in comparison to just over 127,000 m<sup>3</sup> in 2015/16.



Rob de Fégely  
Chairman



Steve Whiteley  
Chief Executive Officer



The wood produced by our operations was supplied to 50 sawmillers and wood processors across the state, many of them located in regional areas. Despite the weather-related difficulties encountered, customer demand for high quality sawlogs was met for all but one customer, in the northwest of the state. A number of customers requested reduced supply in the first half of the year but this was balanced out by increased demand in the second half of the year.

In addition to supplying a significant volume of residues for chipping and export by a domestic customer, Forestry Tasmania exported a total of over 774,000 green metric tonnes of native forest and hardwood plantation forest woodchips to international pulp and paper manufacturers. This included nine export shipments of woodchips from Burnie (four of native forest and five of plantation forest woodchips) - a total of 467,000 green metric tonnes, which is an increase of 49 per cent compared to 2015/16; and five plantation forest woodchip shipments and two native forest woodchip shipments from Bell Bay totalling 307,000 green metric tonnes.

## FINANCIAL RESULTS

During 2016/17 the organisation continued the focus on increasing revenue and reducing expenses in order to achieve financial sustainability for Forestry Tasmania. This work has been building on the significant progress made in recent financial years and while the gains in 2016/17 are relatively minor, significant future gains are expected for the business.

The improvements compared to last financial year include a \$14.2 million increase in revenue from forest product sales partially as a result of agreed to increased prices with customers and increased woodchip sales. On the expenses front, \$2.0 million has been saved due to reduced staffing in comparison to 2015/16 contributing to an improved operating cash flow position of -\$8.5 million in comparison to the -\$10.6 million of 2015/16.

The quieter bushfire season of 2016/17 in comparison to the extreme 2015/16 bushfire season resulted in a reduction of Government funding by \$8.9 million along with a reduction in fire fighting expenditure.

At the end of the 2016/17 financial year, Forestry Tasmania had total borrowings of \$29.8 million and cash of \$3.7 million, a net borrowing position of -\$26.1 million. To repay these borrowings and to complete the transition to the new organisation model of Sustainable Timber Tasmania in 2017/18, we will utilise proceeds from the recently announced forestry right sale of approximately 29,000 hectares of hardwood plantations.

As part of the work undertaken in the transition of Forestry Tasmania to Sustainable Timber Tasmania, costs of \$6.2 million in total were incurred associated with the organisational restructure, several office moves, asset sales and rebranding. Moving forward into 2017/18 these restructure projects are expected to generate improvement in ongoing cash earnings of \$7.5 million.

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Once again Forestry Tasmania's total comprehensive result in 2016/17 has been significantly affected by asset and liability revaluations that have little relationship with Forestry Tasmania's operating performance or its cash position.

Net assets increased in 2016/17 by \$86 million to \$112.6 million principally driven by the transfer of the defined benefit liability for former employees of the Forestry Commission and Forestry Tasmania to the Government.

## **TRANSITION OF FORESTRY TASMANIA**

The Government announced in October 2016 that Forestry Tasmania was to be restructured into the new organisation Sustainable Timber Tasmania which would commence on 1 July 2017. This decision followed on from the work conducted by the Board and management during 2015/16 working with Government to analyse and develop the elements of a new sustainable long- term operating model for Forestry Tasmania.

The new operating model will have a renewed focus on managing Tasmania's Permanent Timber Production Zone Land and sustainably supplying high quality native forest and plantation sawlogs and other forest products to customers on financially viable and commercial terms. 2016/17 has therefore seen a large focus and a huge effort by the Board, management and all of our staff to implement the necessary changes to effect the transition. These significant changes have been necessary to ensure we have the right structure, systems and skilled people to deliver our ongoing legislative obligations, while also meeting the Government's clearly stated expectations for our new business. These expectations include being leaner, financially sustainable, and more focused, efficient, innovative and accountable.

We finalised the process of working with our customers to negotiate price rises for high quality sawlogs to ensure that the business receives greater value and a better commercial return for wood that is harvested from Tasmania's public production forests. Consistent with our focus on core business and with facilitating private sector participation, we also completed the sale of the Tahune Airwalk business and look forward to watching the continuing success and growth of this business under its new owners.

During 2015/16 staffing levels were reduced to align with the new identified business structure and resulted in a review of our accommodation requirements across the state with the re-location of our head office and some regional staff into smaller and more cost effective premises. In addition, the legacy RBF defined benefits liability for former employees of the Forestry Commission and Forestry Tasmania was transferred to Government.



The other major area of work during the year has been conducting an international competitive sale process for the forestry right sale of approximately 29,000 hectares of hardwood plantations. As at 30 June 2017, the sale process was yet to be completed, however at the time of publication of this report (October 2017), the transfer of the forestry right has been executed with the successful purchaser Reliance Forest Fibre. We welcome Reliance Forest Fibre to the Tasmanian forest industry and look forward to working with them into the future.

## CERTIFICATION

The Board and management of Forestry Tasmania remain strongly committed to maintenance of Australian Forestry Standard certification and achievement of Forest Stewardship Council® certification. We are therefore very pleased that Forestry Tasmania recorded no non-conformances when a surveillance audit was conducted in December 2016 against the Australian Forestry Standard, Environmental Management, and Occupational Health Safety Management Systems certification standards.

Our journey also continues with seeking Forest Stewardship Council® (FSC) certification. In a great outcome for our business, we obtained FSC® Controlled Wood certification for our plantation operations in October 2016. While our aim is to achieve FSC® Forest Management certification, this is a significant step in the journey to reaching that goal.

We are continuing to actively work on a range of topics to address the short falls that were identified in our previous FSC® Forest Management audit. To this end a major highlight has been the public consultation on a revised High Conservation Value Identification and Management Plan. We are looking forward to the finalisation of this Plan in 2017/18 taking into account the public submissions received this year.

Work has also continued with the Forest Practices Authority, researchers and species experts to find ways to reduce the potential impacts of harvesting operations on species such as swift parrots that nest in hollow bearing trees. We are working hard to conclude this work and to improve the management of our operations so that our auditors can make a new appraisal of our systems in 2018.

## STAKEHOLDER ENGAGEMENT

Improving and delivering on our stakeholder engagement remains a focus for Forestry Tasmania. We recognise that to do our job well we need to seek to understand our stakeholders' needs and expectations, and encourage their input and insights, so that these can be taken into account in our operational planning and decision making.

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We have continued to promote our Three Year Wood Production Plan via initiatives such as our interactive map viewer, to make it easier for stakeholders to identify and engage with us on our operations. We recognise however that there will be challenges, particularly in areas where our operations on Permanent Timber Production Zone land are adjacent to areas of private property. While unfortunately there may be times where we are unable to fully meet all competing demands, we will continue to work actively with our customers, neighbours and the wider community to achieve the best possible outcomes for all concerned.

Finally, we would like to acknowledge and thank the Board, management and all of Forestry Tasmania's employees for their ongoing professionalism and commitment in delivering results through a period of significant change. We would also like to acknowledge and thank those who have contributed to Forestry Tasmania from its inception on 1 July 1994 delivering forest management and related services. We look forward to completing the transition of the organisation into Sustainable Timber Tasmania.



Rob de Fégely  
Chairman



Steve Whiteley  
Chief Executive Officer



## report structure and scope

This Annual Report provides a summary of Forestry Tasmania's performance against our six Corporate Objectives in 2016/17. These objectives (see page 5) were reviewed and slightly revised by Forestry Tasmania's Board during 2015/16 but remain broadly consistent with the 2014/15 objectives.

The Annual Report also reports on our Forest Management Plan which was released in November 2014 following significant stakeholder consultation and revised in early 2016. The Annual Report contains almost identical information to our previous Stewardship Reports although some of it appears under different headings.

The Annual Report covers all processes and activities involved in the management of Permanent Timber Production Zone land during the reporting period. This includes land management, plantation and native forest establishment and maintenance, timber harvesting and sales, and our financial performance.

The Year at a Glance table (page 12) provides a quick reference to some of this year's key statistics. The Report Card (page 14) provides a snapshot of our overall performance against our objectives, showing the areas where we have been successful in improving our performance and acknowledging those areas where more focus and improvement is required.

The Annual Report also includes our Financial Statements and a number of the data tables that were previously included in Appendices to our Stewardship Reports. Additional data tables are provided on the website: [www.sttas.com.au](http://www.sttas.com.au)

The majority of the data used in our Annual Report has been obtained through internal data sources such as our forest operations database (an in-house asset management system) and through the overlaying of spatial information using our geographical information systems. The remaining data has been obtained from external sources such as the Forest Practices Authority and the Department of Primary Industries, Parks, Water and Environment.

## year at a glance

	2014/15	2015/16	2016/17
<b>Forest estate ('000 hectares at 30 June)</b>			
Permanent Timber Production Zone (PTPZ) land	812	812	812 <sup>1</sup>
Land available for wood production	486	485	482 <sup>1</sup>
Unavailable for harvesting <sup>2</sup>	205	207	208 <sup>1</sup>
Managed for reservation <sup>3</sup>	121	121	121
Public land managed by Forestry Tasmania <sup>4</sup>	8	8	8
Private land managed by Forestry Tasmania <sup>5</sup>	1	1	1
Total Forestry Tasmania managed land	820	821	821 <sup>1</sup>
<b>Forest types ('000 hectares at 30 June)</b>			
Native forest	711	711	711 <sup>2</sup>
Hardwood plantation <sup>6</sup>	56	57	53
Softwood plantation <sup>6</sup>	54	53	54
<b>Area harvested in financial year ('000 hectares)</b>			
Native forest (clearfell, selective harvesting and thinning)	4.7	5.0	5.4
Plantation (clearfell and thinning) <sup>7</sup>	3.0	2.7	2.6
<b>Forest areas re-established in financial year ('000 hectares)</b>			
Native forest treated for regeneration	5.6	4.0	5.8
Plantation hardwood re-established <sup>6</sup>	0.4	0.3	0.1
Plantation softwood re-established <sup>6</sup>	1.6	-	-
<b>Wood production</b>			
Total Production (m <sup>3</sup> and tonnes) <sup>8</sup>	1,443,609	1,465,714	1,432,501
High Quality sawlog (m <sup>3</sup> )	119,855	127,057	117,592
Native forest Sawlog Cat. 2 & 8 (m <sup>3</sup> )	28,411	35,721	32,987
Native forest Posts, poles & piles (units)	4,061	4,698	3,269
Native forest High grade domestic peeler (tonnes)	144,625	164,302	167,547
Native forest low grade export peeler (tonnes)	1,452	-	-
Native forest pulpwood (tonnes)	635,149	725,138	734,195
Hardwood plantation (sawlog and pulpwood) (tonnes)	342,759	221,694	194,525
Softwood plantation (sawlog and pulpwood) (tonnes)	141,252	156,639	159,560
Firewood (m <sup>3</sup> )	14,694	19,917	10,228
Special species and craftwood (m <sup>3</sup> )	11,042	10,548	8,668
<b>Fire management services</b>			
Number of bushfires attended	35	51	36
Area of PTPZ land burnt in bushfires (hectares)	605	50,204	2,995
Hours devoted to firefighting	5,870	46,600	3,074
Cost of suppression (current values \$'000)	549	11,165	548
Fuel reduction burns completed on PTPZ land (hectares)	4,416	1,944	2,285
<b>Roads</b>			
New road construction (km)	51	41.7	40
Roads maintained/resheeted (km)	2,738	2,111	3,809



	2014/15	2015/16	2016/17
<b>Finance <sup>11</sup></b>			
<b>Revenue (\$'000)</b>			
Revenue from sale of forest products	103,153	107,303	121,536
Government funding	14,408	20,754 <sup>9</sup>	11,788
Other income	8,484	6,460	4,748
Forest valuation increase	37,384	-	-
Total revenue	167,049	134,514	147,067
<b>Expenses (\$'000)</b>			
Expenses from operations	(148,640)	(145,011)	(148,212)
Finance expense	(6,682)	(6,729)	(4,731)
Forest valuation decrease	-	(14,620)	(39,597)
Total expenses	(155,420)	(169,862)	(200,540)
<b>Other comprehensive income (\$'000)</b>			
Gain/(Loss) on remeasurement of defined benefit liability	17,563	(29,488)	26,198
Total comprehensive income (expense)	28,446	(65,428)	(24,073)
<b>Statement of financial position (\$'000)</b>			
Borrowings (net of cash)	(25,625)	(9,646)	(26,090)
Net Assets	61,815	26,830	112,569
<b>Employment</b>			
Number of staff (head count) <sup>10</sup>	216	183	147
Number of staff ( full time equivalents: FTE) <sup>10</sup>	210	178	141
Lost Time Injury frequency rate	19.61	2.41	8.72
Wood production per FTE (tonnes)	6,873	8,234	10,168
<b>Tasmanian business</b>			
Payments to Tasmanian businesses (\$ million)	102.26	113.38	97.66
Number of Tasmanian businesses paid	987	904	818

## Notes:

1. Reflects the aggregate of numerous minor boundary adjustments due to final accurate mapping of PTPZ land and FPPF land by DPIPW. Totals are rounded actual totals.
2. Areas not part of the wood resource due to such factors as non-commercial forest, excessive slope, streamside reserves, inaccessibility etc.
3. PTPZ land managed by Forestry Tasmania for conservation values as part of the Tasmanian CAR Reserve system.
4. Areas on Buckland Military Training Area managed by Forestry Tasmania.
5. Plantations on private land fully or jointly-owned by Forestry Tasmania.
6. Plantation figures may include plantations over which Forestry Tasmania has no management control. Excludes plantations harvested but not yet replanted. Does not include 2016/17 harvesting, thinnings and plantings by other parties.
7. Thinning includes both commercial and non-commercial thinning.
8. In addition, Forestry Tasmania purchased 89,644 tonnes of private timber in 2014/15, 77,467 tonnes of private timber in 2015/16 and 42,594 tonnes of private timber in 2016/17.
9. Includes \$8.914 million reimbursement of above average firefighting costs.
10. Excludes Tahune Airwalk staff numbers
11. Revenue and expenses for 2015/16 and 2014/15 in previous annual reports were based on consolidated financials for Forestry Tasmania. The 2016/17 financials and comparative figures in this report are representative of the parent entity.

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## report card 2016/17

### Make available agreed wood volumes to underpin a sustainable Tasmanian forest industry

- We supplied 50 customers with about 1.43 million tonnes of forest products from Permanent Timber Production Zone land, despite the challenges created by a heavy rain and major floods which impacted our operations.
- This included over 117,000 m<sup>3</sup> of high quality sawlogs (compared to 127,000 m<sup>3</sup> in 2015/16); about 168,000 tonnes of peeler logs (compared to 164,000 tonnes in 2015/16) and about 8,700 m<sup>3</sup> of special timbers.
- Customer demand for high quality sawlogs was met for all but one customer in the northwest, who received additional lower quality sawlogs.
- We conducted 110 planned regeneration burns over 2,800 hectares to optimise regeneration and regrowth of previously harvested areas. This was significant improvement on 2015/16 due to favourable weather and ground conditions.
- We thinned over 2,100 hectares of plantations to maximise the availability of pruned logs from these plantations in the future.
- We completed about 40 km of new road construction to provide access to coupes essential to meeting Forestry Tasmania's wood production obligations.

### Maximise the commercial recovery, utilisation and value of harvested wood

- We finalised the process of working with our customers to negotiate increased price rises to increase the returns received from wood sourced from Tasmania's public production forests.
- We exported over 774,000 green metric tonnes of native forest and hardwood plantation woodchips to international pulp and paper manufacturers - a significant volume of woodchips was also exported by our domestic residue customers.
- This included nine export shipments of woodchips from Burnie (four of native forest and five of plantation woodchips) - a total of 467,000 green metric tonnes, which is an increase of 49 per cent compared to 2015/16. There were also five plantation woodchip shipments and two native forest woodchip shipments from Bell Bay totalling 307,000 green metric tonnes.
- Heavy rains and severe flooding in June 2016 extensively damaged parts of Forestry Tasmania's road network (particularly in the north of the state) presenting some operational challenges in the first half of 2016/17.
- Our wood production per employee has increased from 8,200 tonnes per employee in 2015/16 to over 10,100 tonnes per employee.



## Sustainably manage Tasmania's public production forests to maintain wood resources and other environmental, cultural and economic values

- Forestry Tasmania staff and contractors contributed over 3,000 hours to the state firefighting effort, with 110 staff and contractors fighting 36 separate fires which burnt 2,995 hectares of Permanent Timber Production Zone land.
- We also contributed to the statewide fuel reduction burn program, conducting six fuel reduction burns covering about 2,300 hectares and assisting other agencies with a further 16 burns.
- We maintained our certification to the Australian Forestry Standard (AS4708), Environmental Management System (ISO14001) and the Australian Occupational Health and Safety Systems Standard (AS4801).
- We obtained Forest Stewardship Council® Controlled Wood certification for our plantation operations - a significant step in our journey seeking FSC® Forest Management certification.
- We undertook a consultation program on our revised High Conservation Value Identification and Management Plan to obtain our stakeholder's insights into our draft Plan.
- We met our ecological objectives for native forest retained in long term retention, and for dispersed harvesting as prescribed by our Landscape Context Planning System operations.
- The Forest Practices Authority (FPA) audit examined 21 of our Forest Practices Plans for which we scored an average rating of sound (the highest level obtainable under the FPA scoring system) on all 11 criteria examined.
- 96 per cent of our coupes that reached the reporting age met our ecological standard for regeneration.
- There were no breaches of the *Forest Practices Act* resulting in fines to Forestry Tasmania.
- We had no fuel or chemical spills in 2016/17.
- As part of our ongoing monitoring, one chemical detection occurred in the water samples taken at sites associated with chemical spraying. As a result of the detection a review of procedures was conducted which resulted in some minor changes to take into account weather forecasts post application.
- The Environmental Protection Authority received 23 complaints about smoke, of which Forestry Tasmania-generated smoke potentially contributed to one.

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## report card 2016/17

### Actively engage with stakeholders to build trust and inform decision making

- We continued to actively engage with a wide variety of stakeholder organisations and individuals on a range of forest management activities including our Three Year Wood Production Plan, our planned burning program and individual coupe and species issues.
- We further refined our interactive map viewer to make it easier for stakeholders to access information of potential interest to them.
- We recorded 387 separate stakeholder interactions for the year involving 3,200 individuals.
- We undertook or supported over \$7.35 million of Community Service activities including fuel reduction burning and fire preparedness, road maintenance, special species timber management, research, forest education, non-commercial tourism and maintaining some public recreation sites.
- At the end of June 2017, 554 external parties held current leases, licences and easement agreements relating to various uses of Permanent Timber Production Zone land.

## Transition to a new operating model and achieve financial self sustainability for FT's commercial operations through innovation and ongoing improvement

- We completed a range of projects to transition to a new sustainable long-term operating model including sawlog price increase, new contracts for southern residues, organisational restructure, plantation sale, several office moves, and sale of the Tahune Airwalk business.
- We commenced operations with two businesses in 2016/17 identified through the Government's EOI process for the commercial sale of residues produced from harvesting operations in the south of Tasmania and signed a contract with a third business that will commence operations in 2017/18.
- We completed an organisational restructure which included a reduction in employees to 141 full time equivalents.
- We managed an international, competitive sale process for the forestry right sale of approximately 29,000 hectares of hardwood plantation. As 30 June 2017 the sale was yet to be completed but at time of publication of this report (October 2017), the forestry right sale was completed with Reliance Forest Fibre.
- We completed the move of our head office and some regional staff into smaller and more appropriate accommodation significantly reducing on-going costs.
- We completed the sale of the Tahune Airwalk tourism business - selling the business and retaining the on-site infrastructure which is now leased to the new operator.
- We continued to focus on reducing costs and increasing revenue, with a \$14.2 million increase in our domestic and export revenue, and \$2 million saved due to reduced staffing in comparison to \$9.7 million in 2015/16.
- We incurred \$6.2 million in transition cost associated with the transition projects, comprising \$5.1 million included in profit and loss and \$1.1 million in capital expenditure. These project costs are expected to generate improvement in ongoing cash earnings of \$7.5 million in 2017/18.
- The quieter bushfire season of 2016/17 in comparison to extreme 2015/16 bushfire season resulted in a reduction of Government funding by \$8.9 million along with a reduction in fire fighting expenditure.
- Our total comprehensive result was impacted by two revaluations resulting in an accounting loss of \$24 million.
- The decrease in our RBF liabilities was mainly the result of an external change to the discount rate used to calculate the estimated future costs of this liability - a factor outside the control of Forestry Tasmania.
- The change in our forest valuation was largely driven by a change in assumptions for rate of harvest, plantation growth rates and earnings for southern pulpwood.
- Our net assets increased by \$86.2 million as a result of the transfer of the legacy RBF defined benefits liability for former employees.



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## report card 2016/17

### A safe, healthy and productive workplace

- A focus on driver training by providing tools and techniques to manage risks has reduced employee observation reports on driving/vehicle safety issues by half in 2016/17 in comparison to 2014/15.
- Our Lost Time Injury Frequency Rate was 8.72. With overall worked hours reducing, the Lost Time Injury Frequency Rate has increased compared to 2015/16 despite a low number of Lost Time Injuries.
- Our harvest and haulage contractors achieved a Lost Time Injury Frequency Rate of 15.61 (compared to 8.16 in 2015/16). This disappointing result has led to a renewed focus on initiatives such as training programs on safety awareness and investigations, review of monitoring effectiveness and auditing.
- We were not issued with any *Work Health and Safety Act 2012* enforcement notices by WorkSafe Tasmania.







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# about forestry tasmania

## BUSINESS OVERVIEW

Forestry Tasmania is a Tasmanian Government Business Enterprise responsible under the *Forest Management Act 2013* for:

- sustainably managing approximately 812,000 hectares of public production forest (Permanent Timber Production Zone land)
- undertaking forest operations for the production and sale of forest products from these forests (including making available at least 137,000 cubic metres of high quality eucalypt sawlogs per annum).

In addition to the *Forest Management Act 2013*, Forestry Tasmania is also required to operate in accordance with a number of other statutes including the *Government Business Enterprise Act 1995* (GBE Act), the *Forest Practices Act 1985* and the *Forestry (Rebuilding the Forest Industry) Act 2014*.

In accordance with the *GBE Act 1995*, a Ministerial Charter has been prepared by the Minister for Resources and the Treasurer following consultation with Forestry Tasmania. The Charter sets out the Government's broad policy expectations and requirements for Forestry Tasmania.

The Ministerial Charter, which was signed in September 2015, identifies the following core activities to be undertaken by Forestry Tasmania:

- land and native forest management
- sales of forest products
- fire management
- roading.

The Ministers also agreed that Forestry Tasmania may undertake the following other activities:

- nursery operations at Perth to produce eucalypt and radiata pine seedlings for planting in its own plantations, and also for sale to other landowners
- negotiation and management of transport contracts with external parties to allow Forestry Tasmania to sell timber on a mill door basis
- commercial operation of the Tahune AirWalk tourism site
- management of the Newood Huon and Smithton sites
- direct exports and development of agreed infrastructure to support export of residue products, including logs and woodchips, while market constraints that are limiting private sector investment remain



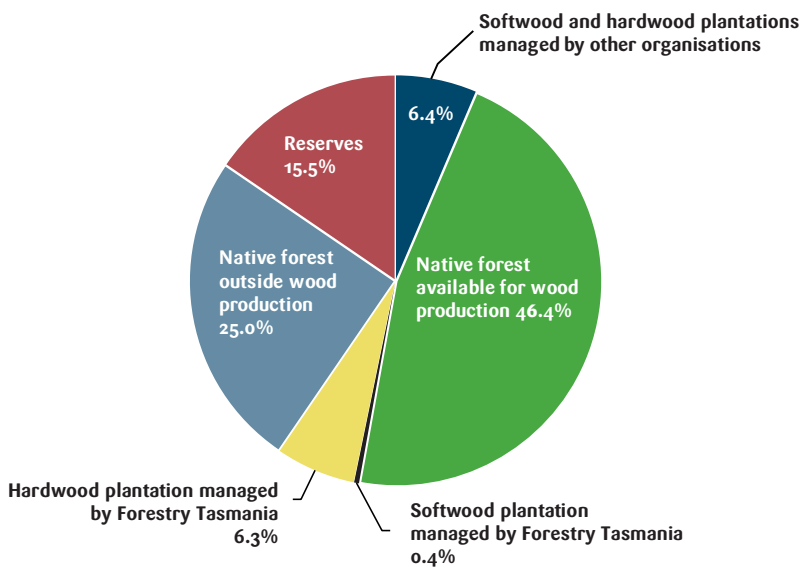
- commercial establishment, pruning, thinning and fertilising of plantations
- provision of professional and technical services to external customers on commercial terms to capitalise on the specialist expertise held within Forestry Tasmania's staff and on its intellectual property
- direct sales of special species timber on commercial terms.

Forestry Tasmania also performs a range of non-commercial and community service activities. These include contributing to statewide fuel reduction burning and fire management, maintaining agreed roads for public access and firefighting, forest education and research activities, agreed recreation and tourism activities, and non-commercial harvesting and management of special species timbers. On 26 October 2016, the Minister for Resources announced that Forestry Tasmania would be restructured and renamed to Sustainable Timber Tasmania from 1 July 2017.

### The land we manage

As at 30 June 2017, Forestry Tasmania managed approximately 820,000 hectares (including about 9,000 hectares of public and private land outside Permanent Timber Production Zone land), of which about 60 per cent is available for actual wood production, with the remainder set aside in informal reserves or other non-production areas. Of the area available for wood production, approximately half is not yet of sufficient age for harvesting.

#### PERMANENT TIMBER PRODUCTION ZONE LAND MANAGEMENT









performance against corporate objectives

# 1 Make available agreed wood volumes to underpin a sustainable Tasmanian forest industry

## WOOD PRODUCTION

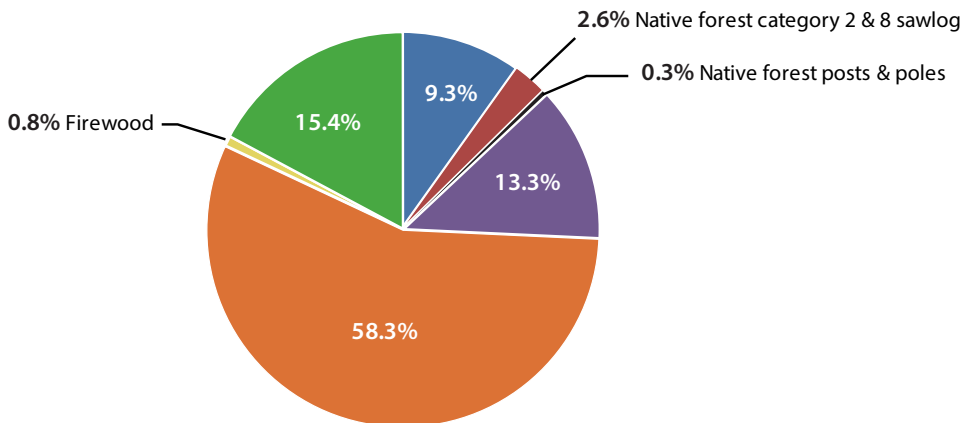
### Hardwood production

In 2016/17, 1.43 million tonnes of wood products were produced from Permanent Timber Production Zone land. This total production figure includes 117,592 m<sup>3</sup> of high-quality eucalypt sawlog, which was sourced entirely from native forest.

The high-quality sawlog comprised 496 m<sup>3</sup> of logs suitable for sliced veneer production, 107,352 m<sup>3</sup> appearance-grade sawlogs and 9,744 m<sup>3</sup> construction-grade logs.

### HARDWOOD PRODUCTION SUMMARY

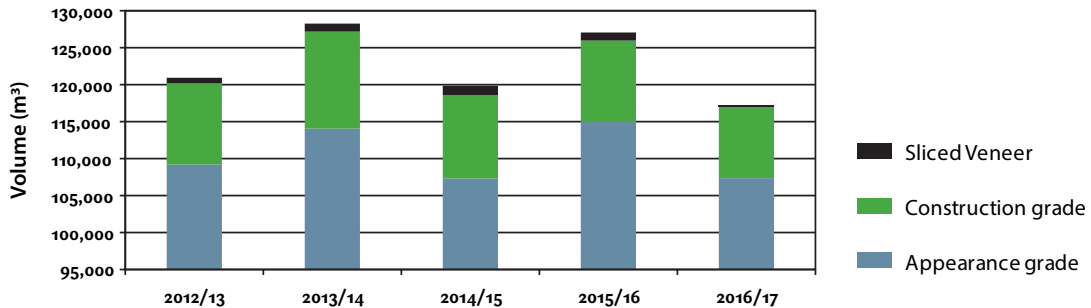
Note: Special species timbers are not included in the summary below - volumes of these timbers are detailed on page 25.



### Product (2016/17 production)

- High quality sawlog (presently 100% native forest) (117,592 m<sup>3</sup>)
- Native forest category 2 & 8 sawlog (32,987 m<sup>3</sup>)
- Native forest posts & poles (3,269 m<sup>3</sup>)
- Native forest high grade domestic peeler (167,547 tonnes)
- Native forest pulpwood (734,195 tonnes)
- Firewood (10,228 m<sup>3</sup>)
- Plantation pulpwood (193,788 tonnes)

## HIGH QUALITY SAWLOG PRODUCTION



Native forest operations also produced the following products as arisings:

- 3,269 m<sup>3</sup> of posts and poles, the majority of which were destined for use as electricity poles
- 32,987 m<sup>3</sup> of lower-quality sawlog that was suitable for uses similar to those of high quality sawlogs, but which were expected to have lower product recoveries and primarily produce structural timber and is additional to construction grade high quality sawlogs
- 167,547 tonnes of peeler logs, suitable for domestic rotary peeling into veneer
- 734,195 tonnes of pulp logs that were suitable for local processing into export woodchips
- 10,228 m<sup>3</sup> of fuel/firewood.

In addition, Forestry Tasmania's hardwood plantations operation produced 175 tonnes of sawlog, 562 tonnes of poles and 193,788 tonnes of pulpwood.

Softwood operations produced approximately 17,013 m<sup>3</sup> of sawlog and 142,547 tonnes of pulpwood. The majority of this production was associated with the activity of private plantation growers on Permanent Timber Production Zone land, where Forestry Tasmania receives stumpage payments.

## Wood product purchases

Wood products are purchased from the private sector to complement supply from Forestry Tasmania-managed operations. Purchased products include the standard suite of forest products from harvesting operations that occur on private land, as well as sawmill residues produced during the processing of sawlogs. Forestry Tasmania has due diligence systems in place to ensure that any procured timber is sourced from legal sources and complies with certification requirements.

In 2016/17, Forestry Tasmania purchased and on-sold 42,594 tonnes of timber (including 289 m<sup>3</sup> of native forest sawlogs, 88 tonnes peeler logs, 3,453 tonnes native forest pulp logs, 33,492 tonnes of native forest sawmill residues and 5,272 tonnes of plantation pulp logs) from the private sector.



## Meeting customer requirements

Our production and wood product purchases enabled Forestry Tasmania to meet most contracted customer commitments.

Supply of high quality sawlogs (HQSL) was consistent with customer ordering in 2016/17. Three customers requested a reduced supply in the first half of the year but requested additional supply in the second half. Demand was largely met for all but one customer in 2016/17. While that one customer received below contracted volumes of high quality sawlogs, they were provided with additional volumes of lower quality sawlogs.

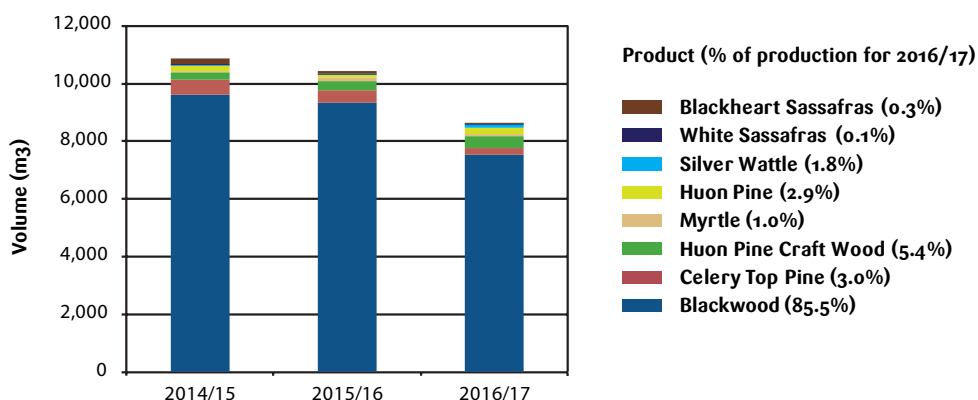
## Special timbers

Special timbers are used to produce high-value furniture and craftwood products, and include blackwood, blackheart sassafras, myrtle, silver wattle and celery top pine.

With the exception of blackwood and silver wattle, special timbers are mostly derived from mature and old growth forest areas.

During 2016/17, Forestry Tasmania produced a total of 8,668 cubic metres of special timbers from Permanent Timber Production Zone land. This comprised 6,083 cubic metres of millable logs, with the remainder being 'out of specification' sawlog and craftwood. Blackwood made up 85 per cent of the total volume produced, with the rest comprising species such as Huon pine, myrtle, sassafras and celery-top pine.

### SPECIAL SPECIES PRODUCTION



Blackwood from the north west forests constituted 90 per cent of the blackwood supply, and of this, 51 per cent came from swamp forests. The swamp-grown timber is sought after for its grain uniformity and depth of colour. These swamp forests can only be harvested during the drier period of the year and are rich in the higher-grade sawlogs destined for high-end furniture, veneer or cabinetry.

Huon pine timber is mainly salvaged from the historically cut-over Teepookana Plateau, as well as from the river banks and beaches around Macquarie Harbour after floods. Approximately 900 cubic metres of Huon Pine was recovered with sales of 255 cubic metres of Huon pine sawlogs and 463 cubic metres of Huon pine craftwood during the year.

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The supply of celery-top pine in 2016/17 was 263 cubic metres which included all sawlog grades.

Forestry Tasmania continues to provide users of specialty timber products with access to the resource through the Island Specialty Timbers business. During 2016/17, Island Specialty Timbers sold 829 cubic metres of product from its three outlets based at Geeveston, Strahan and Smithton. This included selling 126 cubic metres of high-quality products through an online tendering process, to ensure that the best possible prices were obtained. The tendering program received strong interest, with black heart sassafras continuing to sell strongly. The highlight for the year was a birds eye huon pine log that sold for \$3,361 per cubic metre.

## **PLANNING AND INFORMATION SYSTEMS**

Forestry Tasmania uses a planning and operational framework (see diagram on the following page) to supply forest products and to regrow and maintain Permanent Timber Production Zone land. The framework involves strategic, tactical and operational planning; implementation of these plans in order to access and harvest forest products; and subsequent regeneration and stand maintenance activities to maintain the forest's productive capacity.

The framework provides for a structured and scale-appropriate approach to the consideration of environmental, economic and social values.

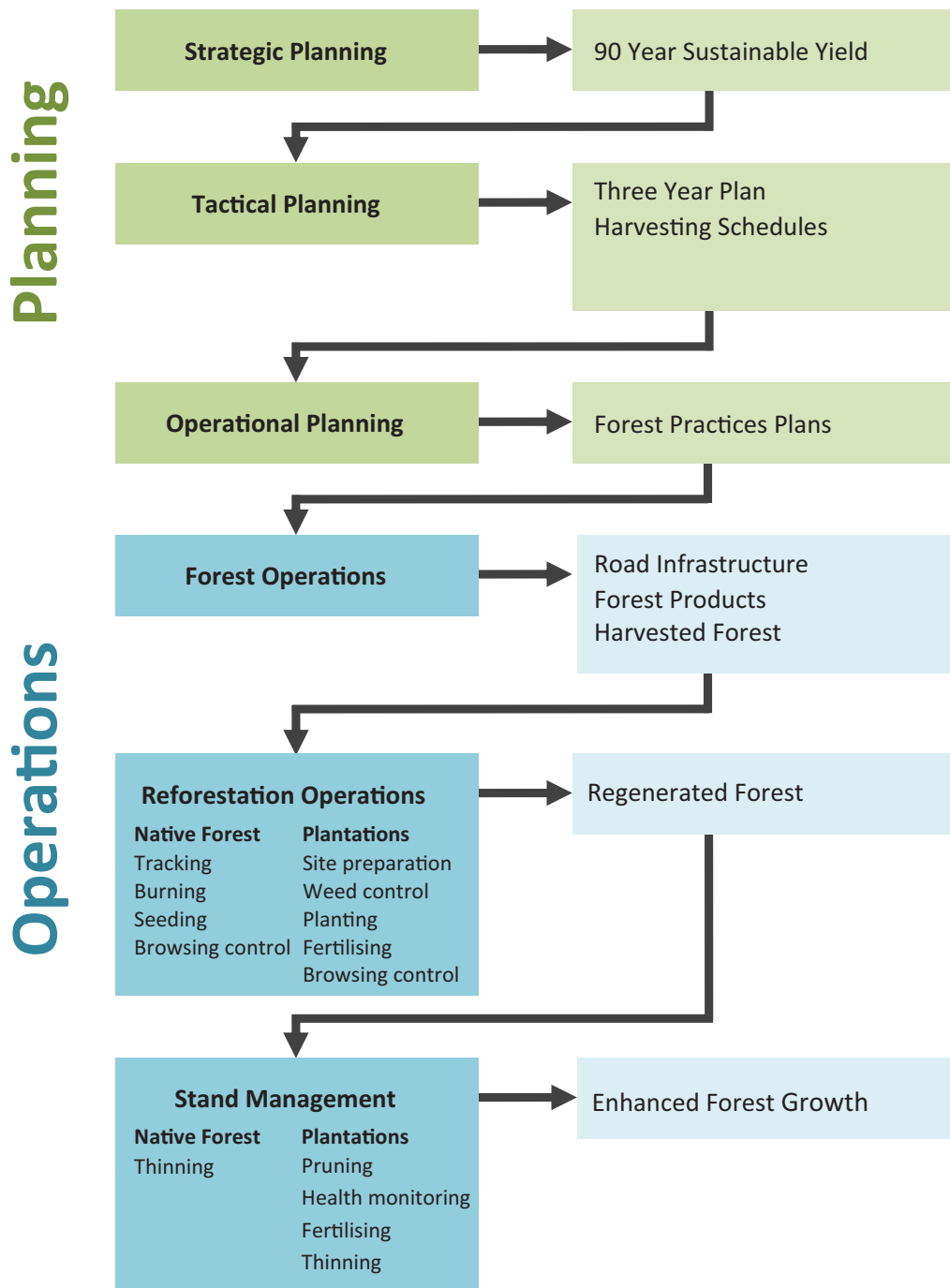
### **Sustainable yield**

The sustainable yield of a forest is the level of commercial timber extraction that can be maintained under a given management regime, without reducing the long-term productive capacity of the forest. Sustainable yield is a vital prerequisite of sustainable forest management.

For Forestry Tasmania, sustainable yield is most relevant to high-quality eucalypt sawlog supply, which includes sliced veneer log supply. The legislation Forestry Tasmania operates under has always mandated that we make available a minimum amount of these products annually. We therefore model and monitor supply to ensure forest management is consistent with this requirement and the productive capacity of the forest.

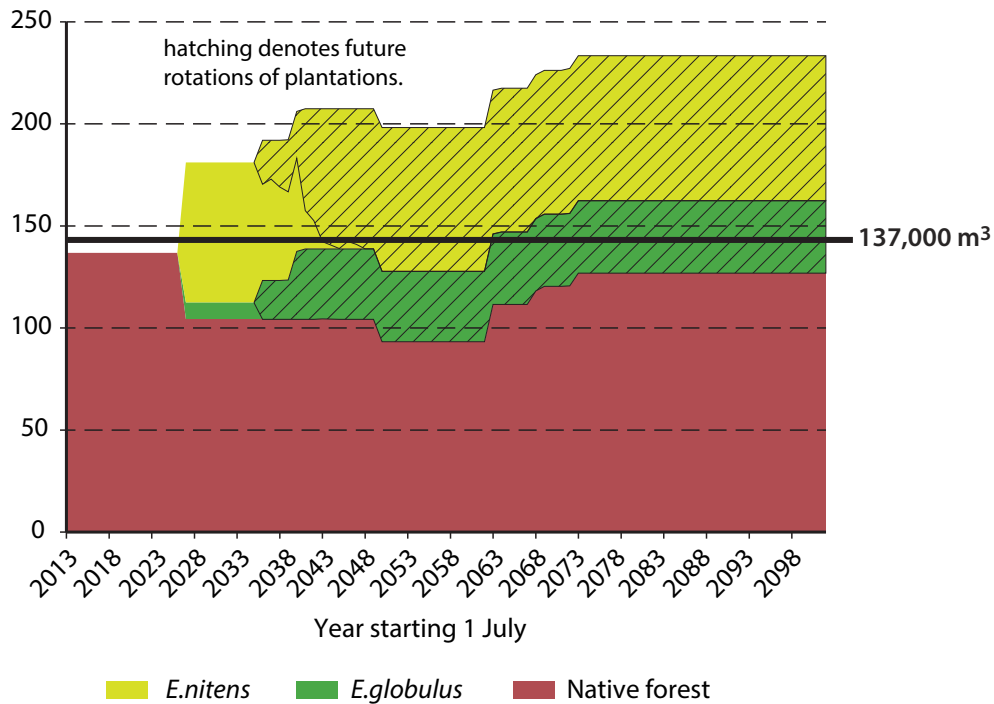
To estimate supply from the forest we use inventory, future growth estimates and historical harvest records. Supply from both eucalypt native forest and eucalypt plantation is considered in this calculation.

FORESTRY TASMANIA'S WOOD PRODUCTION PLANNING AND OPERATIONS FRAMEWORK



1 make available agreed wood volumes

PREDICTED YIELD OF HIGH-QUALITY EUCALYPT SAWLOGS  
FROM PERMANENT TIMBER PRODUCTION ZONE LAND



Forestry Tasmania reviews its sustainable yield calculation for high-quality eucalypt sawlog supply every five years. The review is required by the Regional Forest Agreement and ensures the calculation accounts for changed conditions such as land management decisions, new technologies, forest growth and market priorities. The most recent review, which was published in March 2014 based on the Tasmanian Forest Agreement, confirmed Forestry Tasmania's ability to make available the volume legislated in the *Forest Management Act 2013* of at least 137,000 cubic metres per year of high quality eucalypt sawlogs from the Permanent Timber Production Zone land for the next 90 years. The next sustainable yield review will be published in late 2017.

### Tactical planning

Forestry Tasmania undertakes tactical planning to identify areas that wood will be sourced from over the coming three years so that:

- legislated supply levels of timber products and existing contracts can be met
- markets can be identified
- infrastructure to access areas can be planned and developed
- stakeholders can be informed in advance of areas in which Forestry Tasmania is planning to operate.

Factors taken into account during these planning processes include:

- products available from specific coupes
- type and availability of silviculture and harvesting machinery required for each coupe



- compliance with Forestry Tasmania's forest management procedures
- compliance with principles and requirements in the Tasmanian *Forest Practices Code*
- dispersal of harvesting across the landscape
- seasonal restrictions for harvesting of particular areas (e.g. due to the proximity of wedge-tailed eagle nests during the breeding season)
- consideration of identified stakeholder and community issues
- strategic planning for sustainable yield.

The *Forest Practices Act 1985* requires organisations that produce more than 100,000 cubic metres of wood annually to produce a three-year plan, and to consult with local government and the Forest Practices Authority. Forestry Tasmania produces a rolling Three Year Wood Production Plan, which is published annually in July and is available on the organisation's website via the interactive map viewer.

The Three Year Plan outlines the location, anticipated product volumes and harvest methods of coupes that may be harvested in the ensuing three-year period.

The Three Year Plan forms the basis of the next level of tactical planning: harvest scheduling, during which the Three Year Plan coupes are allocated to harvesting contractors. The process also allows for the coordination of an even flow of wood products to various customers, and informs operational planning including the development of Forest Practices Plans.

## Operational planning

Operational planning is undertaken for individual harvesting coupes and involves:

- determining how site-specific natural and cultural values will be managed
- engaging with identified stakeholders and neighbours who may be affected by forest operations, to take their concerns and input into account during planning
- determining the locations of roads, extraction tracks and landing sites
- forecasting the products that will be sourced from the site
- identifying the markets for the products sourced from the site
- identifying any site-specific hazards
- determining operational boundaries.

After considering these factors, the most appropriate harvesting prescriptions and the treatments required for successful forest regeneration are determined. Importantly, if it is determined that reforestation cannot be achieved successfully, harvesting will not occur.

The *Forest Practices Act 1985* requires that a Forest Practices Plan be developed before any harvesting may occur. Forest Practices Plans must comply with the provisions of the Forest Practices Code, that specifies the prescriptions for management of values including biodiversity, soil, water, cultural heritage and visual amenity throughout the road building, harvesting and reforestation operations.

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In 2016/17, Forestry Tasmania's Forest Practices Officers certified 186 Forest Practices Plans. Forestry Tasmania's certified Forest Practices Plans for 2016/17 are made available to the public on the organisation's website.

## **Roading**

Forestry Tasmania primarily builds and/or maintains roads needed to access and conduct harvest operations. In addition, Forestry Tasmania maintains a selection of roads agreed by the Government as Community Service Obligations, such as some tourist routes through Permanent Timber Production Zone land.

Prior to publishing the Three Year Plan each July, we engage with local councils to discuss road plans for the coming years' operations to inform councils of the anticipated wood volumes travelling on public roads and which forestry roads are being maintained.

In 2016/17 we constructed 39.7 km of new road and maintained a further 3,809 km.

## **HARVESTING AND REGROWING**

Harvesting operations are conducted by contracting organisations which have the specialist skills, equipment and safety systems required to successfully implement Forest Practices Plans.

Prior to any work commencing on site, contractors are given a briefing by a Forestry Tasmania supervisor so that they are aware of the operational objectives, the coupe specific prescriptions detailed in the Forest Practices Plan and known safety hazards. In accordance with the Forest Safety Code, contractors are required to develop a Forest Operation Plan that describes how safety will be managed on the site.

Once an operation is completed, the area is rehabilitated and Forestry Tasmania conducts a thorough inspection of every coupe to confirm that rehabilitation works have been carried out to the required standard. When Forestry Tasmania is satisfied that rehabilitation works have been completed satisfactorily, reforestation works can begin.

## **Native forests**

The majority of the area available for wood production on Permanent Timber Production Zone land is native forest. Each year, Forestry Tasmania harvests a proportion of the Permanent Timber Production Zone land native forest estate to meet its wood supply obligations. Once harvested, the coupes are regenerated so that they will continue to provide wood and other ecosystem services into the future.

### ***Native forest harvested***

Forestry Tasmania's estate features a diversity of native forest types. The forest types are harvested and regenerated using specific silvicultural systems that aim to reflect the natural disturbance regimes of the respective forest type. The silvicultural techniques have been developed over time to provide safe harvesting conditions for forest contractors and to support effective regeneration. As a rule, wetter forests are harvested using clearfell or variable retention silviculture while drier forests are harvested using other partial harvest systems that generally retain trees across the whole coupe.

The silviculture employed on each harvested area is determined during operational planning, and is monitored during harvest to ensure that specified prescriptions are met.

In 2016/17, Forestry Tasmania harvested about 5,375 hectares of native forest. This included harvesting 2,212 hectares using clearfell and 3,163 hectares using partial harvest systems.

### ***Native forest re-established***

Forestry Tasmania aims to ensure that productivity in Permanent Timber Production Zone land forests is maintained. In order to achieve this, forest regeneration practices are constantly monitored and reviewed.

Successful eucalypt regeneration generally requires:

- effective site preparation by fire or by mechanical disturbance to create receptive seedbeds
- an adequate supply of high-quality seed
- freedom from heavy frosts, drought and excessive damage by insects and browsing animals.

Forestry Tasmania maintains a native forest quality standards process which enables the timely, effective and accurate monitoring and reporting of silvicultural operations in native forests. The process uses goals, targets, standards and performance indicators to determine the success of regeneration operations. An annual quality standards review is held to discuss issues of concern relating to silvicultural operations, to encourage a constructive approach to improving practices, and to provide a forum for exchange of information and ideas. The following is a summary of the results collated from this process.

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## Site preparation

Site preparation has a significant effect on the success of regeneration. Site preparation techniques include high- or low-intensity burning, mechanical loosening of the soil, or excavator heaping and subsequent burning of logging slash. In some cases, the disturbance caused by harvesting produces sufficient seedbed for adequate regeneration and no further treatment is required.

The quality standard for clearfelled areas is that receptive seedbed is created over at least two-thirds of the area to be regenerated. In partially-harvested areas, the quality standard is that receptive seedbed is created over at least one-third of the area to be regenerated, and the achievement of an acceptable level of fuel reduction, while minimising damage to retained trees.

In 2016/17, Forestry Tasmania assessed the site preparation technique of 5,681 hectares of native forest harvested in previous years. Of this, 2,583 hectares was clearfelled and 3,153 hectares was partially-harvested.

The assessment determined that 95 per cent of clearfelled areas and 98 per cent of partially harvested areas respectively achieved the site preparation quality standard. This exceeds the five-year average of 88 per cent and 93 per cent for clearfell and partial harvest respectively.

## Seed and sowing

Forestry Tasmania classifies the source of seed sown onto harvested native areas into three categories:

- on-site seed is collected from the harvested area or from a similar area within one kilometre
- in-zone seed is from the same seed zone as the nominated harvesting area. The seed zones are detailed in *Native Forest Silviculture Technical Bulletin No. 1 Eucalypt seed and sowing*. For the purposes of quality standards, in- zone seed does not include the on-site seed component
- out-of-zone seed is collected from outside the seed zone of the nominated harvesting area. This is the least preferred seed source.

The seed provenance quality standard is that each harvested area should be sown with at least 7,500 viable on-site seeds per hectare, with the remainder being in-zone seed matched to forest type.

In 2016/17, Forestry Tasmania sowed 2,669 hectares with 2,462 kilograms of eucalypt seed, of which 48 per cent was on-site seed, 51.4 per cent was in-zone seed and 0.6 per cent was out-of-zone seed.

The quality standard for sowing operations requires that the delay between site preparation completion and sowing be less than 21 days. This provides the best chance of successful regeneration. In 2016/17, we achieved this standard in 100 per cent of the sown area. This is above our five-year average of 92 per cent.

**Regeneration success**

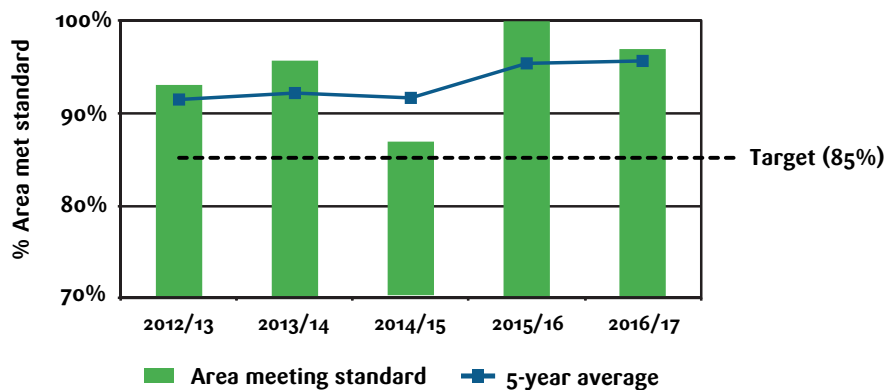
How forests are harvested and subsequently regenerated is largely determined by the forest types: different forests respond to different regeneration techniques. For example, clearfell, burn and sow has been scientifically shown to be an excellent option for regenerating tall wet eucalypt forests.

Regeneration success of eucalypt areas is assessed and reported when they are three years old. Swamp blackwood, rainforest and other special timbers coupes are assessed and reported when they are five years old. Regeneration success is determined by undertaking surveys to assess if the areas have reached the set minimum stocking standard for that type of forest.

This approach complies with the recommended national methodology for regeneration success monitoring.

In 2016/17, 4,368 hectares of native forest regeneration reached the relevant reporting age for regeneration success, and the required stocking standard was achieved in 96 per cent of this area. This is a great result that exceeds our target of 85 per cent of the harvested area being regenerated to standard and is a good reflection of our operational staff and contractor's commitment to regenerating our forests.

NATIVE FOREST REGENERATION SUCCESS SUMMARY





## Plantations

The majority of the 54,000 hectare hardwood plantation estate on Permanent Timber Production Zone land (including about 1,000 hectares managed by other parties) has been planted over the last three decades. As this 54,000 hectares of hardwood plantation matures it will play an increasingly important role in the future forest products industry in Tasmania.

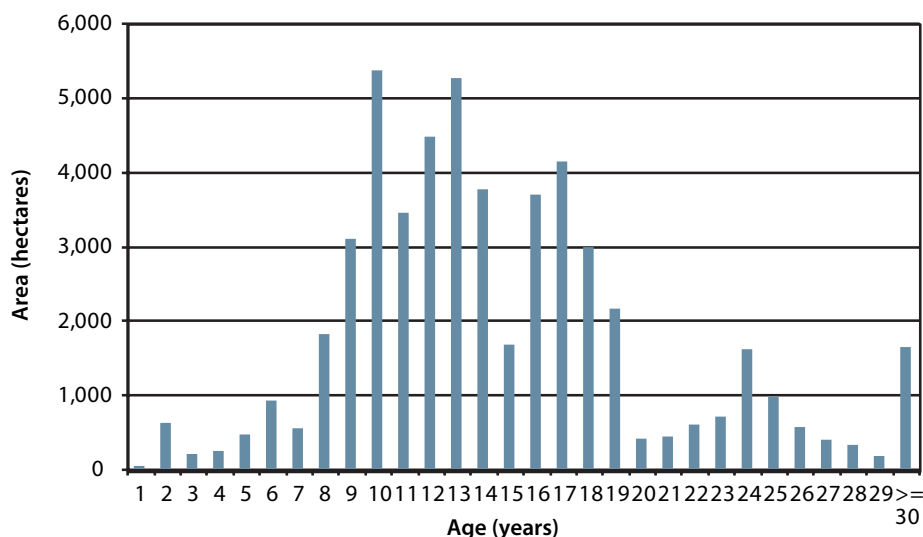
The primary management objective for the hardwood plantation estate is the sustainable supply of high-value, large-diameter, pruned logs for processing into solid timber and sliced veneer products, primarily for local industry, but also for interstate and overseas markets. Secondary products include unpruned logs for sawing and peeling, pulpwood for paper, and posts and poles. There could also be opportunities to develop engineered wood products from hardwood plantation logs.

The two main plantation eucalyptus species in Tasmania are *Eucalyptus globulus* (Tasmanian blue gum) and *Eucalyptus nitens* (shining gum). Both species are fast growing and are suited to Tasmanian conditions. *E. nitens* is favoured on colder, higher elevation sites due to its frost tolerance and *E. globulus* is preferred on frost-free and drier sites. The wood properties of *E. globulus* are superior to *E. nitens* in terms of pulp yield, density and strength; however, both species can suffer from internal defects (tension wood in *E. globulus* and checking in *E. nitens*), which are managed through appropriate silviculture, processing and utilisation practices. Tree breeding has already and will continue to play a long-term role in improving the quality of the wood.

About 76 per cent of the 54,000 hectare hardwood plantation estate is *E. nitens*, 17 per cent is *E. globulus* and around 7 per cent is mixed eucalypt and other hardwood species.

The age class distribution of the hardwood plantation resource reflects a variable establishment history. Around 8,000 hectares (15 per cent) is less than 10 years old, while only 2,000 hectares (3 per cent) is older than 29 years.

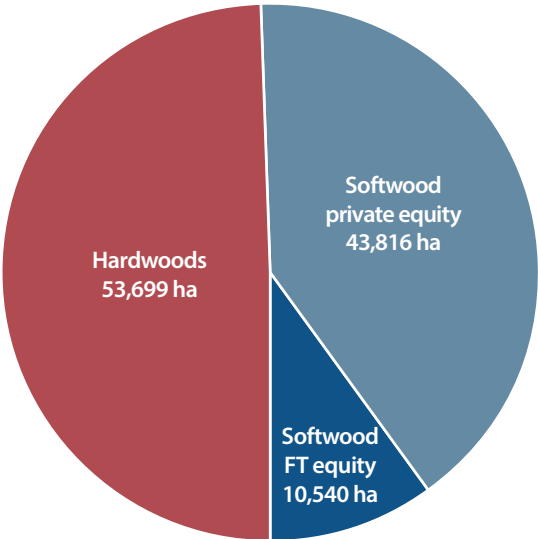
### AGE CLASS DISTRIBUTION OF HARDWOOD PLANTATIONS



At time of publication of this report (October 2017), approximately 29,000 hectares of hardwood plantations incorporated in the above figures have been sold to Reliance Forest Fibre as a forestry right .

Forestry Tasmania also has a long history in softwood (*Pinus radiata*) plantation management, and around 51,000 hectares have been established on Permanent Timber Production Zone land. Equity in this resource has now been largely divested and the estate is owned and managed by external parties. However, approximately 3,000 hectares is still managed by Forestry Tasmania.

PLANTATION TYPE



**Plantation area established**

The annual planting program has declined over the past eight years as Forestry Tasmania has focused on growing and developing our pruned plantation estate for future high quality sawlog and peeler production. In 2016/17 Forestry Tasmania regenerated 64 hectares on second rotation sites by coppice.

**Thinning program**

Thinning occurs after pruning is completed, and harvests lower-value trees from the stand in order to reduce competition and promote growth of the retained trees. This increases the production and quality of the pruned logs for harvest at the end of the rotation, and may also provide a mid-rotation financial return from the thinned logs.

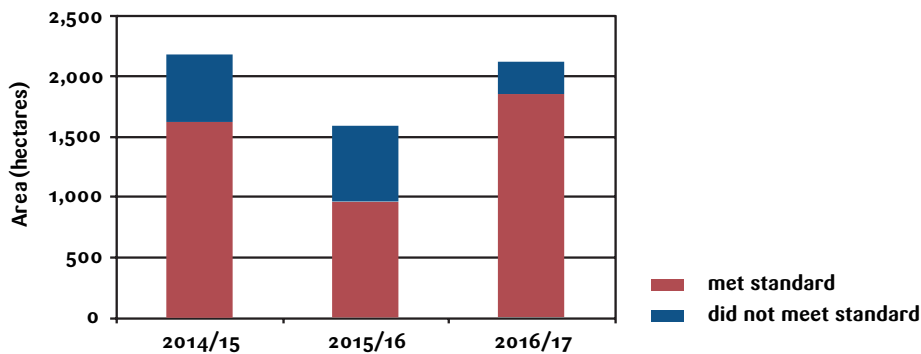
## PRUNING AND THINNING IN THE EUCALYPT PLANTATION ESTATE

Area by silviculture (hectares)	Area
High pruned and thinned (high quality, pruned logs)	26,712
Low pruned and thinned (unpruned logs)	3,452
Unpruned and unthinned (pulpwood production)	22,953
Thinned only	581

The quality standards for plantation thinning are that 180 to 350 stems per hectare must be retained and inadvertent damage to the retained trees (caused by machinery used in the thinning operation) must not exceed 5 per cent of the overall coupe.

In 2016/17, we thinned 2,158 hectares. Of this, 1,859 hectares (86 per cent) met the quality standards for thinning. The remaining 14 per cent did not meet the quality standards, primarily due to damage to some of the retained trees through the thinning operation, particularly in sites with weedy undergrowth, and low stocking of retained trees.

### THE AREA OF EUCALYPT PLANTATIONS THINNED AND THE AREA THAT MET QUALITY STANDARDS



### Final harvesting

In addition to pruning and thinning, we harvested 476 hectares of hardwood plantations. The harvested wood was supplied to two customers for chipping and subsequent export for pulp and paper production.

### 2016/17 PLANTING, THINNING AND HARVEST IN THE EUCALYPT PLANTATION ESTATE

Annual operations by area ('0s hectares) in 2016/17	Area
Planting	64
Thinning	2,158
Final harvest	476





Forestry Tasmania







performance against corporate objectives

## 2 Maximise the commercial recovery, utilisation and value of harvested wood

### MAXIMISING COMMERCIAL RECOVERY

Forestry Tasmania's business strategy is focused on maximising product recovery from harvesting operations. During 2016/17 Forestry Tasmania harvested about 5,400 hectares of native forest and produced over 117,000 m<sup>3</sup> of high quality sawlog. In the process of producing these sawlogs we also produced 167,547 tonnes of peeler logs and 734,195 tonnes of residual pulpwood (see Wood Volume Summary table on next page).

We aim to maximise the returns received from all harvested areas. Wood produced from felled trees is segregated into high quality sawlogs, sliced veneer logs, poles, special timbers and craftwood with the remainder being available as peeler logs, pulpwood and fuel wood.

Trained and accredited Log Classification Officers employed by harvesting contractors are responsible for the appropriate segregation of products. In addition to paying contractors a premium for higher value products, other processes are in place to maximise the recovery of wood volume and value including segregation inspections and product recovery assessments to monitor the efficient removal of forest products.

Segregation inspections are carried out by staff to determine the presence of any logs that may have been misclassified as a lower-grade product. These inspections routinely take place on coupe landings during harvest monitoring and Forestry Tasmania also has a program for conducting segregation audits at mills and on log trucks.

### UTILISATION OF HARVESTED WOOD

In 2016/17 Forestry Tasmania supplied about 1.43 million tonnes of forest products to 50 sawmillers and wood processors across the state, many of them located in regional areas.

These forest products include:

- high quality eucalypt sawlogs and veneer logs suitable for milling into appearance-grade timber, structural timber and decorative sliced veneer
- lower-quality sawlogs mainly used as structural timber to build homes
- poles, including power, telecommunication and hop poles
- special timbers, such as blackwood, celery-top pine and sassafras, highly prized for designer furniture, boat building and craft

TABLE: WOOD VOLUME SUMMARY

Source	Product	2012/13	2013/14	2014/15	2015/16	2016/17
<b>High quality sawlog (from native forest)</b>	Appearance grade sawlog Cat 1 & 3 (m <sup>3</sup> )	109,198	114,054	107,319	114,939	107,352
	Construction grade sawlog Cat 1 & 3 (m <sup>3</sup> )	10,987	13,123	11,257	11,026	9,744
	Sliced veneer Grade (m <sup>3</sup> )	747	1,082	1,279	1,092	496
	<b>Total</b>	<b>120,932</b>	<b>128,259</b>	<b>119,855</b>	<b>127,057</b>	<b>117,592</b>
<b>Native forest products</b>	Native forest sawlog Cat. 2 & 8 (m <sup>3</sup> )	37,531	39,936	28,411	35,721	32,987
	Native forest posts, poles & piles (m <sup>3</sup> )	2,302	4,584	4,061	4,698	3,269
	Native forest high grade domestic peeler (tonnes)	142,722	163,147	144,625	164,302	167,547
	Native forest low grade export peeler (tonnes)	89,156	17,470	1,452	0	0
	Native forest pulpwood (tonnes)	363,409	643,175	635,149	725,138	734,195
	Firewood (m <sup>3</sup> )	10,173	9,686	9,681	10,505	10,228
	<b>Total</b>	<b>645,293</b>	<b>877,997</b>	<b>823,379</b>	<b>940,364</b>	<b>948,226</b>
<b>Hardwood plantation</b>	Plantation Eucalypt Sawlog (tonnes)	0	0	0	402	175
	Plantation Poles (tonnes)	0	0	0	702	562
	Plantation pulpwood (tonnes)	144,106	261,874	342,759	221,694	193,788
	<b>Total</b>	<b>144,106</b>	<b>261,874</b>	<b>342,759</b>	<b>222,396</b>	<b>194,525</b>
<b>Softwood plantation</b>	Softwood sawlogs	19,831	26,761	11,032	10,594	17,013
	Softwood pulpwood	99,583	69,595	130,220	146,044	142,547
	<b>Total</b>	<b>119,414</b>	<b>96,356</b>	<b>141,252</b>	<b>156,639</b>	<b>159,560</b>
<b>Special timbers</b>	Special timbers and craftwood	10,712	9,199	11,042	10,548	8,679
<b>Other products</b>	(e.g. bark, sawdust)	19,216	12,324	5,322	8,711	3,920
<b>Grand Total (tonnes)</b>		<b>1,059,673</b>	<b>1,386,010</b>	<b>1,443,609</b>	<b>1,465,714</b>	<b>1,432,501</b>

Note:

- Softwood volumes include volumes produced by private growers on Permanent Timber Production Zone land where Forestry Tasmania receives stumpage royalties.
- Production figures do not include 89,644 tonnes of products in 2014/15, 77,467 tonnes of products in 2015/16, and 42,594 tonnes of products in 2016/17 purchased by Forestry Tasmania from the private sector for provision to Forestry Tasmania customers.

- domestic peeler logs processed into rotary peeled veneer leaf for plywood and flooring
- softwood for structural timber and paper manufacturing
- wood residues which may either be wood chipped locally, or exported as whole logs. They mostly are used to manufacture the range of paper products we use every day from copy paper to cardboard.

Wood residues are produced from two sources:

- The harvesting operations required to produce high quality sawlogs and peeler logs unavoidably generate a significant volume of residues as by-product. This is because many trees and parts of trees are not of sawlog or peeler quality. On average for every sawlog and peeler log produced in Tasmania, there are two residue logs produced as by-products. This proportion of high-quality logs is similar to that found in other native hardwood forests around the world.
- Processing operations also generate significant residue volumes. Even when a log is of a high enough quality to be a sawlog or a peeler log, the whole log cannot be sawn into timber or peeled into veneer. Sawmillers attempt to maximise the value from each sawlog but typically only about 33 per cent of the log ends up as sawn timber. The remainder ends up as sawdust (7 to 15 per cent), woodchips (30 to 35 per cent) and an allowance for shrinkage and shavings (20 per cent). Rotary peel veneer mills have a higher recovery rate than sawmills. They can recover about 40-60 per cent of the log to make veneer leaf but this process still produces residues.

### **Southern residues**

Following an Expression of Interest (EOI) process in 2015/16, two contracts were signed for residues from the South of the State. Both businesses used the 2016/17 year to consolidate their operations and are looking to increase their productivity in 2017/18 toward their contracted volumes.

A third contract has been signed for the sale of up to 180,000 tonnes of residues per year, and is due to commence in 2017/18.

The combined volume of these three contracts effectively absorbs all of the available residues in the Southern Region.



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## **MAXIMISING VALUE**

Forestry Tasmania aims to maximise the economic value from all forest products and has increased domestic and export revenue by \$14.2 million in 2016/17.

We finalised the process of working with our customers to negotiate price rises for high quality sawlogs to ensure that Forestry Tasmania receives greater value and a better commercial return for wood that is harvested from Tasmania's public production forests.

### **Exports**

In 2016/17, sixteen shipments (six native forest and ten plantation woodchip vessels) totalling 774,000 green metric tonnes have sailed to international markets, making a significant contribution to Forestry Tasmania's financial performance.

In 2016/17 this included nine export shipments of woodchips from Burnie (four of native forest and five of plantation woodchips) - a total of 467,000 green metric tonnes, which is an increase of 49 per cent compared to 2015/16. These shipments have also provided an additional source of revenue for local sawmillers and private plantation growers, as residues from local sawmills and private plantation woodchips are sold through the export terminal.

Bell Bay continues to provide the gateway for plantation and native forest wood chip shipments for both the North East region and the south, with five plantation woodchip shipments and two native woodchip shipments from Bell Bay in 2016/17 totalling 307,000 green metric tonnes.

Consistent with Forestry Tasmania's focus on its core business and facilitating private sector participation, work is continuing to determine the optimum timing and approach to transitioning out of direct exports of forest products in a way that appropriately manages risk, retains margins where possible, and supports business continuity.











performance against corporate objectives

## 3 Sustainably manage Tasmania's public production forests to maintain wood resources and other environmental, cultural and economic values

### INFORMED BY SCIENCE

Forestry Tasmania's planning and operations are informed by science. This guides how our forests are harvested and regenerated, including the seed stock selected.

Forestry Tasmania takes a collaborative approach to facilitate and promote innovation in forest management, and works with external scientific, environmental and other forestry organisations, to continually develop more effective and efficient ways to sustainably manage our forests.

#### *ARC Centre for Forest Value*

We are a partner organisation in the Australian Research Council Centre for Forest Value (ARC CFV) based at the University of Tasmania. In a flagship project for the Centre, logs from our plantations will be used to produce high-value sawn and engineered wood products.

The work at the centre takes a holistic view of the forest product value chain, from breeding and growing trees, through harvesting, transport, processing, product design, and finally to the production of consumer goods. This is underpinned by the development of data capture and management systems, allowing for the flow of information up and down the value chain to increase value and efficiency. Additionally, the Centre facilitates the training of new researchers and innovators in the forest management and products industry. These outcomes, along with those from other collaborative projects, will help build confidence that the plantation resource can supply products with a wide diversity of valuable applications.

#### *Warra and the Carbon Flux Tower*

The Warra Flux Tower was commissioned in 2013 using funds provided through the Terrestrial Ecosystem Research Network (TERN). Data from the tower are providing researchers with new insights into the exchange of resources between the soil, forest and atmosphere.

Major projects using Warra as a living laboratory include:

- **New approaches to sustainable forest management** - a collaboration with University of Tasmania, University of Melbourne and VicForests with funding from the Australian Research Council through their linkage grants scheme. The outcomes



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from this project will help manage the twin objectives of wood production and biodiversity. Advanced methods in decision-analysis and next-generation technologies for monitoring biodiversity including recording and computer analysis of bird calls, and the rapid mass profiling of beetle DNA, will be brought together for the first time to measure how well these twin objectives are being met

- **Silvicultural Systems Trial** - a 10-year post-harvest response of birds, plant and beetles to harvesting methods implemented as alternatives to the clearfell, burn and sow harvest/regeneration method used in wet eucalypt forests
- **Warra Flux Tower and Supersite** - Warra is the southern-most point of the Australia-wide Terrestrial Ecosystem Research Network (TERN). The flux tower provides ongoing measurements of carbon, water and energy fluxes between the forest and atmosphere to help understand the carbon and water dynamics of a tall, wet *E. obliqua* forest and how those dynamics vary with weather. The flux measurements are supported by intensive plot-based and remotely sensed measurements to understand the linkage between these dynamic processes and the biological and physical attributes of the forest. This year we commenced a collaborative research project, funded through the Australian Research Council Discovery program, to better understand the role of soil in forest carbon dynamics
- **Warra Hydrology Study** - a planned harvest operation in Warra 004A is being used to test the effectiveness of the Forest Practices Code prescriptions for protecting soil, water and biological values of Class 4 streams.

Other major projects included:

- **Costs and benefits of forest biosecurity** - a collaboration with University of Sunshine Coast and NSW Department of Primary Industry with co-funding by Forest and Wood Products Australia was finalised this year. The project brought together experts in forest pathology, forest entomology, and forest economics to examine a number of case studies to comprehensively evaluate the costs of biosecurity measures and of managing established pests relative to benefits in greater wood value. The final report identified that collaborative research into managing established pests and diseases has the greatest economic benefit, and that the most cost effective approach to manage outbreaks of new pests and diseases is to prevent their establishment
- **Remote sensing** - Forestry Tasmania is collaborating on a project co-funded by Forest and Wood Products Australia that involves the deployment and integration of cost-effective, high spatial resolution, remotely sensed data for forest measurement. This project has developed methods to deploy and integrate of cost-effective, high spatial resolution, remotely sensed data for the Australian forestry industry. There are two developments of particular interest to our business. The methodology to acquire and process digital imagery (which is far cheaper to acquire than LiDAR) to map the forest canopy in 3D. Access to a tree counting algorithm that we can apply to the imagery. Together, the techniques offer an opportunity to inventory the forest at a far lower cost
- **Quantitative Genetics** - a research project on the genetics of wood quality in *Eucalyptus globulus* (Tasmanian Blue Gum) supported through an Australian Research Council Linkage project, has in the past year, undertaken an intensive wood testing program to provide new insights into the genetic influences on the chemistry and physical properties of the wood of the species. This new information will be used to improve tree breeding for plantations to deliver products of higher value and utility

- **Molecular Genetics** - An industry collaborative project co-funded by Forest and Wood Products Australia is investigating the DNA profiles of thousands of plantation trees. The goal is to produce a rapid and cheap DNA based test to identify fast growing and high wood quality trees that can be used in breeding programs.

## MANAGING FOREST VALUES

### Certification

Forestry Tasmania's sustainable forest management performance is independently audited and certified against the requirements of three voluntary certification standards:

- the Australian Forestry Standard (AS 4708)
- Environmental Management Systems (AS/NZS 14001)
- Occupational Health and Safety Systems (AS 4801).

Forestry Tasmania's independent third party auditing body conducts regular surveillance audits to confirm continuing compliance with the standards. The certification standards require that a certified organisation undergo re-certification at prescribed intervals (nominally 3 yearly), and has regular surveillance audits between re-certification audits. Forestry Tasmania underwent a surveillance audit in December 2016 with no non-conformances identified against any of the three standards.

2016/17 also saw Forestry Tasmania continue to display its commitment to obtaining the rigorous standards required for Forest Stewardship Council® Forest Management certification. FSC® certification is important to Forestry Tasmania because it will provide ongoing and further access to key markets and added stakeholder assurance that we are managing the forests effectively.

During the year, Forestry Tasmania achieved FSC® Controlled Wood certification for its plantation operations. FSC® Controlled Wood certification provides assurance to customers that the wood covered by the certification is not:

- Illegally harvested
- Harvested in violation of traditional and civil rights
- Harvested from forests where High Conservation Values are threatened
- Harvested from forests being converted to plantations or non-forest uses
- Harvested from forests in which genetically modified trees are planted.

This is a significant step in the journey of Forestry Tasmania towards obtaining full FSC® Forest Management certification.

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Forestry Tasmania also continues to make significant progress in addressing the non-conformances identified during the December 2015 FSC® Forest Management standard evaluation. The most significant was the public consultation on a revised High Conservation Value Identification and Management Plan in February 2017.

### **Compliance with *Forest Practices Act 1985***

All forest operations must be carried out according to a certified Forest Practices Plan. Forest Practices Plans contain specifications for harvesting, road works and reforestation activities, which must comply with the Forest Practices Code.

The Forest Practices Code requires assessment of natural and cultural values, including flora, fauna, geomorphology, soils and water, cultural heritage and visual amenity, and the inclusion of appropriate management prescriptions for identified values in a Forest Practices Plan.

The forest practices system, administered by the Forest Practices Authority, requires high environmental standards in planning, training and education. Where problems arise, corrective actions, including the remediation of damage, takes place.

This is followed by review, analysis and improvement of systems to ensure that similar errors do not occur in the future. Where the problem is considered serious, legal enforcement is applied in a number of ways. This includes verbal or written notification by a Forest Practices Officer, which is issued under Section 41 of the *Forest Practices Act 1985*. The Forest Practices Authority may also prosecute or issue fines for failure to comply with certified Forest Practices Plans.

In 2016/17 there were no breaches of the *Forest Practices Act 1985* that resulted in a fine against Forestry Tasmania or its contractors.

The Forest Practices Authority undertakes an independent annual audit of a representative sample of Forest Practices Plans. The audit examines environmental management during forest operations at various stages of completion. In addition to the assessment of operational performance, the audit checks the standard of the plan, including all assessments and procedures required by the forest practices system.

During 2016/17, the Forest Practices Authority audit examined 21 Forest Practices Plans developed by Forestry Tasmania. We scored an average rating of 'sound' on all 11 criteria examined, which is the highest level obtainable under the Forest Practices Authority scoring system.

### **Forest activity assessments**

Where compatible, Forestry Tasmania encourages the use of Permanent Timber Production Zone land for uses other than wood production. Third parties regularly seek permission for an array of proposed activities such as recreational events, film

production and scientific research, as well as construction of communication towers and visitor facilities, and establishing new and using existing apiary sites. As the forest manager, Forestry Tasmania has a responsibility to manage these activities so that they do not compromise the values of Permanent Timber Production Zone land. To achieve this, each proposed activity is assessed to ensure existing natural, cultural and social values are not compromised, and that any potentially detrimental effects are either mitigated or avoided. Forestry Tasmania conducted 41 activity assessments during the 2016/17 year.

### Reserve system

The area of land under Forestry Tasmania's long-term management control is about 820,000 hectares. Of this, about 40 per cent is set aside in informal reserves or other non-production areas and makes a significant contribution to Tasmania's reserve network.

The 1997 Regional Forest Agreement established the Comprehensive, Adequate and Representative reserve system to:

- include the full range of vegetation communities (**comprehensive**)
- ensure the level of reservation is large enough to maintain species diversity, as well as community interaction and evolution (**adequate**)
- conserve the diversity within each vegetation community, including genetic diversity (**representative**).

Comprehensive, Adequate and Representative reserves provide security for species that might otherwise be disadvantaged by production forestry. They provide continuity of habitat and, for many plants and animals, re-colonisation sources. In this sense, Comprehensive, Adequate and Representative reserves have ecological 'influence' over the surrounding production forest, with the level of influence proportional to the distance from the reserve to the production forest.

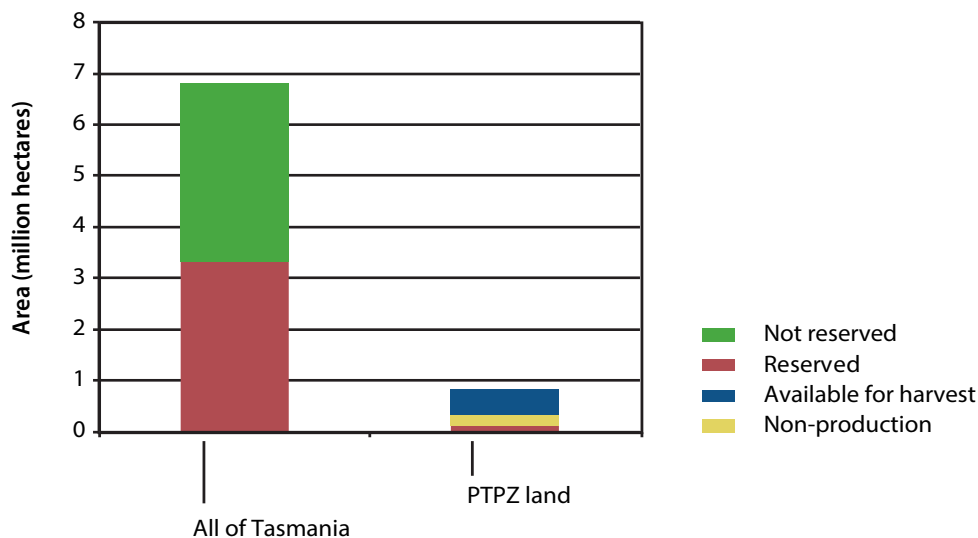
Of the 812,000 hectares of Permanent Timber Production Zone land, nearly 15 per cent (122,000 hectares) is part of the Comprehensive, Adequate and Representative Reserve system as informal reserves.

A further 25 per cent (208,000 hectares), is either not available for wood production, or not harvested due to various constraints. Although not formally recognised as part of the Comprehensive, Adequate and Representative reserve system, these non-production areas make a significant contribution to maintaining environmental values on Permanent Timber Production Zone land. While it is possible that these areas could be used for wood production in the future, the majority will likely remain unharvested.

The 482,000 hectares of Permanent Timber Production Zone land that is managed for wood production, makes up only seven per cent of Tasmania's land area.



## SUMMARY OF AREAS ON PERMANENT TIMBER PRODUCTION ZONE LAND



### Landscape Context Planning system

Forestry Tasmania has continued to progress and develop the Landscape Context Planning system, our landscape level approach to managing biodiversity values in native forests harvested by clearfelling or aggregated retention.

The Landscape Context Planning system sets two main objectives for public forest in a one-kilometre radius around the centre of any clearfell or aggregated retention coupe:

- at least 20 per cent of native forest be retained for the long term (long-term retention target) and
- less than 50 per cent of native forest is younger than five years of age (dispersal target).

Our objectives are to meet these targets in at least 90 per cent of coupes harvested annually.

Forestry Tasmania has developed a set of analytical tools to assist planners in adjusting the location and extent of harvest operations in order to meet these objectives.

When combined with the existing Comprehensive, Adequate and Representative reserve system, and implemented on all relevant coupes in the managed landscape, the system provides habitat for species to persist, and to recolonise areas after harvest disturbance.

We began reporting on the implementation of the Landscape Context Planning System in 2013/14, the first full year after the system was implemented.

Of the 79 native forest coupes harvested by aggregated retention or clearfelling in 2016/17, 95 per cent met or exceeded the long-term retention metric prescription and

100 per cent met the dispersal metric prescription. We therefore met our Landscape Context Planning System objectives. The average percentage of native forest retained for the long term in the one-kilometre radius around harvested coupes in 2016/17 was 30 per cent, which is consistent with previous results.

The Landscape Context Planning system is fully integrated into our planning procedures and, in the coming year, we will continue to further develop this system to help implement and report on our strategic management of threatened fauna at the landscape scale.

### **Biodiversity performance and initiatives**

One of Forestry Tasmania's key stewardship roles is to sustain biodiversity across Tasmania's public production forests. We do this in the context of current policy settings and by continuously improving forest planning and practices.

As noted earlier, Forestry Tasmania manages biodiversity by contributing to the Tasmanian Comprehensive, Adequate and Representative reserve network, and managing wood production areas in accordance with the Forest Practices Code and internal conservation planning systems.

The Forest Practices Code provides for biodiversity conservation through detailed planning requirements, for example, riparian buffers for stream protection and habitat retention.

Forestry Tasmania also continues to implement forest management strategies that sustain biodiversity, such as using fire as a forest regeneration tool, employing variable retention silviculture and applying the Landscape Context Planning system.

### ***Old growth***

Old growth forests are mature forests in which the effects of disturbance are now negligible. They are important environmentally, socially and economically to Tasmania.

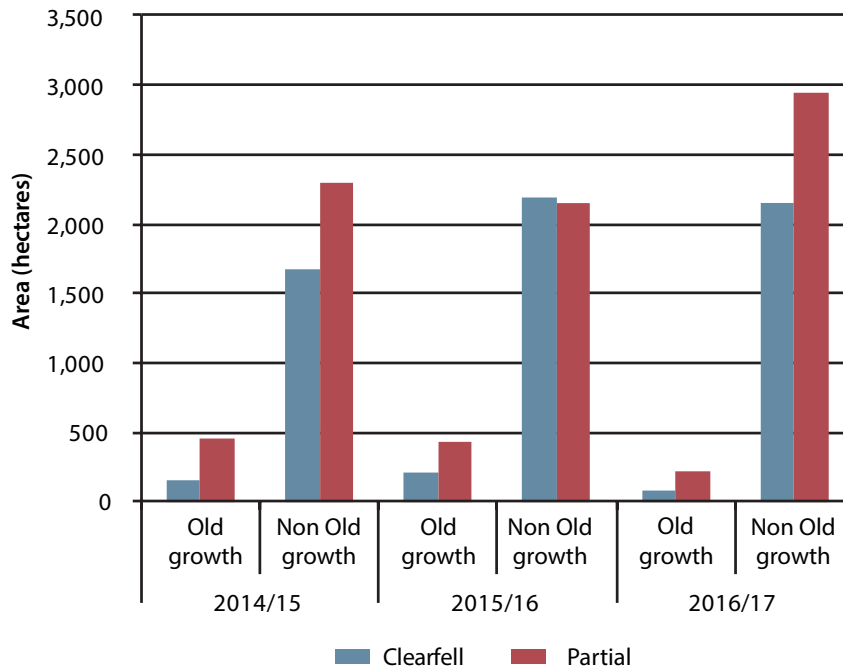
In Tasmania, old growth forest occurs across all land tenures. Well over one million hectares of old growth forest is protected in Tasmania. Nearly seventy percent of the old growth forest on Permanent Timber Production Zone land is either managed for protection or in areas unavailable for harvesting.

Only a small proportion of Tasmania's total old growth forest (less than four per cent) is available for timber harvesting. This portion is vital for sustaining the supply of high-quality sawlogs and special species timbers to sawmillers and their customers.

It is Forestry Tasmania policy to apply non-clearfelling harvesting methods to Coupes Containing Old Growth (those with more than 25 per cent mapped old growth) in order to retain old growth structural elements on site.

The total area of old growth harvested in 2016/17 was 278 hectares. Of this area, 213 hectares (77 per cent) was harvested using non-clearfell techniques, and 65 hectares (23 per cent) was clearfelled in coupes where the percentage of mapped old growth was less than 25 per cent.

#### NATIVE FOREST TYPE HARVESTED BY HARVEST METHOD



#### ***Giant trees***

Forestry Tasmania’s Giant Tree Policy requires all trees over 85 metres in height or 280 cubic metres in volume to be protected. This policy is implemented by pro-actively searching for Giant Trees using LiDAR and on-the-ground surveys, and by protecting all discovered Giant Trees in reserves.

There are presently 80 Giant Trees located on land managed by Forestry Tasmania.

#### **Chemical use**

##### ***Pesticide use***

Forestry Tasmania uses pesticides where it is impracticable to use alternative methodologies for achieving forest management objectives. All chemical applications are conducted in accordance with regulatory requirements.

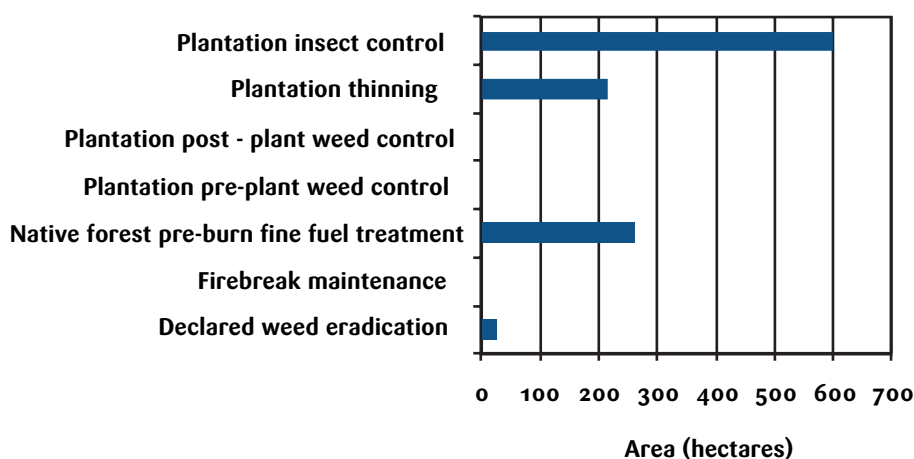
In 2016/17, chemicals were applied to 1,101 hectares of forest, compared with 1,812 hectares in 2015/16. The majority of chemical application was for chemical thinning of plantations through direct injection of lower quality tree trunks or insect control.

As part of Forestry Tasmania’s integrated pest management approach, insecticide use is limited to situations where insect populations are high, and the threat of economic damage is real. In 2016/17, we used 15 kg of alpha-cypermethrin active ingredient for the purposes of insect control.

In 2016/17, we applied herbicides to 500 hectares. Forestry Tasmania uses herbicides for a range of reasons, including to improve conditions for seedling growth at the time of forest establishment, to conduct non-commercial thinning operations in younger plantations, to control declared weeds, and to maintain firebreaks.

In 2016/17 we applied 588 kilograms of herbicide active ingredient in both liquid and granular form. The majority of active ingredient used (99 per cent) was glyphosate.

#### AREA TREATED WITH PESTICIDES



Forestry Tasmania's forest nursery at Perth used approximately 9 kilograms of active ingredient for the purpose of controlling weeds and fungi in containerised seedlings.

#### ***Fuel and chemical spills***

Forestry Tasmania takes all possible care and precaution to avoid spills and has set procedures in place for managing fuel and chemical spills if they do occur. All accidental spills of fuels or chemicals are recorded in Forestry Tasmania's Corrective Action Request system, and managed to minimise the potential adverse environmental effects.

The Department of Primary Industries, Parks, Water and Environment is notified of spills greater than 20 litres.

Forestry Tasmania had no fuel or chemical spills in 2016/17.

#### ***Water quality***

To minimise the risk of chemical contamination from our pesticide operations, we use the CSIRO-developed Pesticide Impact Rating Index software package. The Pesticide Impact Rating Index determines the risk of a pesticide operation based on mobility; toxicity to indicator plants, invertebrate, fish and mammal species; and site-specific variables such as soil type and landscape. In 2016/17 all of the chemical application operations that we were required to model using the Pesticide Impact Rating Index were modelled as posing low or very low environmental mobility risks.



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We also conduct a water quality monitoring program at sites where there may be a risk to water quality, or where there is stakeholder concern associated with our chemical use.

In 2016/17 we submitted water samples from four operations for independent analysis. One of the samples we submitted contained a detectable level of metsulfuron-methyl, however the concentration detected was nearly 40 times less than the Australian Drinking Water Guidelines. As a result of the detection a review of procedures was conducted which resulted in some minor changes to take into account weather forecasts post application.

## **Cultural site management**

Evaluation surveys of cultural heritage are undertaken as part of our pre-harvest assessment of special values. These evaluations may detect new sites, or re-detect old sites that had no contemporary map reference. Located archaeological sites are assessed and protected as necessary using buffers, machinery exclusion zones and/or management prescriptions. These sites may include artefact scatters, former mines, tramways, huts, boilers and old mill sites.

This year, no new Aboriginal heritage sites were found and three new Historic cultural heritage sites were found for which we implemented appropriate management prescriptions.

## **Soils**

Soil and geomorphology values are considered during the development of Forest Practices Plans.

As at the end of 2016/17, we have recorded a total of:

- 4,832 hectares of Permanent Timber Production Zone land as having been declared unavailable for harvesting due to the risk of erosion
- a total of 79,284 hectares of Permanent Timber Production Zone land being managed for soil and geo-conservation values.

## **Carbon storage in Permanent Timber Production Zone forests**

Forestry Tasmania recognises the significant role of forests in the global carbon cycle. Our Forest Carbon Policy commits the organisation to maintaining the carbon storage capacity of the forests on the Permanent Timber Production Zone land we manage.

The exchange of carbon, primarily between forests and the atmosphere, gives forest managers, like Forestry Tasmania, opportunities to limit greenhouse gas emissions through forest management.

Options to reduce greenhouse gas emissions include:

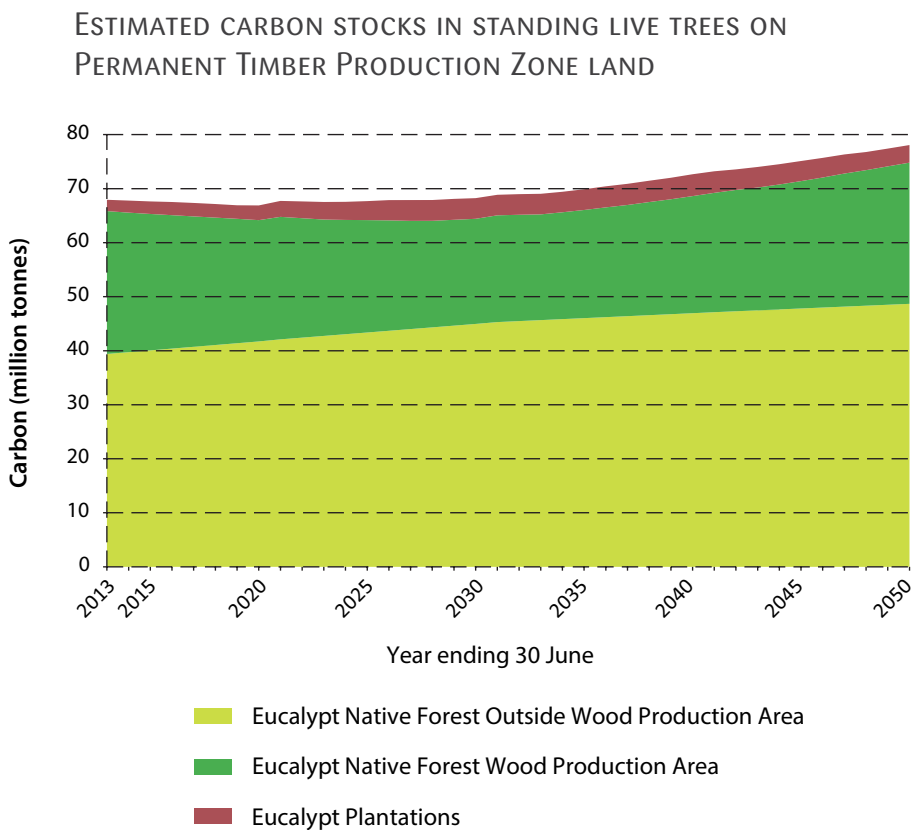
- storing carbon in landscapes
- storing carbon in wood products
- providing society with a low-emissions resource (wood products) to substitute for alternative materials (such as steel and concrete) that have larger associated emissions.

The carbon storage capacity of the forests managed by Forestry Tasmania is maintained by managing the forest in accordance with sustainable yield calculations, maintaining Forestry Tasmania's informal reserve system, and regenerating harvested forests.

Forestry Tasmania estimates the carbon stocks on Permanent Timber Production Zone land to be 68 million tonnes. It is predicted that carbon stocks will remain in a fairly steady state until about 2030, before increasing to approximately 78 million tonnes by 2050. The estimate predicts carbon storage in standing trees until 2050, and is based on the latest sustainable yield review. The update calculated in 2014 was undertaken using the same methodology as the previous estimate, which was prepared by the MBAC Consulting Group in 2007.

The estimate shows that reductions in carbon associated with harvesting are offset by growth in the forest as a whole.

To fully understand carbon and the role forests play, the whole life-cycle of forests including regrowth and the carbon stored in, and offset by, harvested forest products needs to be considered.



Standing forests hold carbon stocks, but so do the forest products - timber, paper – that come from harvesting those forests. Carbon emissions can be reduced by using wood products in place of alternative, more greenhouse gas intensive materials such as metal, concrete and plastic.

Well-managed forests are not just for carbon storage. They maintain biodiversity, water quantity and quality, and produce a variety of other goods and services, and provide employment, income and other opportunities to society.

## FOREST PROTECTION

### Planned burns

Forestry Tasmania undertakes planned burns for two main reasons:

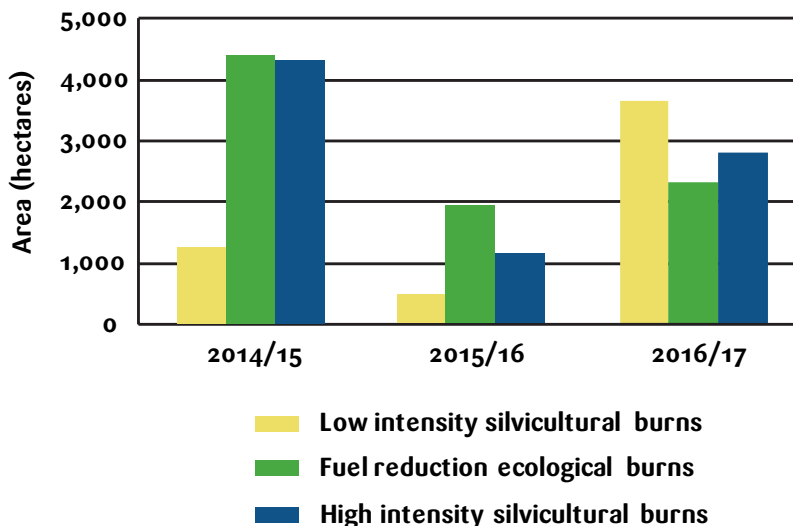
- to improve the safety of the community by reducing fuel loads in forests on Permanent Timber Production Zone land and in other identified high priority areas and
- to regenerate harvested forests in a similar manner to natural regeneration following bushfire.

The majority of Forestry Tasmania’s planned burning is undertaken during autumn and spring, as weather and fuel conditions at those times of year enable fire behaviour to be safely manipulated to match operational objectives.

Fuel reduction burns are carried out to protect communities, and assets, maintain the health of fire-dependent vegetation communities and to reduce fuel level.

All burning operations are intensively planned and conducted in accordance with long established, research-based prescriptions.

PLANNED BURNS CONDUCTED ON PERMANENT TIMBER PRODUCTION ZONE LAND



The weather pattern over the 2016/17 burning season resulted in some very good burning conditions. We conducted 110 forest regeneration burns covering 2,811 hectares, 63 additional forest regeneration burns of bark heaps and landings where the total coupe area was approximately 3,700 hectares and six fuel reduction burns covering approximately 2,285 hectares. Forestry Tasmania also undertook fuel reduction burns on behalf of other forest companies and assisted other agencies with an additional 16 burns.

While smoke is an inevitable product of the regeneration and fuel reduction burning process, Forestry Tasmania works to minimise the effects of burning activities on the Tasmanian community.

Forestry Tasmania, other forest industry companies, Tasmania Fire Service, and the Parks and Wildlife Service, coordinate smoke management through participation in the Coordinated Smoke Management System (CSMS). This system is administered by the Forest Practices Authority. On each day planned for burning, the Forest Practices Authority sets maximum smoke load limits and allocations for Tasmania's 'airsheds', and Coordinated Smoke Management System participants manage their burning within their smoke allocation. In addition, Forestry Tasmania aims to burn only when forecast weather conditions indicate the smoke will have minimum impact on settled areas. At present, the Coordinated Smoke Management System only applies to burns carried out by Forestry Tasmania, the forest industry, Tasmania Fire Service and Parks and Wildlife Service. Private landholder burns do not have to comply with these smoke load requirements.

Practices applied to minimise disruption to the community during the 2016/17 burning season also included the following:

- briefing key stakeholder organisations, and notifying the general public through public notices in State and regional papers, as early as possible before the burning season commenced in autumn
- daily stakeholder and media advisories were issued at or before 11:00 am on the morning of planned burns
- daily appraisals of smoke management issues arising from planned burns were issued each evening. These included, when necessary, an explanation of factors that contributed to any unexpected outcomes.

Forestry Tasmania also continued to provide information on the What's Burning Now website ([fire.tas.gov.au/Show?pagelid=colWhatsBurningNow](http://fire.tas.gov.au/Show?pagelid=colWhatsBurningNow)), and on Forestry Tasmania's facebook page ([facebook.com/forestrytasmania](https://facebook.com/forestrytasmania)) which was advertised on our website to ensure that the community had access to up to date information about the location of planned burns.



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## **Air quality monitoring**

Forestry Tasmania accesses a network of air quality monitoring stations known as the Base Line Air Network of Environmental Protection Authority Tasmania (BLANKET) to assist with planning our burns and monitoring air quality. The network is managed by the Environmental Protection Authority and comprises approximately 34 monitoring stations, which are largely located in the main Tasmanian population centres.

The BLANKET sites supply near real-time particle concentration data, allowing monitoring of the amount of smoke or dust in the atmosphere near each station and to determine if national air quality guidelines have been or have the potential to be exceeded. The measurement equipment used at these sites provides data that is only indicative of air quality, but it nevertheless provides a valuable tool to monitor the spatial extent of smoke events contributed not only by Forestry Tasmania's planned burns but also by other agency planned burns, domestic firewood use and bushfires.

Forestry Tasmania uses the network to monitor and estimate the extent of any degradation of air quality arising from all forms of prescribed burning, including non-Forestry Tasmania burns. This information strongly influences the scheduling process for the remaining burn program.

The Environmental Protection Authority Air Section identified 276 indicative exceedances of the national air quality standard at the BLANKET sites across the duration of the prescribed burning program. Forestry Tasmania reviewed these events in relation to the timing and location of all our burns, and could not attribute any exceedances wholly to the organisation's burning program. However, smoke generated from Forestry Tasmania burns, along with other smoke sources, probably contributed to four of these exceedances.

The Environmental Protection Authority is also responsible for recording and investigating all smoke-related complaints for the State. Forestry Tasmania therefore forwards all smoke-related complaints that it receives to the Environmental Protection Authority for compilation.

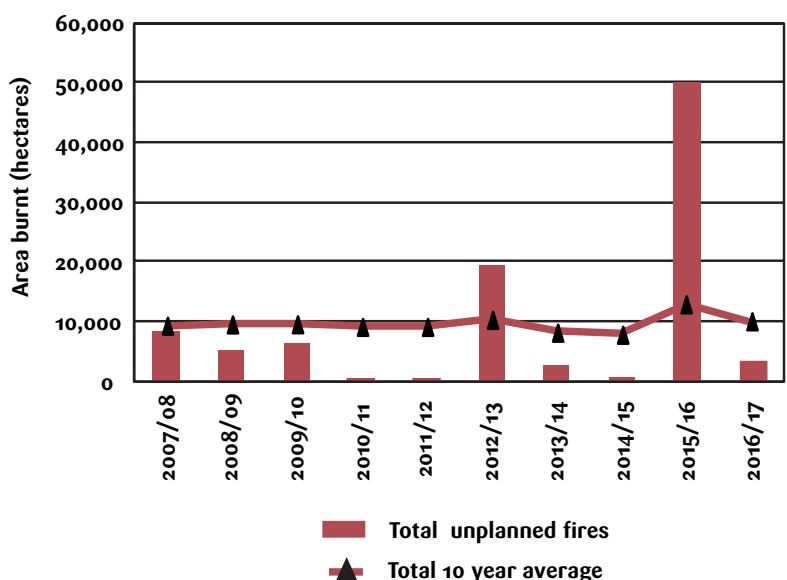
In 2016/17, the Environmental Protection Authority received 23 complaints of which Forestry Tasmania-generated smoke potentially contributed to one. Forestry Tasmania will continue to work with other agencies in the future to monitor and minimise smoke impact on communities.

## Bushfire response

As a land manager, Forestry Tasmania is obliged to control and extinguish bushfires that occur on Permanent Timber Production Zone land and is also an active partner to Tasmania's inter-agency fire management program for both fuel reduction and firefighting.

During 2016/17 a total of 36 fires burnt 2,995 hectares of Permanent Timber Production Zone land.

### AREA BURNT ON PERMANENT TIMBER PRODUCTION ZONE LAND BY UNPLANNED BUSHFIRES



Forestry Tasmania staff and contractors made a very significant contribution to the State's firefighting efforts during the 2016/17 fire season, and over 110 Forestry Tasmania staff were involved in firefighting, either on the fireline or within Incident Management Teams. Over the 2016/17 season, fire suppression activities cost Forestry Tasmania just over \$0.54 million.

Forestry Tasmania contributed over 3,000 working hours to firefighting efforts during the season. These included:

- 2,112 hours of general firefighting activities as crew members, strike team leaders, heavy tanker drivers and tree fellers
- 657 hours worked in incident management teams as incident controllers, and in planning roles such as mapping, resourcing and fire behaviour prediction
- 305 hours of divisional or sector command.

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## FOREST HEALTH

### Weeds, pests and diseases

Forestry Tasmania is committed to managing the threats posed by weeds, pests and diseases across Permanent Timber Production Zone land through a range of initiatives:

- maintaining a forest health surveillance program covering the hardwood plantation estate with the aim of detecting new or emerging health problems and facilitating the ongoing management of weeds, pests and diseases
- operating an integrated pest management (IPM) program to minimise the damage to plantations caused by eucalypt leaf beetles
- monitoring and controlling damage to establishing forests caused by browsing mammals
- monitoring for myrtle rust symptoms in young forest regeneration and plantations
- detecting, mapping and controlling weeds declared under the *Weed Management Act 1999* and other environmental weeds
- minimising the spread of *Phytophthora cinnamomi* and declared weeds through the quarry hygiene program
- monitoring the health and integrity of long term high conservation value (HCV) reserves.

#### *Forest health surveillance program*

Forest health surveillance is conducted annually across the *Eucalyptus nitens* and *Eucalyptus globulus* plantation estate. Roadside and ground surveys routinely cover approximately 38,000 hectares.

The remediation of chronically thin crowns in mid-rotation plantations in the northeast highlands continues. No severe damage was detected in previously affected areas meaning a significant loss in wood production has been averted. This was achieved by adaptive management using data collected during forest health surveillance to continually improve and strategically deploy the leaf beetle IPM program.

A return to drier summer conditions in the northeast saw continued improvement in crown density in plantations affected by *Mycosphaerella* Leaf Blight. Damage attributed exclusively to this foliar pathogen was below 30 hectares this year. Poor crown vigour due to past damage or ongoing associated multiple causes had dropped to 331 hectares in total from 994 hectares in 2015/16. Recent biotic and abiotic stresses in a number of these plantations have caused substantial epicormic development following thinning. Widespread gale-force winter winds across the state resulted in significant windthrow across nearly 150 hectares.

The south of the state saw more activity from the eucalyptus weevil *Gonipterus scutellatus* than has been recorded for a number of years. Around 411 hectares of moderate defoliation damage was observed, primarily in *E. globulus* plantations southwest of Hobart.



Surveys indicate that forests managed by Forestry Tasmania remain free of the exotic fungal pathogen myrtle rust (*Puccinia psidii*). We continue to share data and liaise with the Department of Primary Industries, Parks, Water, and Environment (DPIPWE) on this and other biosecurity matters.

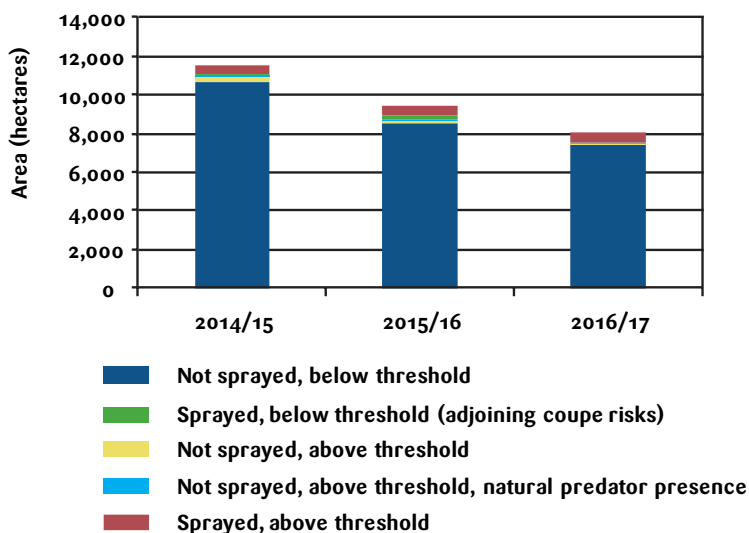
Routine hygiene surveys are conducted on all quarries that are actively used for road building and maintenance programs. These include inspections for declared weeds and laboratory testing for *P. cinnamomi* root rot where symptoms are observed. Recommendations on quarry management to prevent spread of weeds and diseases to areas of clean forest are outlined in hygiene reports.

In 2016/17 a pilot program to monitor the health and integrity of long-term HCV reserves was introduced. Reserves such as riparian strips, wildlife habitat strips/clumps, aggregated retention and strategic management zones are essential components in the maintenance of conservation values and forest biodiversity. Surveys were designed to examine the influence of various disturbance contexts on the condition of reserves using a range of damage categories. The pilot study was conducted in the northwest of the state. Results so far indicate that reserves are persisting through time, generally in good condition and should continue to function to maintain the conservation values for which they were designed.

### Leaf beetle management program

Forestry Tasmania has conducted an integrated pest management program (IPM) for many years to control leaf beetles (chrysomelids), which can cause severe defoliation damage to plantation eucalypts. The program emphasizes monitoring populations throughout late spring and summer. Data collected during this process enables decision making that minimises the use of pesticides while still preventing substantial growth losses with targeted control operations.

LEAF BEETLE IPM: SUMMARY OF MONITORING OUTCOMES



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Across the state, Forestry Tasmania monitored 8,075 hectares for damaging leaf beetle populations in 2016/17. The north of the state saw the third consecutive year of low leaf beetle populations during the monitoring period and therefore no control operations in the northern plantations were necessary. However, significant localised defoliation was observed in the northeast highlands and it seems likely that substantially higher than average temperatures in March saw the development of some unseasonally late beetle populations. Overall 1,426 hectares of moderate or severe defoliation damage due to leaf beetle feeding was seen throughout the state; around 69 per cent of this was in the northeast highlands. Of the 2,220 hectares monitored in the south of the state 690 hectares were above the population threshold. Control operations were conducted across 585 hectares in the south.

The monitoring program continued to follow Forest Practices Authority guidelines on the management of wedge-tailed eagle nesting sites during the breeding season. In coupes constrained by nest proximity, monitoring is spatially and temporally limited. Areas where helicopter activities are constrained to the point where a spray operation may not be viable are dropped from the program. Compliance with these guidelines was achieved for 100 per cent of the monitored plantations.

## **APIARY MANAGEMENT**

Forestry Tasmania recognises the contribution of the apiary industry to the Tasmanian economy through the sale of honey and associated products and the provision of pollination services to agriculture and horticulture.

Forestry Tasmania provides access to Permanent Timber Production Zone land for beekeepers to source leatherwood, manuka, and a variety of bush honeys, through the provision of 10 year licences to specific apiary sites. In 2016/17 there were 290 apiary sites, an increase of 59 from 2015/16.

Many hive sites on Permanent Timber Production Zone land are located near forests rich in leatherwood, which provides a source of nectar unique to Tasmania that is used to produce a significant proportion of Tasmania's honey. Other important sources of nectar include various eucalypts, 'manuka' (*Leptospermum sp.*), and understorey species.

Tasmania's leatherwood resource occurs across multiple tenures, including Permanent Timber Production Zone land, National Parks and reserves, and private land, with the majority of the resource occurring outside Permanent Timber Production Zone land.

Forestry Tasmania collaborates with the Tasmanian Beekeepers Association on leatherwood resource management, apiary site management, and access management. Forestry operations conducted near apiary resources and hive sites are guided by procedures that have been developed in consultation with apiary stakeholders.

These procedures will continue to be reviewed as required in cooperation with the Tasmanian Beekeepers Association.

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## TOURISM

While Forestry Tasmania has some formal forest reserves still under its management, the majority of reserves previously managed by Forestry Tasmania for recreational purposes have been transferred to the Department of Primary Industries, Parks, Water and Environment (DPIPWE).

Forestry Tasmania's focus is on its core commercial functions of managing the Permanent Timber Production Zone land and harvesting and selling wood, and as a result we are also exiting from involvement in formal tourism ventures.

In 2016/17 Forestry Tasmania completed the sale of the Tahune AirWalk business, including leasing of the land and associated facilities. The land and fixed assets continue to be owned by Forestry Tasmania.

Forestry Tasmania remains strongly supportive of the Tahune AirWalk and looks forward to the business continuing to thrive and grow.







performance against corporate objectives

## **4** Actively engage with stakeholders to build trust and inform decision making

### **STAKEHOLDER ENGAGEMENT STRATEGY**

Forestry Tasmania recognises that we need to engage effectively with our stakeholders and are committed to doing so as an important and integral part of doing our job well.

Forestry Tasmania first published its Stakeholder Engagement Strategy in October 2014 to clearly communicate to our stakeholders (including neighbours, directly affected or interested community members, staff, and auditors) why, how and when we will engage with them during our planning to inform our decision making. This strategy was reviewed and updated in September 2015 to reflect the implementation of some initiatives since the original strategy was produced. These included development of an interactive map viewer to provide easily accessible information to stakeholders on the location of planned operations, and the finalisation of our Forest Management Plan and our Customer Service Charter.

In particular, Forestry Tasmania aims to:

- be aware of and respect the needs and expectations of our customers, neighbours, staff and the wider community
- obtain valuable insights and input that will assist planning and decision making
- be aware of and respond promptly to issues of concern before they become more significant problems
- develop and maintain open, trusting relationships with stakeholders
- build understanding, trust and support for what Forestry Tasmania does.

Forestry Tasmania wants to achieve better outcomes for all concerned by being aware of and taking into account stakeholder interests when developing its plans, so that we can conduct our operations in a way that minimises potential issues of concern. While we are not always able to meet all stakeholder requests or alleviate all concerns, Forestry Tasmania recognises that the earlier an issue is known the better it can be appropriately managed and reasonable adjustments made.

Where possible, we publicise our planned activities well in advance to identify as early as possible any stakeholders that might have concerns about that activity.

During 2016/17 Forestry Tasmania published its Three Year Wood Production Plan, planned burning program, spraying and planned harvesting operations. Forest Practices Plans were also made available on our website along with our interactive map viewer.

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## **Stakeholder engagement activity**

During the course of 2016/17, Forestry Tasmania has engaged with a range of stakeholders from community members, neighbours, commercial and recreational users to government organisations. In total, Forestry Tasmania engaged with over 3,239 distinct stakeholders in 387 separate interactions. This is in addition to general information provided via the website, social media channels and direct pre-operational notification to neighbours.

Forestry Tasmania has continued to focus on implementing and refining our Stakeholder Engagement Strategy, and promoting initiatives such as our interactive map viewer, to make it easier for stakeholders to identify and engage with us on issues of potential concern.

We recognise however that there will be challenges, particularly in areas where our operations on Permanent Timber Production Zone land are adjacent to areas of private property. While recognising these challenges we are committed to continuing to work actively with our customers, neighbours and the wider community to achieve the best possible outcomes for all concerned.

## **Right to information**

The *Right to Information Act 2009* places significant emphasis on pro-active disclosure of information without the need for stakeholders to make formal applications. In response to formal requests, it also provides for active disclosure, which is the voluntary release of information, and for an enforceable right to information under assessed disclosure, unless some of the information sought is exempt under the Act.

In 2016/17, we continued to pro-actively release information via our website and to the media. This included for example publication of our Three Year Wood Production Plan and making available certified Forest Practices Plans.

During the year, we also received 12 formal applications under the *Right to Information Act 2009*, of which 10 were accepted as assessed disclosure with one application transferred to another public authority and one withdrawn by the applicant prior to acceptance.

## **Leases and licences**

The *Forest Management Act 2013* gives Forestry Tasmania statutory responsibilities for management and control of all Permanent Timber Production Zone land, and consequently, for the granting of all permits, licences, forest leases and other occupation rights.

The Act enables Forestry Tasmania, on behalf of the Crown, to grant easements over Permanent Timber Production Zone land for such purposes and upon such terms and conditions as Forestry Tasmania determines.

Forestry Tasmania agrees to leases, licences and easements with local landowners, commercial businesses, non-commercial organisations and government entities for many purposes including telecommunications towers, weather stations, pipelines, electricity transmission lines and dams.

As of 30 June 2017, there were 554 current leases, licences and easements on Permanent Timber Production Zone land, with around 46 in various stages of negotiation.

## **SPONSORSHIP AND SUPPORT FOR FOREST EDUCATION**

While Forestry Tasmania's overall sponsorships have decreased over the past years, one important sponsorship remains supporting Design Tasmania. In addition, Forestry Tasmania provided support to the Tasmanian Symphony Orchestra via Island Specialty Timbers and also provided support to the Forest Education Foundation. The Forest Education Foundation contribution is fully recognised and funded as a community service obligation.

### **Design Tasmania**

Forestry Tasmania is the foundation sponsor of Design Tasmania's Wood Collection. Forestry Tasmania's support has enabled Design Tasmania to develop a long-term program of creative and educational events over many years. Design Tasmania, since its establishment in 1991, has supported Tasmanian wood design, both by supporting artists on the Island and promoting their talents interstate. It also promotes Tasmanian timber, showcasing the unique qualities and attributes of the timber sourced from the forests managed by Forestry Tasmania.

### **Forest Education Foundation**

Forestry Tasmania continued its sponsorship of the Forest Education Foundation, a not-for-profit educational institution staffed by qualified and experienced teachers. The Foundation offers a range of teaching and learning experiences for students of all ages across Tasmania. The objectives of the Foundation are to:

- encourage greater understanding about Tasmania's forest environments by providing access to factual information covering ecology, land tenure, land use and management systems
- encourage greater understanding of the ecosystem services and wood based products provided by forests and the value of forests within the landscape.



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## COMMUNITY SERVICE OBLIGATIONS

In September 2015 the State Treasurer and the Minister for Resources directed Forestry Tasmania to provide the following community services. In undertaking these community service obligations Forestry Tasmania incurred net costs and was funded to a total of \$7.35 million as indicated below.

### **Contribution to State firefighting capacity**

- net cost \$2 million
- government funding \$2 million
- provide assistance with State fire management in the prevention, detection and suppression of bushfires.

### **Fuel reduction burning**

- net cost \$2 million
- government funding \$2 million
- undertake hazard reduction burns and provide assistance with hazard reduction burns coordinated by other State entities as part of a whole of Government approach to fuel reduction.

### **Road maintenance**

- net cost \$1.88 million
- government funding \$1.88 million
- maintain agreed forestry roads to allow for continued public access and firefighting access not related to commercial wood production.

### **Public recreation sites**

- net cost \$0.21 million
- government funding \$0.21 million
- manage agreed sites on Permanent Timber Production Zone land for public recreation.

### **Special species management**

- net cost \$0.93 million
- government funding \$0.93 million
- identify, manage and harvest special species timber and manage the Huon pine log stockpile.

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### **Forest education activities**

- net cost \$0.2 million
- government funding \$0.2 million
- support agreed forest education activities delivered through the Forest Education Foundation.

### **Warra research site**

- net cost \$0.13 million
- government funding \$0.13 million
- continue to facilitate agreed forest research activities at the Warra Long Term Ecological Research site.







performance against corporate objectives

## **5 Transition to a new operating model and achieve financial self sustainability for Forestry Tasmania's commercial operations through innovation and ongoing improvement**

### **INCOME STATEMENT HIGHLIGHTS**

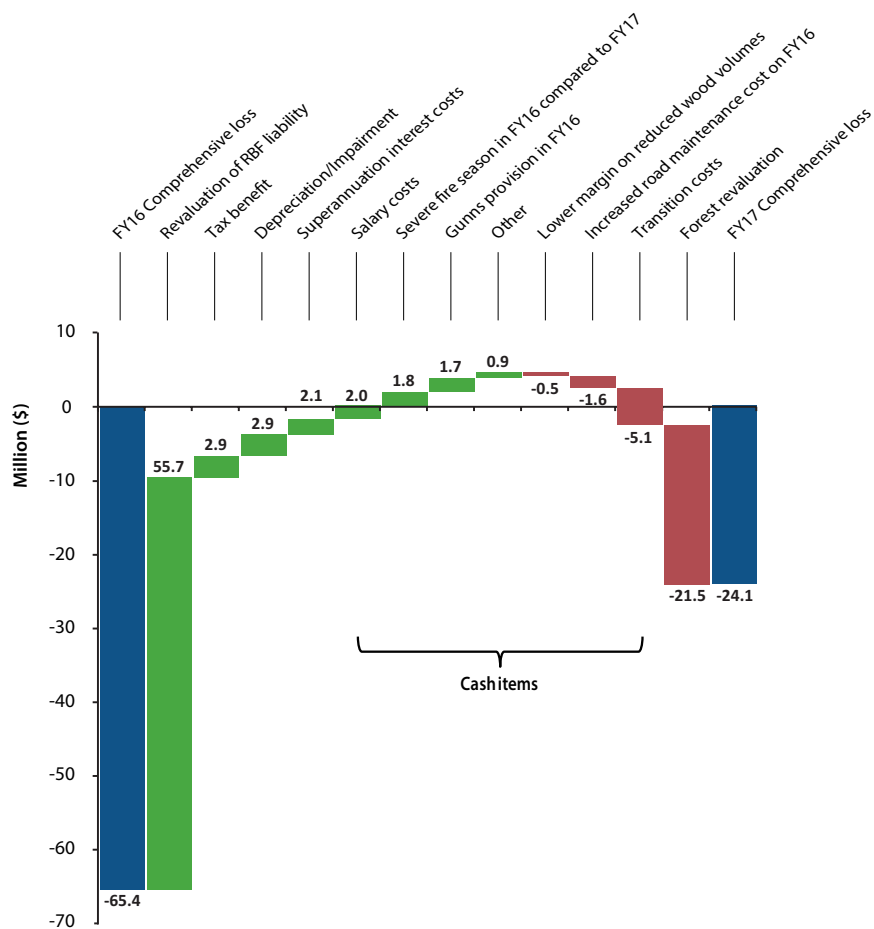
Forestry Tasmania's total comprehensive result in 2016/17 has again been significantly affected by asset and liability revaluations that have little relationship with Forestry Tasmania's operating performance or its cash position. In 2016/17 these revaluations contributed to an accounting loss of \$24 million. The \$24 million loss also includes \$5.1 million in one-off costs relating to the transition from Forestry Tasmania to the Sustainable Timber Tasmania operating model.

In 2016/17 Forestry Tasmania's total comprehensive result has been impacted by two large revaluations: a \$26.2 million decrease in Forestry Tasmania's defined benefit superannuation liability due to changes in actuarial assumptions; and a \$39.6 million reduction in the forest valuation largely due to a change in assumptions for rate of harvest, plantation growth rates, and earnings for southern pulpwood. In comparison, in 2015/16 the defined benefit liability decreased by \$29.5 million and the forest valuation increased by \$18.1 million. In 2016/17, Forestry Tasmania changed the service provider engaged for conducting the forest valuation along with a change to the methodology applied.

The chart on the next page shows the significant cash and non-cash items that influenced this result. The left hand blue bar represents our result for 2015/16 of -\$65.4 million, the positive (green) and negative (red) changes are added and subtracted accordingly, resulting in the total comprehensive result for 2016/17 of -\$24.1 million.



ANALYSIS OF KEY INFLUENCES ON 2016/17 FINANCIAL YEAR  
TOTAL COMPREHENSIVE RESULT COMPARED TO 2015/16 FINANCIAL YEAR (\$M)



The RBF defined benefit obligation creates a number of significant influences on the financial performance and position of Forestry Tasmania.

- In 2016/17 the liabilities for former employees (Forestry Commission and Forestry Tasmania) and for those member employees impacted by the restructure to Sustainable Timber Tasmania were transferred to the General Government Sector. This reduced the liability and increased net assets by \$110 million.
- Following this transfer, the revaluation of the remaining liability at 30 June 2017 generated a non-cash gain of \$26.2 million in the statement of financial performance as a result of an increase in the discount rate which is an actuarial assumption.
- Actual cash payments in 2016/17 reflected in the statement of cash flows reduced from 2015/16 as a result of the transfer of obligations to the General Government Sector and also because payments in 2015/16 were elevated as a result of a redundancy process in that year.

## NON-CASH ITEMS

As noted above, there were two major non-cash items that significantly impacted profitability in 2016/17: a decrease in the defined benefit superannuation liability; and a decrease in the value of the forest estate.

The decrease in the defined benefit obligation is due to changes in actuarial assumptions.

The decrease in the forest valuation was driven primarily by a change in assumptions for rate of harvest, plantation growth rates and earnings for southern pulpwood. In 2016/17, Forestry Tasmania changed the service provider engaged for conducting the forest valuation along with a change to the methodology applied.

## CASH ITEMS

Operating cash flows in 2016/17 improved by \$2.2 million on the \$10.7 million cash outflow in 2015/16. The improvement is primarily driven by a \$9.3 million improvement from a reduction in payments to the Retirement Benefits Fund (RBF). The RBF reduction is partially offset by \$5.1 million in transition costs and adjustment in working capital.

Investing cash outflow increased \$4.5 million on the -\$3.4 million cash outflow in 2015/16 to -\$7.9 million in 2016/17. The 2015/16 result included asset sales of \$4.4 million, whilst 2016/17 included only \$0.8 million in asset sales. As part of the transition to Sustainable Timber Tasmania, Forestry Tasmania incurred \$1.1 million in capitalised fit out costs associated with the relocation of head office to 99 Bathurst Street - a more appropriate fit to accommodation requirements given the smaller number of staff.

Government funding (recognised in the income statement) decreased by \$9.0 million in 2016/17 due to the reduction in fire fighting in the year compared to 2015/16. Fire fighting expenditure also decreased by a similar amount.

## CASH/BORROWING HIGHLIGHTS

Forestry Tasmania ended the 2016/17 financial year with total borrowings of \$29.8 million and cash of \$3.7 million. Total end of year borrowings (net of cash) were therefore \$26.1 million.

Proceeds from the recently announced forestry right sale of approximately 29,000 hectares of hardwood plantation will be used in 2017/18 to repay borrowings.

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## **STATEMENT OF FINANCIAL POSITION**

Forestry Tasmania's net assets increased from \$26.4 million at 30 June 2016 to \$112.6 million at 30 June 2017. This increase of \$86.2 million was the result of the contributed equity of \$110.3 million with the transfer of defined benefit liability to the General Government Sector and the loss for the year of \$24.1 million.

## **TRANSITIONING TO A NEW OPERATING MODEL**

In 2016/17, Forestry Tasmania completed a number of projects as it transitioned to a new operating model as Sustainable Timber Tasmania. The key projects relating to the transition included:

- New contracts for southern residues
- Increased prices for sawlogs
- Organisational restructure
- Plantation sale – completed in October 2017
- Several office moves including head office
- Exit from the Tahune AirWalk tourism operation.

The Tahune AirWalk business was sold in December 2016. Forestry Tasmania retained the infrastructure asset and leases the asset to the new business owner.

Transition costs for projects totalled \$6.2 million, comprising \$5.1 million included in profit and loss and \$1.1 million in capital expenditure. These project costs are forecast to generate improvement in ongoing cash earnings of \$7.5 million in 2017/18.



## CONTRIBUTION TO THE ECONOMY

Forestry Tasmania's operations and the forest products it generates make significant economic and social contributions. These benefits are both direct and indirect. Direct benefits include the engagement and payment of service providers, contractors and staff. Indirect benefits include the provision of products to industry for value adding, and the economic activity in communities generated by businesses that service and support Forestry Tasmania's business, customers and suppliers.

### **In 2016/17 Forestry Tasmania made the following measurable socio-economic contributions:**

- Payment of \$119 million to 1,015 companies for goods and services provided to Forestry Tasmania. Of these payments, 82 per cent (\$98 million) were made to 818 Tasmanian-based companies.
- Payment of \$18.2 million in wages to more than 180 staff.
- Provision of forest products to 50 wood processing customers, the majority of which have Tasmanian-based sawmilling operations.

Under the Buy Local Guidelines for Tasmanian Government Businesses, entities are required to establish appropriate reporting regimes in relation to purchases, consultants and the use of Tasmanian businesses and provide details of these annually through their respective Annual Reports. Details for Forestry Tasmania for the 2016/17 financial year are provided in the table below.

## BUY LOCAL

Purchases from Tasmanian businesses	
% of purchases from Tasmanian businesses	82%
Value of purchases from Tasmanian businesses (\$ millions)	\$97.66
Consultancies valued at more than \$50,000 (ex GST) <sup>1</sup>	
There were 2 consultants engaged for \$50,000 or more	\$365,000
There were 8 consultants engaged for \$50,000 or less totalling	\$213,000

Notes:

1. Of the total spend on consultancies, \$378,000 was spent as part of the forestry right sale of approximately 29,000 hectares of hardwood plantations.

## PAYMENT OF ACCOUNTS

Measure	
Creditor days	14
Number of accounts due for payment	8,943
Number of accounts paid on time	8,170
Amount due for payment (\$ millions)	\$119.35
Amount paid on time (\$ millions)	\$114.24

Payments not paid in accordance with the due date required further action prior to final payment being made. For example, invoices not received, incomplete, inaccurate or disputed due to goods and services not matching invoice detail.











performance against corporate objectives

## 6 A safe, healthy and productive workplace

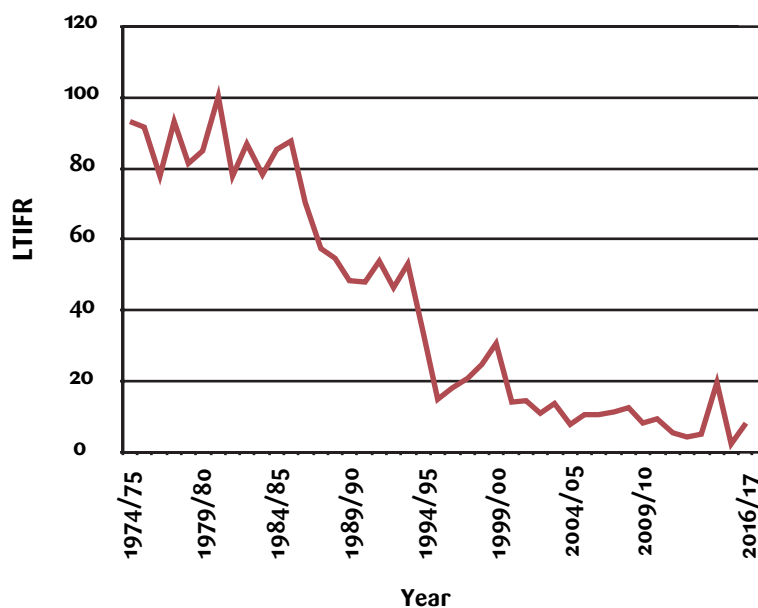
### SAFETY PERFORMANCE

After achieving its best ever safety performance in 2015/16, it was disappointing to not achieve all of our performance measures in 2016/17 despite relatively low levels of injuries.

Forestry Tasmania had three Lost Time Injuries in 2016/17 and our Lost Time Injury Frequency Rate was 8.72. With overall worked hours reducing, the Lost Time Injury Frequency Rate has increased despite a low number of Lost Time Injuries.

Forestry Tasmania has continued with implementation of an annual safety strategy to support continuous improvement and a positive safety culture. A key element of the strategy was to refresh our driver training by providing tools and techniques to identify and manage risks while behind the wheel. The program delivered reduced employee observation reports on driving/vehicle safety issues from 41 per cent in 2015/16 to 18 per cent in 2016/17 of all observations reported, demonstrating that risks were being managed pro-actively.

STAFF LONG-TERM SAFETY PERFORMANCE AS MEASURED USING THE LOST TIME INJURY FREQUENCY RATE (LTIFR)



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In addition, our harvest and haulage contractors achieved a Lost Time Injury Frequency Rate of 15.61 (compared to 8.16 in 2015/16). This was a disappointing result that has led to a renewed focus on initiatives such as training programs on safety awareness and investigations, review of monitoring effectiveness, and auditing.

We also continued with our health and wellbeing program in 2016/17 with 120 staff participating in individual health assessments and regular consultations, as well as attending short presentations on various health and wellbeing themes. Forestry Tasmania's certification to Australian and New Zealand Standard 4801: Occupational Health Management Systems also remains in place following the required surveillance audits.

### ***Workplace Health and Safety Act 2012 compliance***

In the 2016/17 financial year, Forestry Tasmania was not issued with any *Work Health and Safety Act 2012* enforcement notices by WorkSafe Tasmania.

### **Workers compensation**

Forestry Tasmania received 10 workers compensation claims during 2016/17. Of these, 50 per cent were able to be finalised within the financial year. The cost of all claims was just under \$46,000 and well under target.

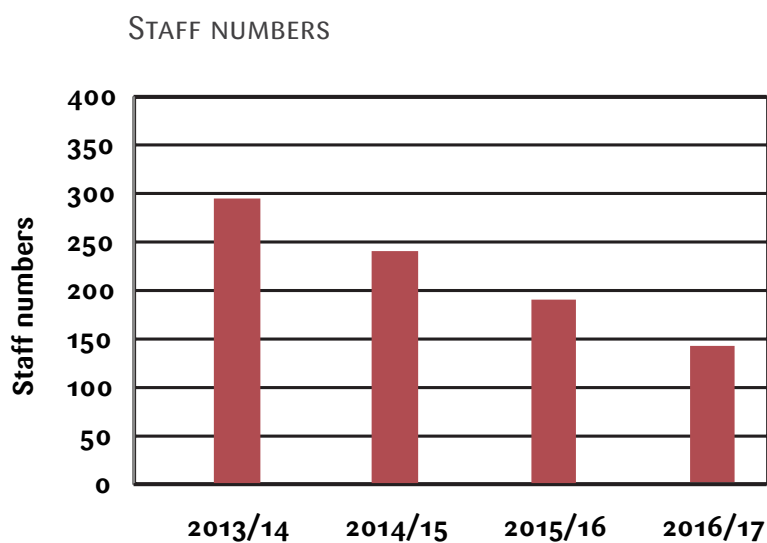
## **ENTERPRISE AGREEMENT**

Bargaining for a new Enterprise Agreement to support the new organisation Sustainable Timber Tasmania is currently in progress. Extensive work has been undertaken in developing a new broadband structure based on independent expert review and advice. The aim is to achieve a contemporary agreement which efficiently and effectively supports a sustainable workforce.

## STAFF NUMBERS

Consistent with previous years, staff numbers at Forestry Tasmania reduced in 2016/17, as the business continued to focus on reducing expenses and improving internal operating efficiencies.

Reductions occurred in 2016/17 due to resignations, retirements and a redundancy program. As at 30 June 2017, Forestry Tasmania had 141 full time equivalent employees.









## Forestry Tasmania corporate governance disclosures 2016-17

As a State-owned Government Business Enterprise, the Board of Directors is responsible to the Tasmanian Shareholder Ministers for the achievement of Forestry Tasmania's objectives, as prescribed in legislation, and reflected in both the Ministerial Charter and the Statement of Corporate Intent.

The primary legislation governing Forestry Tasmania's management and operations include the *Government Business Enterprises Act 1995 (GBE Act)*, *Forest Management Act 2013* and *Forestry (Rebuilding the Forest Industry) Act 2014*. Forestry Tasmania does not have a constitution.

As at 30 June 2017, all Directors are non-executive and are all independent.

### Board composition

The background, skills and experience of the Directors as at 30 June 2017 are provided below.



**Rob de Fégely (Chairman)**, BSc (Forestry), MSC (Forest Business Management), FAICD

Rob de Fégely is a founding Director of Margules Groome Consulting Pty Ltd, a forest and forest industry consulting company based in Australia and New Zealand. He is Co-Chair of the Commonwealth Governments' Forest Industry Advisory Council with Senator the Hon Anne Ruston and is also the Forestry representative on the Agricultural Industry Advisory Council chaired by Deputy Prime Minister, the Hon Barnaby Joyce.

Rob is Chairman of Cape York Timber in far north Queensland and formerly a Non-Executive Director of VicForests. He is also the National President of the Institute of Foresters of Australia. Rob is a member of Greening Australia's Victorian Advisory Committee and a member of the NSW National Parks and Wildlife Services' regional advisory council for the Far South Coast.

Rob has worked in the Australian forest industry for 37 years and is a Registered Professional Forester with a Bachelor of Science (Forestry) from the Australian National University and a Master of Science (Forest Business Management) from Aberdeen University in the United Kingdom.

He is a Fellow of the Australian Institute of Company Directors and the Australian Rural Leadership Program.

Rob is an independent Director of Forestry Tasmania.



**Suzanne Baker**

BBus, BFA(Hons), DipFP, AdvDipNat, MFAD, FCPA, FAICD

Sue is an experienced Non-Executive Director, Chairperson and Committee Member with extensive Board experience across a range of sectors including Financial Services (Insurance), Health Administration, State and Local Government, Primary Industries, Waste Management and Arts industries.

Sue is a qualified accountant with primary expertise in financial management. Sue is a Fellow CPA Australia, Fellow Australian Institute of Company Directors and holds a Bachelor of Business and Masters in Fine Art and Design.

Sue is an independent Director of Forestry Tasmania.



**Dr Lyndall Bull**

BSc, BForSc (Hons), PhD, MIFA, GAICD

Dr Lyndall Bull has extensive global experience in the forest sector, including in strategic management, innovation and product development, market analysis and research management.

Lyndall has served on a range of Boards including the CRC for Forestry, and was the inaugural Chair of the South Australian Forest Industry Development Board. Lyndall currently serves on the Board of Forestry Corporation New South Wales and is the Chair of the Reference Panel for the West Australian Timber Industry Development Plan.

Lyndall is the founder and Principal of Lynea Advisory where she provides advice to a range of clients in the primary industry sector regarding new product development, innovation, research management and sustainability.

Lyndall has a PhD (focussing on forest product development), a Bachelor of Forest Science (Hons) and a Bachelor of Science from the University of Melbourne.

Lyndall is an independent Director of Forestry Tasmania.





**Professor Mark Hunt**

BAppSc (Hons), PhD, MBA, MIFA, GAICD

Professor Mark Hunt is currently Professor of Forestry Science at the University of Tasmania and Director of the Australian Research Council Training Centre for Forest Value.

Mark has over 25 years' experience in research and research management working with state and federal governments and universities mainly in Tasmania and Queensland.

His experience has primarily been based in the forestry sector, including domestic and international work in industrial and small-scale contexts.

Mark holds a Bachelor of Applied Science (Hon) degree, is a Doctor of Philosophy and also holds an MBA. Mark is a graduate of the Australian Institute of Company Directors and a member of the Institute of Foresters of Australia.

Mark is an independent Director of Forestry Tasmania.



**Dr Christine Mucha**

BAGSc (Hons), PhD, DipAgEc, FAICD, ComplEng

Dr Christine Mucha has extensive executive management experience in primary industries and water including over 14 years as CEO in the water industry.

Christine holds a Bachelor of Agricultural Science degree, Doctorate of Philosophy, Post graduate diploma in Agricultural Economics and has studied Advanced Management at Insead International School of Business

Management, France. She is a Fellow of the Australian Institute of Company Directors and Companion of Engineers Australia.

Christine's expertise encompasses change management, organisational transition and growth, strategic and operational improvements and stakeholder management. Christine is currently Chair, Wellington Park Management Trust; independent Director of Dial Before You Dig Victoria/Tasmania; and Lifeline Tasmania; member of Inland Fisheries Advisory Council (Tasmania) and RDA Tasmania.

Christine is an independent Director of Forestry Tasmania.

## Board and Committee composition and meeting attendances

As at 30 June 2017, the Board had four Committees in operation: Finance Audit & Risk Management (FA&RMC); Environment, Safety and Health (ESH); Remuneration and Board Nomination (RemCo); and Business Development and Innovation (BDI).

Meeting attendances during the year are as follows:

E= eligible      A = attended

	BOARD		FA&RMC		ESH		RemCo		Innovation	
	E	A	E	A	E	A	E	A	E	A
Mr Rob de Fégely	13	13	-	4	-	1	3	3	1	1
Dr Lyndall Bull	13	13	-	5	3	3	3	3	1	1
Ms Suzanne Baker **	13	11	6	6	-	1	3	2	-	-
Mr Tony Ferrall (finished on board 28.2.17)	7	5	6	5	-	1	0	1	-	-
Prof Mark Hunt ***	13	13	2	5	3	3	3	2	1	1
Dr Christine Mucha *	13	13	8	8	3	3	3	3	-	-

\*chair of FA&RMC for 3 meetings

\*\*took over as chair of FA&RMC from Nov 16 (chair for 5 meetings)

\*\*\*Mark Hunt joined the FA&RMC effective 1 March replacing Tony Ferrall

The Board undertook significant work refreshing its corporate governance framework this year, and the Board maintained compliance with the Tasmanian Government Corporate Governance Guidelines, supplemented by the ASX Corporate Governance Principles.

The remainder of this Governance Report summarises the primary disclosures required under the adopted Corporate Governance Guidelines and Principles. A comprehensive governance disclosure document for 2016/17, together with relevant charters, codes and policies, is available on the organisation's website:

**[www.sttas.com.au/about-us/corporate-overview](http://www.sttas.com.au/about-us/corporate-overview)**

## Principle 1: Lay solid foundations for management and oversight

Forestry Tasmania complies with the key elements of Principle 1.

Under the *GBE Act*, the Board is responsible for Forestry Tasmania's overall direction, management, operation, performance and corporate governance. The Board has an approved Charter which amongst other things, describes the roles and responsibilities of the Board, Chair, individual Directors, committees and the CEO. The content of the Board Charter meets the recommended content under Principle 1.

An Authorisations Policy is in place to formalise delegations from the Board to CEO and management. Matters reserved to the Board have been incorporated in to the policy and subsequently published on Forestry Tasmania's website.

The Diversity Policy applies to the Board and Management Team in particular, and takes into account Tasmanian Government's Women on Boards strategy. Given the balanced gender mix on the Board, no diversity objectives have been set but this will be reassessed as needed.

### Gender diversity as at 30 June 2017

	Female	Male	Total
Board	3	2	5
CEO & General Management Team	1	4	5

The Directors Selection Advisory Panel, convened by shareholders and supported by Forestry Tasmania, is guided by the Tasmanian Government's *Board Appointments Guidelines and Procedures*.

Last year, the Board committed to evaluating its performance at the end of the first year of its significantly refreshed composition. The Board engaged an independent governance consultant to undertake a comprehensive Board evaluation process that assessed the performance and effectiveness of the Board overall, its Committees and directors. Action plans were generated and substantial progress has been made in implementing those actions.

Through its Remuneration and Board Nomination Committee, the Board evaluated the CEO's performance as scheduled in 2016/17 and has reviewed the performance of the General Management Team with the CEO.



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## **Principle 2: Structure the Board to add value**

Forestry Tasmania complies with Principle 2.

In line with the Tasmanian Government's *Board Appointments Guideline*, directors' terms are generally three years. The CEO is not a member of the Board and the positions of Board Chair and CEO are held by different people.

The Board skills matrix is shared with the Directors Selection Advisory Panel and was used to guide the Board refreshment in 2016/17.

The Board has a Remuneration and Board Nomination Committee (RemCo). More information on the committee is provided under Principle 8.

The independence of each Director was assessed against the recommended criteria in Principle 2 during the year and the status of independence is recorded in each Director's biography.

Forestry Tasmania's Director induction and professional development programs are based on the Tasmanian Government's *Director Induction, Education and Training Guideline*.

## **Principle 3: Promote ethical and responsible decision-making**

Forestry Tasmania complies with Principle 3.

The Board Charter commits the Board to acting with the highest ethical standards and directors are expected to model both the spirit and intent of Forestry Tasmania's Code of Conduct. The content of the Code, combined with that of other charters and policies in place, ensures that Forestry Tasmania meets the recommended content of ASX Principle 3.

Forestry Tasmania is also committed to complying with all relevant legislation, lawful directives of shareholders and company policies.

Forestry Tasmania is subject to the *Right to Information Act 2009* and the *Public Interest Disclosures Act 2002*. An Information Disclosure Policy is published on the organisation's website which describes the policy and procedure for obtaining information in-line with the requirements of both Acts. In 2016/17 the following activity occurred under these Acts.

<b>Right to Information Act</b>	<b>2016/17</b>
Number of applications for assessed disclosure <b>received</b>	12
Number of applications for assessed disclosure <b>refused</b>	1
Number of applications for assessed disclosure <b>exempt</b> under: • Section 26 (x); Section 27 (x); Section 37 (x); section 38 (x)	0 partial exemption 9
Number of applications reviewed internally and the outcomes of the reviews: • upheld in full (x) • upheld in part (x)	0
Number of applications reviewed by the Ombudsman and the outcomes of the reviews: • not yet determined	1

<b>Public Interest Disclosures Act</b>	<b>2016/17</b>
Number of public interest disclosures	11
Number of assessed disclosures	11
Number of active disclosures	1
Number of required disclosures	nil
Number of routine disclosures	nil
Number of public interest disclosures investigated by Forestry Tasmania	11
Number of disclosed matter referred to Forestry Tasmania by the Ombudsman	1 (assessed disclosure)
Number of disclosed matters referred to the Ombudsman	nil
Number of disclosed matters taken over by the Ombudsman	nil
Number of disclosed matters that Forestry Tasmania decided not to investigate	1 (assessed disclosure)
Number of disclosed matters substantiated on investigation and action taken	1 (assessed disclosure)
Number of recommendations of the Ombudsman under this Act that relate to Forestry Tasmania	1

#### **Principle 4: Safeguard integrity in financial reporting**

Forestry Tasmania complies with Principle 4.

The Finance Audit and Risk Management Committee (FA&RMC) comprises 3 members, all of whom are Non-Executive Directors and are all independent. The Committee Chair is not the Board Chair but is an independent Director. The qualifications, skills and expertise of committee members meet the suggested criteria for an audit committee. These are listed in the Directors' biographies, along with meeting attendances.

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The Charter of the Committee is approved by the Board and meets the recommended content for audit committees.

The process for approving the annual financial statements includes declarations from the CEO and Executive General Manager Corporate Services (CFO-equivalent) in relation to the proper maintenance of the financial records and the accurate representation of Forestry Tasmania's financial performance and position. Reference to these declarations is included in the Board's certification of the financial statements at the end of the Annual Report.

Both internal and external auditors attend committee meetings as necessary and the committee meets with both auditors without management present from time to time throughout the year.

### **Principle 5: Make timely and balanced disclosure**

Forestry Tasmania complies with Principle 5.

Under its Charter, one of the Board's key functions is to engage and communicate effectively with shareholders. This has been formalised through a Shareholder Communications Policy which addresses the continuous disclosure of material matters in addition to routine briefings. The Board has processes in place to identify and escalate matters of significance, including those that may affect the value of Forestry Tasmania or may require shareholders to comment.

### **Principle 6: Respect the rights of security holders**

Forestry Tasmania complies with Principle 6.

The *Government Business Enterprises Act 1995* prescribes the rights and powers of shareholders while the Ministerial Charter specifies the shareholders' expectations of the Board and Forestry Tasmania, and the Statement of Corporate Intent summarises the key performance measures to be achieved each year.

Requirements of the Tasmanian Government's *Reporting Guidelines* are incorporated into Forestry Tasmania's systems and processes to ensure that shareholders are fully informed of financial and operating performance throughout the year.

The *GBE Act* does not mandate an annual general meeting, however the Board Chair and CEO meet regularly with shareholders and their representatives during the year.

### **Principle 7: Recognise and manage risk**

Forestry Tasmania complies with Principle 7.

Risk management is monitored and overseen by the Finance Audit & Risk Management Committee on behalf of the Board. The Committee's Charter meets the recommended content of Principle 7.



The Committee reviews the risk management framework to ensure it adequately identifies and mitigates actual and emerging risks for Forestry Tasmania, and reports to the Board on these issues at least annually.

The Environment, Safety & Health Committee assists the Board to manage Forestry Tasmania's environmental, safety and health risks. This Committee works within the approved risk management and compliance frameworks to ensure that these important areas are sufficiently monitored, reviewed and controlled.

Oversight of internal control systems, internal and external audit, and the insurance program also fall within the Finance Audit & Risk Management Committee's responsibilities.

Details of the composition, qualifications and meeting attendances of the Finance Audit & Risk Management Committee and Environment, Safety and Health Committee are included in this document.

### **Principle 8: Remunerate fairly and responsibly**

Forestry Tasmania complies with Principle 8.

The Board has a Remuneration and Board Nominations Committee (RemCo) comprising all Non-Executive Directors and chaired by the Board Chair. RemCo's role is to assist the Board in relation to executive remuneration strategies and policies, and to support both the Board and the Directors Selection Advisory Panel in relation to Board appointments.

Membership, qualifications and meeting attendances for RemCo are explained earlier in this document. The content of the Committee's Charter meets the relevant aspects of Principle 8.

Remuneration for Non-Executive Directors is determined directly by shareholders in accordance with the Tasmanian Government Board and Committee Remuneration Framework.

Remuneration for Directors comprises a cash component and legislated superannuation contributions.

Forestry Tasmania's Executive Remuneration Policy is based on the Tasmanian Government's *Directors and Executive Remuneration Guideline*. The Guideline specifies the permissible components of executive remuneration, incentive programs, links to performance, and reporting and disclosure requirements. RemCo reviews and recommends to the Board all matters related to the CEO's remuneration, including short-term incentives, and the remuneration of the General Management Team.







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## directors' report

The Directors present their report together with the financial report of the parent entity, being Forestry Tasmania (or the Organisation) for the financial year ended 30 June 2017.

### DIRECTORS

**The Directors of the Organisation at any time during or since the end of the financial year are:**

<b>Board Members</b>	<b>Position</b>	<b>Start Term</b>	<b>End Term</b>
Rob de Fégely	Chairman	01-Jun-2016	
Dr. Christine Mucha	Director	29-Apr-2013	
Tony Ferrall	Director	22-May-2015	28-Feb-2017
Sue Baker	Director	15-Dec-2015	
Prof. Mark Hunt	Director	22-Dec-2015	
Dr. Lyndall Bull	Director	22-Dec-2015	

### PRINCIPAL ACTIVITIES

The principal purpose of Forestry Tasmania as set out in its Ministerial Charter dated 8 September 2015 is to manage and control all Permanent Timber Production Zone land and to undertake forest operations on Permanent Timber Production Zone land for the purpose of selling forest products.

### RESULTS

The net profit/(loss) after tax result of the parent entity was a \$42.633 million loss (the loss after tax for 2015-16 was \$44.466 million).

The comprehensive result for the year was negative \$24.073 million (for 2015-16 negative \$65.428 million). This result was impacted by the fair value revaluation of the forest estate and the reduced defined benefit superannuation liability.

The operating cash flow at 30 June 2017 was negative \$8.518 million (for 2015-16 negative \$10.666 million), an improvement of \$2.148 million.

During 2016-17, Forestry Tasmania (FT) undertook a major organisational restructure to become Sustainable Timber Tasmania (STT). This restructure provided clarity for delivery of products and services and opportunities for further improvement. The transition to STT involved a number of initiatives to improve the financial viability of the organisation including new sales contracts for residues, an organisational restructure including a reduction in staff numbers and relocations to lower cost office accommodation. A number of ancillary projects to support the transition to STT were successfully completed including rebranding and improvements to IT systems. A key activity in the latter part of the financial year was undertaking the sale of circa 29,000 ha of Hardwood Plantations to the private sector and sale documents were executed on 24 August 2017.

The cost of the restructure totalled \$6.2 million at 30 June 2017. Of this, \$5.1 m was expensed in the Statement of Financial Performance and \$1.1m of the cost was capitalised.

As part of the restructure to Sustainable Timber Tasmania, the owners agreed to assume the defined benefit superannuation liabilities for all former employees and for those defined benefit members made redundant during the transition to STT. The transfer reduced expenditure for future periods and was accounted for as an equity contribution from the owner of \$113 million, significantly increasing the net assets of STT.

The timing of the implementation of the restructure occurred in the latter part of the year and minimal benefit to earnings occurred in FY17. However, the transition projects will generate substantially improved financial performance in 2017-18 and beyond.

## GOING CONCERN BASIS FOR THE PREPARATION OF THE ANNUAL FINANCIAL STATEMENTS

The Directors have reviewed the appropriateness of continuing to prepare the financial statements on the going concern basis (refer Note A4 of the Financial Statements).

The Board has resolved that it is appropriate to prepare the financial statements on the basis that Forestry Tasmania (STT) is a 'Going Concern'.

## DIVIDENDS

There have been no dividends declared or paid to the stakeholders since the end of the previous financial year to the date of this Directors' report.

## EVENTS SUBSEQUENT TO REPORTING DATE

On 24 August 2017, STT executed the transaction documents for the sale of the plantation estate of ~29,000 hectares. The transaction includes the sale of the timber on the relevant land and a Forestry Right for 99 years.

## INDEMNIFICATION AND INSURANCE OF OFFICERS

The Organisation has paid insurance premiums in respect of Directors' and Officers' liability. The terms of the insurance policy prohibit disclosure of the total amount of the premiums and the nature of the liabilities covered.

Dated at Hobart, this 24th day of August 2017

**Signed in accordance with a resolution of Directors:**



Suzanne Baker  
Director



Dr Christine Mucha  
Director

# Statement of Comprehensive Income

## Forestry Tasmania

For the year ended 30 June 2017

	Note	2017 \$'000	2016 \$'000
<b>Revenue</b>			
Revenue from forest sales	B1(a)	121,536	107,303
Government funding	B1(c)	11,788	20,754
Gain on sale of assets	B1(h)	675	-
Other income	B1(b)	4,748	6,460
Finance income	B1(g)	320	40
Share of net profit/(loss) after tax of joint ventures accounted for using the equity method		-	(43)
Movement in obligations for non-commercial zones	C2	8,000	-
<b>Total revenue</b>		<b>147,067</b>	<b>134,514</b>
<b>Expenses</b>			
Expense from operations	B1(d),(e),(f)	(148,212)	(145,011)
Finance expense	B1(g)	(4,731)	(6,729)
Loss on sale of assets	B1(h)	-	(2)
Biological asset valuation increment /(decrement)	C1	(47,597)	(14,620)
Movement in obligations for non-commercial zones	C2	-	(3,500)
<b>Total expenses</b>		<b>(200,540)</b>	<b>(169,862)</b>
<b>Net profit/(loss) before tax</b>		<b>(53,473)</b>	<b>(35,348)</b>
Income tax (expense)/benefit on net profit / loss	B2	10,840	(9,118)
<b>Net profit/(loss) after tax</b>		<b>(42,633)</b>	<b>(44,466)</b>
<b>Other comprehensive income</b>			
<b>Items that will not be reclassified to profit or loss</b>			
Increase/(decrease) in the revaluation of land and buildings	D3	316	(457)
Gain/(loss) on remeasurement of defined benefit liability	E1	26,198	(29,488)
Income tax on revaluation of land and buildings	B2	(95)	137
Income tax on remeasurement of defined benefit liability	B2	(7,859)	8,846
<b>Total items that will not be reclassified to profit or loss</b>		<b>18,560</b>	<b>(20,962)</b>
<b>Total comprehensive income/(expense) for the year attributable to the equity holders of the parent</b>		<b>(24,073)</b>	<b>(65,428)</b>

The Statement of Comprehensive Income is to be read in conjunction with the accompanying notes to the financial report.



## Statement of Financial Position

Forestry Tasmania

As at 30 June 2017

	Note	2017 \$'000	2016 \$'000
<b>Current Assets</b>			
Cash and cash equivalents	B4(a)	3,710	4,754
Trade and other receivables	D1	11,999	10,489
Inventories	D2	9,017	8,669
Biological assets	C1	4,569	10,241
<b>Total Current Assets</b>		<b>29,295</b>	<b>34,153</b>
<b>Non Current Assets</b>			
Trade and other receivables	D1	2,216	3,244
Biological assets	C1	156,631	197,459
Property, plant and equipment	D3	14,045	13,379
Other investments	D4	5	5
Net deferred tax asset	B2(d)	-	-
<b>Total Non Current Assets</b>		<b>172,897</b>	<b>214,087</b>
<b>Total Assets</b>		<b>202,192</b>	<b>248,240</b>
<b>Current Liabilities</b>			
Trade and other payables	D5	9,520	12,934
Revenue received in advance	D6	5,832	3,429
Interest bearing liabilities	D7	29,800	14,400
Obligations for non-commercial forest zones	C2	-	394
Re-establishment provision	C3	1,830	1,637
Employee benefits	E1	3,139	9,037
<b>Total Current Liabilities</b>		<b>50,121</b>	<b>41,831</b>
<b>Non Current Liabilities</b>			
Trade and other payables	D5	-	978
Revenue received in advance	D6	15,306	15,306
Obligations for non-commercial forest zones	C2	-	7,606
Re-establishment provision	C3	3,985	3,463
Employee benefits	E1	20,211	152,676
<b>Total Non Current Liabilities</b>		<b>39,502</b>	<b>180,029</b>
<b>Total Liabilities</b>		<b>89,623</b>	<b>221,860</b>
<b>Net Assets</b>		<b>112,569</b>	<b>26,380</b>
<b>Equity</b>			
Contributed equity		386,568	276,306
Reserves		6,230	6,009
Retained earnings / (Accumulated losses)		(280,229)	(255,935)
<b>Total Equity</b>		<b>112,569</b>	<b>26,380</b>

The Statement of Financial Position is to be read in conjunction with the accompanying notes to the financial report.

## Statement of Cash Flows

### Forestry Tasmania

For the year ended 30 June 2017

	2017	2016
Note	\$'000	\$'000
Cash flows from operating activities		
<b>Inflows:</b>		
Cash receipts from customers	136,680	128,669
Government funding	14,213	21,355
Interest received	320	40
<b>Outflows:</b>		
Payments to suppliers	(137,688)	(130,016)
Employee costs	(16,727)	(15,761)
Redundancy payments	(1,490)	(2,147)
RBF annuity payments	(2,547)	(4,775)
RBF lump sum payments	(739)	(7,718)
Borrowing costs paid	(540)	(313)
<b>Net cash provided by / (used in) operating activities</b>	<b>(8,518)</b>	<b>(10,666)</b>
	B4(b)	
Cash flows from investing activities		
<b>Inflows:</b>		
Proceeds from sale of property, plant and equipment	822	4,388
Government funding	375	979
<b>Outflows:</b>		
Payments to suppliers and employees for biological assets	(5,705)	(5,158)
Payments to acquire non-controlling interest	(2,309)	(3,499)
Payments for property, plant and equipment and other assets	(1,109)	(65)
<b>Net cash provided by / (used in) investing activities</b>	<b>(7,926)</b>	<b>(3,355)</b>
Cash flows from financing activities		
<b>Outflows:</b>		
(Repayment of) / proceeds from borrowings	15,400	11,200
<b>Net cash provided by / (used in) financing activities</b>	<b>15,400</b>	<b>11,200</b>
<b>Net increase/(decrease) in cash and cash equivalents held</b>	<b>(1,044)</b>	<b>(2,821)</b>
Cash and cash equivalents at the beginning of the year	4,754	7,575
<b>Cash and cash equivalents at the end of the year</b>	<b>3,710</b>	<b>4,754</b>
	B4(a)	

The Statement of Cash Flow is to be read in conjunction with the accompanying notes to the financial report.

## Statements of Changes In Equity

Forestry Tasmania

For the year ended 30 June 2017

	Contributed Equity \$'000	Property & General Revaluation Reserve \$'000	Retained Earnings / (Accumulated losses) \$'000	Total Equity \$'000
Balance at 30 June 2015	246,306	7,332	(191,823)	61,815
<b>Total comprehensive income for the year</b>				
Profit or loss	-	-	(44,466)	(44,466)
<i>Other comprehensive income</i>				
Increase/(decrease) in the revaluation of land and buildings	-	(320)	-	(320)
Transfer of revaluation increments on disposal of asset	-	(1,003)	1,003	-
Remeasurement defined benefit superannuation liability	-	-	(20,649)	(20,649)
Transfer to retained earnings	-	-	-	-
<i>Total other comprehensive income</i>	-	(1,323)	(19,646)	(20,969)
<b>Total comprehensive income for the year</b>	-	(1,323)	(64,112)	(65,435)
<b>Transactions with owners, recorded directly in equity</b>				
<i>Contributions by and distributions to owners</i>				
Equity contribution <sup>#</sup>	30,000	-	-	30,000
Tax effect on equity contribution	-	-	-	-
Dividends to equity holders	-	-	-	-
<i>Total contributions by and distributions to owners</i>	30,000	-	-	30,000
<b>Total transactions with owners</b>	30,000	-	-	30,000
Balance at 30 June 2016	276,306	6,009	(255,935)	26,380
Balance at 30 June 2016	276,306	6,009	(255,935)	26,380
<b>Total comprehensive income for the year</b>				
Profit or (loss)	-	-	(42,633)	(42,633)
<i>Other comprehensive income</i>				
Increase/(decrease) in the revaluation of land and buildings	-	221	-	221
Transfer of revaluation increments on disposal of asset	-	-	-	-
Remeasurement defined benefit superannuation liability	-	-	18,339	18,339
Transfer to retained earnings	-	-	-	-
<i>Total other comprehensive income</i>	-	221	18,339	18,560
<b>Total comprehensive income for the year</b>	-	221	(24,294)	(24,073)
<b>Transactions with owners, recorded directly in equity</b>				
<i>Contributions by and distributions to owners</i>				
Equity contribution	113,028	-	-	113,028
Tax effect on equity contribution	(2,766)	-	-	(2,766)
Dividends to equity holders	-	-	-	-
<i>Total contributions by and distributions to owners</i>	110,262	-	-	110,262
<b>Total transactions with owners</b>	110,262	-	-	110,262
Balance at 30 June 2017	386,568	6,230	(280,229)	112,569

<sup>#</sup> Equity contribution to repay debt

The Statements of Changes in Equity are to be read in conjunction with the accompanying notes to the financial report.



## Section A: Corporate Information and Basis for Preparation

### Forestry Tasmania

For the year ended 30 June 2017

#### A1 Details of reporting entity

The financial statements and notes thereto relate to Forestry Tasmania (the "Organisation"), which was a state-owned government business enterprise and its interest in joint ventures. Forestry Tasmania underwent a restructuring process during the financial year which, amongst other things, resulted in a change of name to Sustainable Timber Tasmania effective 1 July 2017.

The Organisation's principal purpose is to manage and control all permanent timber production zone land and to undertake forest operations on permanent timber production zone land for the purpose of selling forest products. The Organisation's Head Office is located at 99 Bathurst Street, Hobart, Tasmania; however, it conducts its operations across Tasmania.

The accounting policies set out below, unless specifically noted otherwise in individual notes, have been applied consistently to all periods presented in these financial statements.

#### A2 Statement of compliance

The financial report is a general purpose financial report that has been prepared on a going concern basis in accordance with Australian Accounting Standards (AASBs) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Government Business Enterprises Act 1995 (GBE Act) and applicable Treasurer's Instructions.

During the financial year, a Treasurer's Instruction was issued providing an exemption for the Organisation from application of AASB 5 Non-current Assets Held for Sale and Discontinued Operations.

On 24 August 2017, Sustainable Timber Tasmania executed the transaction documents for the sale of the plantation estate of ~29,000 hectares. At 30 June 2017 the sale had yet to be finalised. Due to the exemption, the assets being sold have not been disclosed separately, as assets held for sale, in accordance with the requirements of AASB 5. Instead, these assets continue to be classified as part of the Biological assets. The effect on the Statement of Financial Position is that Current assets and Non-current assets are understated and overstated, respectively. There is no impact on Net Assets or on prior year amounts.

The financial statements of Forestry Tasmania for the year ended 30 June 2017 were authorised for issue by the Board of Directors on 10 August 2017.

#### A3 Basis of preparation

The financial statements are prepared on the historical cost basis except for the following:

- Biological assets are measured at fair value less costs to sell in note C1;
- Investments disclosed in note F1;
- Superannuation liability is based on the projected unit credit method in note E1

These financial statements are presented in Australian dollars, which is the functional currency of the Organisation. All values are rounded to the nearest thousand unless otherwise stated.

#### A4 Going concern

The Directors have reviewed the appropriateness of continuing to prepare the financial statements on the basis that Forestry Tasmania is a going concern.

The Directors' review considered the following points:

- At 30 June 2017, Forestry Tasmania had net current liabilities, as a result of the borrowings of \$29.8 million.
- Forestry Tasmania has completed its restructure to Sustainable Timber Tasmania with effect from 1 July which significantly improves its financial performance and position.
- Forestry Tasmania has a facility with Tascorp with a limit of \$41 million, subject to review at 31 August 2017 and supported by a Letter of Comfort from Government.
- The repayment of borrowings and transition costs of the restructure to Sustainable Timber Tasmania are to be funded by the sale of the relevant plantation estate. The plantation sale documents were executed on 24 August 2017. The proceeds from the plantation sale will be used to retire all borrowings subsequent to year end and provide working capital for Sustainable Timber Tasmania.

On this basis, the Directors consider that the going concern basis is appropriate for the FY17 financial statements.

#### A5 Significant accounting judgements, estimates and assumptions

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

#### A6 New standards not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact Forestry Tasmania in the period of initial application. Forestry Tasmania intends to adopt these standards in the first financial reporting period to which each standard is first applicable to. The extent of impact, if any, that the initial implementation of the Standards will have on the financial statements has yet to be determined.

AASB 9 'Financial Instruments' - The final version of AASB 9 replaces AASB 139 Financial Instruments: Recognition and Measurement. The latest version adds a new expected impairment model and limited amendments to classification and measurement of financial assets. The impacts of these amendments, which become mandatory for Forestry Tasmania's 30 June 2019 financial statements, are not expected to have a material impact.

AASB 16 'Leases' will primarily affect the accounting by lessees and will result in the recognition of almost all leases on the balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for almost all lease contracts. The impact of these amendments, which become mandatory for Forestry Tasmania's 30 June 2019 financial statements, has not yet been determined.

AASB 15 'Revenue from contracts with customers': This standard replaces AASB 118 Revenue. The standard requires revenue to be recognised in line with contractual agreements. The standard would become mandatory for Forestry Tasmania's 30 June 2018 financial statements. Forestry Tasmania's current practice goes some way in meeting the new requirements under AASB 15, however the introduction of this standard will see a significant increase in disclosure requirements. The impact of the new standard is being reviewed.

## Section B: Details on Financial Performance

### B1 Operating Profit

#### B1(a) Revenue from forest sales

##### Accounting policy

Revenue from sale of goods is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably. The point at which revenue is recognised for products sold within the State is considered to be either when the timber is loaded at the landing or delivered to the mill door. Export sales sold 'Free on Board' (FOB) are recognised when the ship departs port, however for export sales sold 'Cost and Freight' (CRF) the sale is recognised when the goods reach the destination port.

	2017 \$'000	2016 \$'000
Revenue from forest sales		
Domestic and export revenue	121,536	107,303
	<b>121,536</b>	<b>107,303</b>

#### B1(b) Other income

##### Accounting policy

Revenue from forest management services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed at reporting date.

Government grants related to expense items that are conditional are recognised as income over the periods necessary to match a grant on a systematic basis to the costs that it is intended to compensate. When a grant relates to an asset (other than biological asset), the value of the grant is deducted from the carrying amount of the asset. The grant is recognised in profit and loss over the life of the depreciable asset as a reduced depreciation expense. When a grant relates to a biological asset, the income is recognised in the profit and loss as the conditions attached to the grant are met.

The proceeds received for the allocation of forestry rights are recognised in the year the proceeds are earned.

Increments or decrements in the valuation of the biological asset are recognised as revenues or expenses in the financial year in which they occur. The net increment or decrement in total valuation is determined as the difference between the valuation at the beginning of the year and at the end of the year.

	2017 \$'000	2016 \$'000
Forest management services income	624	667
Grants	136	38
Nursery and seed sales	164	171
Tourism revenue	702	2,092
Leases and licences	761	853
Consulting income	516	381
Other revenue	1,845	2,258
	<b>4,748</b>	<b>6,460</b>



B1(c) Government funding

Accounting policy

Government funding is provided to enable Forestry Tasmania to undertake fire activities and Community Service Obligations.

Revenue from the Tasmanian Community Forest Agreement (TCFA) is recognised as income when the expenses have been incurred in relation to the specific projects for which funds have been received. Any remaining funds are held as revenue received in advance until relevant expenditure has been incurred. (Refer note D6). Ongoing capital commitments under the TCFA funding are disclosed in note G1(b).

	2017 \$'000	2016 \$'000
Tasmanian Forest Agreement implementation funding representing costs incurred to date	4,000	5,220
Community Service Obligations	3,788	2,620
Fuel reduction	2,000	2,000
Fire preparedness	2,000	2,000
Fire fighting reimbursement of above average fire fighting costs	-	8,914
<b>Total Government funding</b>	<b>11,788</b>	<b>20,754</b>

The Tasmanian Forest Agreement implementation funding consists of \$3.256 million toward cable harvesting and \$1.12 million for plantation management. The State has provided \$2 million to cover costs incurred in reducing fire fuel and \$2 million toward the cost of ensuring Forestry Tasmania maintains a high level of fire fighting capacity.

	2017 \$'000	2016 \$'000
<b>B1(d) Expenses from operations</b>		
Contractor and freight expenses	106,462	89,850
Fire fighting contractor expenses	444	9,977
Vehicle lease and associated costs	1,735	2,231
Property rental	2,660	2,534
Professional services	1,898	1,707
Consultancies	578	52
Local government rates	1,682	1,693
Property management	3,026	1,184
Equipment purchases and rentals	697	610
Office expenses	749	810
Information technology expense	692	583
Guarantee fees	433	140
Travel and accommodation	238	263
Operating lease rentals	309	341
Impairment of receivables	264	92
Impairment of intercompany receivable	-	1,012
Impairment of non-current asset	(2)	1,235
Other	2,604	3,885
	<b>124,469</b>	<b>118,199</b>

Forestry Tasmania's move to Sustainable Timber Tasmania generated transitions costs of \$3.4 million. Those costs are included above. However the principle costs were incurred under following categories: property management, professional services and other.

		2017	2016
		\$'000	\$'000
B1(e)	Depreciation and amortisation expense		
	Plant and equipment	246	446
	Roads and road structures	4,948	5,685
	Buildings and leasehold improvements	366	401
		<b>5,560</b>	<b>6,532</b>
		2017	2016
		\$'000	\$'000
B1(f)	Employee benefits expense		
	Salaries and wages	13,415	16,832
	Redundancy <sup>1</sup>	1,662	-
	Other associated expenses	226	256
	Contribution to accumulation superannuation funds	1,266	1,498
	Employee service cost for defined benefit scheme	1,614	1,694
		<b>18,183</b>	<b>20,280</b>
		<b>148,212</b>	<b>145,011</b>

<sup>1</sup> The redundancy program was initiated in May 2017. A total of 30 positions were made redundant as part of the organisation restructure. The total redundancy cost is \$1.662 million. Twenty six (26) positions were made redundant in 2016/17 at a total cost of \$1.456 million. The remaining 4 positions will be made redundant by 31 December 2017 at a cost of \$0.206 million, this figure was accrued in the 2016/17 financial accounts.

B1(g) Finance income and expense

*Accounting policy*

*Finance income comprises interest income on funds invested, dividend income and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Organisation's right to receive payment is established.*

*Finance expense comprises interest expense on borrowings, impairment losses recognised on financial assets, interest cost associated with the superannuation liability and losses on hedging instruments that are recognised in profit or loss. All borrowing costs are recognised in profit or loss using the effective interest method, unless they relate to a qualifying asset, in which case they are capitalised as noted in note D3.*

	2017	2016
	\$'000	\$'000
Recognised in profit or loss:		
Interest income	320	40
Total Finance income	<b>320</b>	<b>40</b>
Borrowing costs	(540)	(313)
Foreign exchange losses	(8)	(197)
Employee benefit superannuation interest costs	(4,183)	(6,219)
Total Finance expense	<b>(4,731)</b>	<b>(6,729)</b>
B1(h) (Gain)/loss on sale of assets	<b>(675)</b>	<b>2</b>
	<b>(675)</b>	<b>2</b>
<i>Reconciliation of sale of assets</i>		
Asset cost	993	6,838
Written down value	147	4,390
Proceeds from sale	(822)	(4,388)
<b>(Gain)/loss on sale of assets</b>	<b>(675)</b>	<b>2</b>

B2 Taxation

Accounting policy

Income tax expense/(benefit) comprises current and deferred tax. Income tax expense/(benefit) is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. The charge for current income tax expense is based on the profit/(loss) for the year adjusted for any non-assessable or disallowed items or any adjustment to tax payable in respect to previous years. It is calculated using the tax rates that have been enacted or are substantively enacted by the balance date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the profit and loss except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

	2017	2016
	\$'000	\$'000
<b>B2(a) Current tax (expense)/benefit</b>		
Adjustments for prior periods	1	9
Increase/(decrease) in deferred tax asset	(11,402)	10,654
(Increase)/decrease in deferred tax liability	14,287	(10,797)
Movement posted direct to other comprehensive income	7,954	(8,984)
Movement posted direct to equity reserve	-	-
	<b>10,840</b>	<b>(9,118)</b>

Tax expense to pre tax net loss is reconciled below.

	2017	2016
	\$'000	\$'000
<b>B2(b) Reconciliation between tax (expense)/benefit and pre tax net profit/(loss)</b>		
Profit / (loss) before tax	<b>(53,473)</b>	<b>(35,348)</b>
Income tax (expense) benefit using the domestic tax rate of 30% (2016:30%)	<b>16,042</b>	10,604
Expenditure not allowable for income tax purposes	(3)	(35)
Derecognition of net deferred tax asset of the Tax Consolidated Group	(5,199)	(19,383)
Impairment of intercompany receivable	-	(304)
Income tax (expense)/benefit on pre tax net profit	<b>10,840</b>	<b>(9,118)</b>

	2017	2016
	\$'000	\$'000
<b>B2(c) Deferred tax balances</b>		
<u>Assets</u>		
Non current	<b>44,589</b>	58,875
<u>Liabilities</u>		
Non current	<b>44,589</b>	58,875
Net tax asset/(liability)	-	-



B2(d) Reconciliation of deferred tax balances (\$000)

	2017					Closing balance \$'000
	Opening balance \$'000	Under/Over \$'000	Charged to Statement of Comprehensive Income \$'000	Transferred from subsidiary \$'000	Charged to equity \$'000	
<b>Deferred tax assets</b>						
Employee benefits	48,524	-	246	-	(41,767)	7,003
Revenue received in advance	(1)	-	975	-	-	975
Receivables and other investments	833	-	33	-	-	866
Other provisions	2,330	-	(354)	-	-	1,976
Obligations for non-commercial zones	2,400	-	(2,400)	-	-	-
Property, plant, equipment and land	11,675	-	(6,133)	-	(95)	5,447
Superannuation investment	152	-	(152)	-	-	-
Revenue losses	24,104	1	9,536	(120)	-	33,521
Derecognition of Net deferred tax assets	(31,143)	-	(5,199)	-	31,143	(5,199)
Transfer - deferred tax asset	(58,875)	-	-	-	-	(44,589)
<b>Total</b>	<b>-</b>	<b>1</b>	<b>(3,448)</b>	<b>(120)</b>	<b>(10,719)</b>	<b>-</b>
<b>Deferred tax liabilities</b>						
Biological assets	(57,232)	-	14,111	-	-	(43,121)
Inventories	(1,644)	-	194	-	-	(1,449)
Other	-	-	(19)	-	-	(19)
Transfer - deferred tax asset	58,875	-	-	-	-	44,589
<b>Total</b>	<b>-</b>	<b>-</b>	<b>14,286</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net deferred tax assets/(liabilities)</b>	<b>-</b>	<b>1</b>	<b>10,838</b>	<b>(120)</b>	<b>(10,719)</b>	<b>-</b>

	2016					Closing balance \$'000
	Opening balance \$'000	Under/Over \$'000	Charged to Statement of Comprehensive Income \$'000	Transferred from subsidiary \$'000	Charged to equity \$'000	
<b>Deferred tax assets</b>						
Employee benefits	41,071	-	(1,393)	-	8,846	48,524
Revenue received in advance	(1)	-	-	-	-	(1)
Receivables and other investments	822	-	11	-	-	833
Other provisions	462	-	1,868	-	-	2,330
Obligations for non-commercial zones	1,350	-	1,050	-	-	2,400
Property, plant, equipment and land	-	-	11,675	-	-	11,675
Superannuation investment	0	-	152	-	-	152
Revenue losses	16,356	(9)	7,837	(80)	-	24,104
Derecognition of Net deferred tax assets	(11,760)	-	(19,383)	-	-	(31,143)
Transfer - deferred tax asset	(48,078)	-	(10,797)	-	-	(58,875)
<b>Total</b>	<b>223</b>	<b>(9)</b>	<b>(8,980)</b>	<b>(80)</b>	<b>8,846</b>	<b>-</b>
<b>Deferred tax liabilities</b>						
Biological assets	(43,365)	-	(13,867)	-	-	(57,232)
Inventories	(1,675)	-	31	-	-	(1,644)
Property, plant, equipment and land	(3,039)	-	2,902	-	137	-
Transfer - deferred tax asset	48,078	-	10,797	-	-	58,875
<b>Total</b>	<b>-</b>	<b>-</b>	<b>(137)</b>	<b>-</b>	<b>137</b>	<b>(0)</b>
<b>Net deferred tax assets/(liabilities)</b>	<b>223</b>	<b>(9)</b>	<b>(9,117)</b>	<b>(80)</b>	<b>8,983</b>	<b>(0)</b>

**B3 Dividends***Accounting policy*

The objective is for Forestry Tasmania to pay dividends in accordance with its statutory requirements as determined under Part II, Division 2 of the Government Business Enterprises Act (1995).

No dividend was paid during the 2016/17 financial year in relation to 2015/16 results.

Forestry Tasmania does not propose a dividend in respect to the current financial year. This proposal is subject to approval by the Treasurer and the Minister under Section 83(1) of the Government Business Enterprises Act 1995.

**B4 Cash and cash equivalents***Accounting policy*

Cash and cash equivalents are classified as available-for-sale financial assets and measured at fair value subsequent to initial recognition, which is the face value of the cash. Cash and cash equivalents comprise cash at bank, cash on hand and short term deposits with an original maturity date of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Organisation's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

	2017	2016
	\$'000	\$'000
<b>B4(a) Reconciliation of cash and cash equivalents</b>		
For the purposes of the Cash flow statements, cash and cash equivalents comprise the following as at 30 June:		
Cash at bank	3,678	4,723
Floats and advances	32	31
	<b>3,710</b>	<b>4,754</b>
<b>B4(b) Reconciliation of comprehensive income/(expense) after tax to net cash flows from operations</b>		
Net profit/(loss) after tax	(42,633)	(44,466)
Add/(less) items classified as investing/financing activities:		
(Profit)/loss on disposal of non current assets	(675)	2
Add/(less) non-cash items:		
Depreciation and amortisation	5,560	6,532
Income tax	(10,840)	9,118
Biological asset valuation increment /(decrement)	39,597	14,620
Movement in obligations for non-commercial zones	-	3,500
Impairment intercompany receivable	(2)	2,247
Changes in assets and liabilities:		
(Increase)/decrease in current receivables	(1,502)	4,737
(Increase)/decrease in non current receivables	1,028	(182)
(Increase)/decrease in inventories	(348)	(1,614)
(Increase)/decrease in other current assets	(8)	38
Increase/(decrease) in current liabilities	(5,456)	(28,105)
Increase/(decrease) in non current liabilities	6,761	22,907
Net cash provided by operating activities	<b>(8,518)</b>	<b>(10,666)</b>

## Section C: The Forest Estate

### C1 Biological Assets

#### Accounting policy

The forest estate is valued as a whole incorporating land and roads.

The forest is measured at fair value less costs to sell, with any changes therein recognised in the Statement of Comprehensive Income under 'biological asset valuation increment/(decrement)'.

Forestry Tasmania's rights to plantations (at harvest date) through Tree Farm Agreements are also valued using the same methodology noted above.

In 2016, the obligation to re-establish harvested coupes was recognised by Forestry Tasmania by setting aside a provision equivalent to the expected costs of re-establishment. The provision calculation is based on harvested area and relevant treatment cost. The provision results in the creation of a make good asset identified under biological assets. The value of the make good asset is treated as a reallocation between the forest and make good asset.

The carrying value of roads is determined using an income model approach. Cash flows in 2017 were based on actual road toll income. Roads form part of the biological asset, as such, any decrease in road value is reclassified as an increase in forest.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful life of each road. Depreciation methods, useful lives and residual values are reviewed at each reporting date.

The estimated useful life for the current and comparative periods for roads and road structures - 1 to 20 years.

Forestry Tasmania has been given exclusive management rights over Permanent Timber Production Zone(PTPZ) land and includes special timber zones.

Forestry Tasmania does not hold freehold title over the majority of PTPZ but is deemed to control the land by the Forest Management Act 2013. Land is therefore given nil value.

Land is not depreciated.

Forestry Tasmania is responsible for the Permanent Timber Production Zone and the valuation reflects the quantities now available for harvest under the Forest Management Act 2013.

The methodology applied to estimate the enterprise value and obligations for the biological asset (forest), land and roads uses the discounted cash flow approach. The discounted cash flow approach involves using a discounted cash flow analysis which estimates the net annual income derived from the forest estate in each year of the projected holding period of the asset. A market derived discount rate of 8.75% (2016: 9.4%) is then used to discount these annual net incomes to arrive at a present value of the existing forest crop as required under AASB 141 'Agriculture'. The valuation approach is consistent with the requirements of AASB 141 to value the biological assets.

	2017	2016
	\$'000	\$'000
<b>Current</b>		
Standing timber at valuation	4,569	10,241
<b>Non current</b>		
Standing timber at valuation	143,500	183,842
Roads and road structures	7,316	8,517
Re-establishment make good assets	5,815	5,100
	<b>156,631</b>	<b>197,459</b>
	<b>161,200</b>	<b>207,700</b>



Reconciliation of biological assets (\$'000)

	Forest	Make Good	Roads	Total
<b>Carrying amount as at 30 June 2015</b>	<b>152,382</b>	<b>578</b>	<b>65,365</b>	<b>218,325</b>
Additions	1,931	-	2,486	4,417
Reallocation (refer note C3)	(4,522)	4,522	-	-
Net movement work in progress	-	-	741	741
Depreciation	-	-	(5,685)	(5,685)
Reclassification	54,390	-	(54,390)	-
Revaluation	(10,098)	-	-	(10,098)
<b>Carrying amount as at 30 June 2016</b>	<b>194,083</b>	<b>5,100</b>	<b>8,517</b>	<b>207,700</b>
<b>Carrying amount as at 30 June 2016</b>	<b>194,083</b>	<b>5,100</b>	<b>8,517</b>	<b>207,700</b>
Additions	1,363	715	2,733	4,811
Reallocation of obligation for non-commercial zones	(8,000)	-	-	(8,000)
Net movement work in progress	-	-	1,234	1,234
Depreciation	-	-	(4,948)	(4,948)
Reclassification	220	-	(220)	-
Revaluation	(39,597)	-	-	(39,597)
<b>Carrying amount as at 30 June 2017</b>	<b>148,069</b>	<b>5,815</b>	<b>7,316</b>	<b>161,200</b>

Forestry Tasmania re-establishes coupes at the conclusion of harvesting. This obligation is recognised as a provision for the expected cost of re-establishment. The provision creates a make good asset and is reallocated as an adjustment in the forest value.

Land is valued at nil as it is Crown Land with constraints applied under the Forest Management Act 2013.

C2 Obligations for non-commercial forest zones

Accounting policy

Prior to 2017, Forestry Tasmania separately identified costs and revenues associated with the special timber zone. This zone was referred to as 'non-commercial zone'. Forestry Tasmania's independent valuer, Sewall, provided a discounted cash flow analysis to determine an 'Obligation Liability' based on the net costs incurred by Forestry Tasmania in maintaining this zone in accordance with the Forest Management Act 2013.

In 2017, Forestry Tasmania engaged Indufor for the provision of forest valuation services. The 2017 valuation includes the special species zone in the overall biological asset value (see note C1)

	2017 \$'000	2016 \$'000
<b>Current</b>	-	394
<b>Non current</b>	-	7,606
	-	8,000

C3 Re-establishment provision

Accounting policy

Forestry Tasmania has until 2015 recognised re-establishment costs as those costs were incurred. Forestry Tasmania re-establishes coupes at the conclusion of harvesting operations. In 2016, Forestry Tasmania made a change in accounting policy where the obligation to re-establish the harvested coupes is recognised by setting aside a provision equivalent to the expected costs of re-establishment. The provision calculation is based on harvested area and relevant treatment cost. The provision results in the creation of a make good asset identified under biological asset class. The value of the make good asset is treated as a reallocation between the forest and the make good asset. The provision is apportioned between current and non-current liabilities based on the expected timing of re-establishment.

Forestry Tasmania re-establishes coupes at the conclusion of harvest. In order to recognise this obligation, Forestry Tasmania sets aside a provision for the expected costs relating to the area harvested during the year to 30 June 2016. Forestry Tasmania issued forestry rights and has an obligation to re-establish when the land has been handed back at the expiry of the right.

	2017 \$'000	2016 \$'000
<b>Current</b>	<b>1,830</b>	1,637
<b>Non current</b>	<b>3,985</b>	3,463
	<b>5,815</b>	5,100

## Section D: Details on Financial Position Items

### D1 Trade and other receivables

#### Accounting policy

Trade and other receivables are stated at their amortised cost less impairment losses [refer note F1(c)]. Trade receivables with a short duration are not discounted. Collection terms are generally between 30-90 days for trade receivables.

	2017 \$'000	2016 \$'000
<b>Current</b>		
Trade and other receivables	13,506	11,998
Less provision for impairment	(2,311)	(2,172)
Accrued revenue	242	174
Prepayments	497	489
Derivative asset	65	-
Total current receivables	11,999	10,489
<b>Non current</b>		
Intercompany loan	2,132	9,751
Provision for intercompany receivable	-	(6,591)
Other	84	84
Total non current receivables	2,216	3,244

### D2 Inventories

#### Accounting policy

Inventories are measured at the lower of cost and net realisable value. Net realisable value is determined on the basis of each inventory line's normal selling pattern. Costs of inventory include those items incurred in bringing inventory items to their present location and condition and include the following:

\* Raw materials - purchase cost or costs of direct materials and labour and a proportion of overheads

\* Finished goods and work in progress - costs of direct materials and labour and a proportion of overheads.

	2017 \$'000	2016 \$'000
Gravel stocks at cost	1,894	2,277
Seed and seedlings at cost	2,671	2,774
Timber at cost	4,185	3,186
Stores general at cost	267	432
	9,017	8,669

### D3 Property, plant and equipment

#### Accounting policy

##### (i) Valuation

Land and buildings and leasehold improvements are measured at fair value less accumulated depreciation and accumulated impairment losses recognised after the date of the revaluation. Land and building are classed as Level 2 assets under the fair value measurement standard.

Non-current assets measured at fair value are revalued with sufficient regularity to ensure the carrying amount of each asset does not differ materially from fair value at reporting date. Periodic reviews are completed for specifically identified land and buildings every 3 to 5 years by independent valuers. Other land and building assets are valued using Capital Value Adjustment Factors supplied from the office of the Valuer General. Revaluation increments are recognised in the asset revaluation reserve except for amounts reversing a decrement previously recognised as an expense, which are recognised as revenues in other comprehensive income. Revaluation decrements are only offset against revaluation increments relating to the same asset and any excess is recognised as an expense.

Plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. Borrowing costs related to the acquisition or construction of qualifying assets are included as a directly attributable cost of the asset.

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

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss (in other income) in the year the asset is derecognised. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

The capitalisation threshold for plant and equipment is \$1,000 and \$5,000 for all other classes of non-current assets. All land transactions are capitalised.

Freehold land and buildings are measured on a fair value basis, being the amount for which the assets could be exchanged between knowledgeable and willing parties in an arm's-length transaction, having regard to the highest and best use of the asset for which other parties would be willing to pay. The valuation as at 30 June 2017 for major assets was determined by an independent valuer, the Valuer General, on the basis of open market values for existing use of specific assets. Subsequent movements in these assets are determined by applying the Capital Value Adjustment Factors obtained from the office of the Valuer General.

(ii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Depreciation of plant and vehicles has been recognised in the profit or loss on a diminishing value basis. Assets under finance leases are amortised over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

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

The estimated useful lives for the current and comparative periods are as follows: Buildings 10 to 40 years, Plant and Equipment 2 to 15 years, Land is not depreciated.

Reconciliation of property, plant and equipment assets (\$'000)

	Land \$'000	Buildings \$'000	Plant & equipment \$'000	Capital work in progress \$'000	Total \$'000
Carrying amount at 1 July 2015	2,659	10,958	6,191	-	19,808
Additions	-	-	56	68	124
Disposals	(669)	(388)	(2,896)	-	(3,953)
Revaluation	12	(458)	-	-	(446)
Impairment	-	-	(1,245)	-	(1,245)
Movement in work in progress	-	-	-	(62)	(62)
Depreciation	-	(401)	(446)	-	(847)
<b>Carrying amount at 30 June 2016</b>	<b>2,002</b>	<b>9,711</b>	<b>1,660</b>	<b>6</b>	<b>13,379</b>
Carrying amount at 1 July 2016	2,002	9,711	1,660	6	13,379
Additions	-	-	6	1,127	1,133
Disposals	-	-	(147)	-	(147)
Revaluation	3	315	-	-	318
Movement in work in progress	-	-	-	(26)	(26)
Depreciation	-	(366)	(246)	-	(612)
<b>Carrying amount at 30 June 2017</b>	<b>2,005</b>	<b>9,660</b>	<b>1,273</b>	<b>1,107</b>	<b>14,045</b>
<b>Original cost of assets 30 June 2017</b>	<b>1,296</b>	<b>14,757</b>	<b>12,257</b>	<b>-</b>	<b>28,310</b>

	2017	2016
	\$'000	\$'000
D4 Other investments		
<b>Non current</b>		
Investment in Huon Valley Financials Pty Ltd	5	5
	<b>5</b>	<b>5</b>

D5 Trade and other payables  
*Accounting policy*

*Trade and other payables are stated at their amortised cost. Trade payables are non-interest bearing and are normally settled on 30-day terms.*

	2017	2016
	\$'000	\$'000
<b>Current</b>		
Trade creditors and other payables	6,568	8,626
Non-controlling interest <sup>1</sup>	-	2,099
Redundancy cost <sup>2</sup>	206	-
Accrued expenses	2,746	2,209
Total current payables	<b>9,520</b>	<b>12,934</b>
<b>Non current</b>		
Trade creditors	-	978
	<b>-</b>	<b>978</b>

<sup>1</sup> Forestry Tasmania acquired the balance of the Plantation Platform Tasmania joint venture in 2017. This acquisition brought Forestry Tasmania's ownership to 100% at 30 June 2017.

<sup>2</sup> The redundancy cost included in 2017 relates to redundancies (4) that had been agreed, calculated and signed with employees as at 30 June 2017, for employees leaving between 1 July 2017 and 31 December 2017.

D6 Revenue received in advance  
*Accounting policy*

*Government grants received by Forestry Tasmania for capital infrastructure projects are taken to the profit and loss annually in accordance with the proportionate value of the depreciation expense associated with the capital asset for which the grant funds were originally received.*

*Revenue received in advance - Funds received in advance under the TCFA and TFA are accounted for as revenue received in advance and will be recognised in future years. The TCFA is an agreement signed by the State and Commonwealth to supplement the provisions of the Regional Forest Agreement (RFA). All TCFA funding has been received by Forestry Tasmania and will be used for the improvement of existing hardwood plantations to compensate for the loss of sustainable forest due to the creation of additional conservation reserves.*

	2017	2016
	\$'000	\$'000
<b>Current</b>	<b>5,832</b>	3,429
<b>Non Current</b>	<b>15,306</b>	15,306
	<b>21,138</b>	<b>18,735</b>



Reconciliation of revenue received in advance (\$000)

	2017	2016
	\$'000	\$'000
<b>Tasmanian Community Forest Agreement</b>		
Opening balance	17,891	17,891
<b>Closing balance</b>	17,891	17,891
<b>Tasmanian Forest Agreement</b>		
Opening balance	600	-
Receipts	6,800	6,800
Tasmanian Forest Agreement implementation funding	(4,375)	(6,200)
<b>Closing balance</b>	3,025	600
<b>Other revenue received in advance</b>		
Opening balance	244	140
Receipts	204	2,874
Other activities	(226)	(2,770)
<b>Closing balance</b>	222	244
<b>Closing balance 30 June 2017</b>	<b>21,138</b>	<b>18,735</b>

D7 Interest bearing liabilities

*Accounting policy*

*Interest-bearing liabilities are stated at amortised cost with any difference between cost and redemption value being recognised in the profit and loss over the period of the borrowings on an effective interest basis.*

The full amount payable on credit cards is included in current liabilities as this is payable within 31 days before interest is charged. After this date, the payable bears interest at 17.99% (2016:17.99%), payable monthly.

Forestry Tasmania has a US\$2.0 million foreign currency overdraft facility to facilitate foreign currency dealings. (2016: \$2.0 million)

Forestry Tasmania has no long term fixed borrowings, (2016: \$nil). The loan facility is secured by a floating charge over Forestry Tasmania's trade and other receivables. Refer to **note D1** for the carrying amount of trade and other receivables which Forestry Tasmania have pledged as security. Borrowings are on the basis of overnight deposit and payable at call.

Loans that are due to be repaid or renegotiated in the ensuing twelve month period are classified as current.

The interest rate (excluding guarantee fees) on borrowings is 2.2% (2016: 2.5%).

	2017 \$'000	2016 \$'000
<b>Current</b>		
Borrowings	29,800	14,400
	<b>29,800</b>	<b>14,400</b>
<b>Financing arrangements</b>		
The Group has access to the following lines of credit:		
Total facilities available:		
Credit cards	800	800
Loan facility - secured	41,000	31,000
	<b>41,800</b>	<b>31,800</b>
Facilities used at balance date:		
Credit cards	26	20
Loan facility - secured	29,800	14,400
	<b>29,826</b>	<b>14,420</b>
Facilities not utilised at balance date:		
Credit cards	774	780
Loan facility - secured	11,200	16,600
	<b>11,974</b>	<b>17,380</b>

## Section E: Employee Entitlements

### E1 Employee benefits

#### Accounting policy

##### Superannuation

*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 a personnel expense in profit or loss when they are due.*

*A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Organisation's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognised past service costs and the fair value of any plan assets are deducted.*

*An independent actuarial assessment of Forestry Tasmania's unfunded superannuation liability has determined the overall obligation to current and past employees. The actuary uses the 'Projected Unit Credit' method to determine the unfunded superannuation liability.*

*The discount rate is the yield at the reporting date based on AA credit-rated or government bonds that have maturity dates approximating the terms of the Organisation's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Organisation, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan. An economic benefit is available to the Organisation if it realisable during the life of the plan, or on settlement of the plan liabilities.*

*The accounting standard states that the discount rate used to value employee benefit liabilities should be based on the yield on high quality corporate bonds if a deep market for these bonds exists (if not, the discount rate should be based on government bond yields). It has been determined that a deep market does exist. On this basis the Defined Benefit Obligation at 30 June 2017 is based on a corporate bond yield of 4.35%.*

*Forestry Tasmania recognises as an expense in the current period the cost of contributions and the detailed expense figures as advised by the actuary. The actuarial gains and losses for the period are recognised in other comprehensive income.*

*The defined benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation, adjusted for unrecognised past service cost, net of the fair value of the plan assets.*

*The superannuation liability is determined by a Treasury-appointed independent Actuary.*

##### Annual leave

*Liabilities for annual leave expected to be settled within 12 months of the year end represent present obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on wage and salary rates that the business expects to pay as at reporting date including related on costs.*

##### Long service leave

*The provision for employee entitlements to long service leave represents the present value of the estimated future cash outflows to be made resulting from employees' services provided up to balance date.*

*In calculating the liability, consideration has been given to future increases in wage and salary rates, including on costs, and takes into account Forestry Tasmania's experience with staff departures. The discount rates utilised in the calculation of the liability are provided by Treasury and are equivalent to an Australian Government bond rate.*

*All vested long service leave is shown as a current liability.*

##### Workers compensation

*Forestry Tasmania is a self-insurer for workers compensation. The provision for workers compensation is set at a level to cover estimated medical expenses, compensation payments and likely common law settlements for reported claims as at 30 June 2017.*

*The provision also includes an allowance for incurred but unreported claims at 30 June 2017.*

##### Sick leave

*No liability has been recognised in the accounts for sick leave as Forestry Tasmania operates a "no debit no credit" system for all employees.*

	2017 \$'000	2016 \$'000
E2 Current employee benefits		
Annual leave	970	1,062
Long service leave	1,749	2,036
Superannuation defined benefit scheme (see note below)	346	5,860
Workers compensation	74	79
	<b>3,139</b>	<b>9,037</b>

	2017 \$'000	2016 \$'000
E3 Non current employee benefits		
Long service leave	150	248
Superannuation defined benefit scheme (see note below)	20,061	152,428
	<b>20,211</b>	<b>152,676</b>

*Information in this note applies equally to the consolidated and parent entity.*

Assumed rate of increase in wages and salaries rates	3.00%	3.00%
Discount rate used in the calculation of the long service leave provision ranges from 2.28% to 4.00% (2016 range 2.56% to 3.52%).		
Settlement terms (years) - long service leave	<b>10 years</b>	<b>10 years</b>

E4 Superannuation liability		
Key assumptions		
Assumptions to Determine Defined Benefit Cost and Start of Year Defined Benefit Obligation	<b>2017 \$'000</b>	<b>2016 \$'000</b>
Discount rate (active members)	3.55%	4.80%
Discount rate (pensioners)	3.55%	4.80%
Expected rate of increase of compulsory preserved amounts	4.50%	4.50%
Expected salary increase rate	3.00%	3.00%
Expected pension increase rate	2.50%	2.50%
Assumptions to Determine End of Year Defined Benefit Obligation		
Discount rate (active members)	4.35%	3.55%
Discount rate (pensioners)	4.35%	3.55%
Expected salary increase rate	3.00%	3.00%
Expected rate of increase of compulsory preserved amounts	3.00%	4.50%
Expected pension increase rate	2.50%	2.50%

#### Sensitivity analysis

- Scenario A - 1.0% pa lower discount rate assumption
- Scenario B - 1.0% pa higher discount rate assumption
- Scenario C - 1.0% pa lower expected pension increase rate assumption
- Scenario D - 1.0% pa higher expected pension increase rate assumption

	Actual	Scenario A	Scenario B	Scenario C	Scenario D
Discount rate (pa)	4.35%	3.35%	5.35%	4.35%	4.35%
Pension increase rate (pa)	2.50%	2.50%	2.50%	1.50%	3.50%
Defined benefit obligation (A\$'000s)	24,150	28,785	20,527	22,827	25,606



	2017	2016
	\$'000	\$'000
Profit or loss impact		
Current service cost	1,614	1,694
Net interest	4,183	6,219
Defined benefit cost recognised in profit or loss	<b>5,797</b>	<b>7,913</b>
Other comprehensive income		
Actuarial (gains) losses	(22,594)	29,440
Actuarial return on plan assets less interest income	(3,604)	48
Total remeasurements recognised in other comprehensive income	<b>(26,198)</b>	<b>29,488</b>
Reconciliation of the Net Defined Benefit Liability/(Asset)		
Defined Benefit Obligation	24,150	190,344
Fair value of plan assets	(3,744)	(32,056)
Deficit/(surplus)	20,407	158,288
Net defined benefit liability/(asset)	<b>20,407</b>	<b>158,288</b>
Current net liability	346	5,860
Non-current net liability	20,061	152,428
	2017	2016
	\$'000	\$'000
Reconciliation of the Fair Value of Scheme Assets		
Fair value of plan assets at beginning of the year	<b>32,056</b>	<b>34,996</b>
Interest income	552	1,629
Actual return on plan assets less interest income	3,604	(48)
Employer contributions	4,452	11,699
Contributions by plan participants	412	570
Benefits paid	(6,265)	(16,464)
Taxes, premiums and expenses paid	(301)	(327)
Transfers out	(30,766)	-
Fair value of plan assets at end of the year	<b>3,744</b>	<b>32,056</b>
Reconciliation of the Defined Benefit Obligation		
Present value of defined benefit obligation at beginning of the year	<b>190,344</b>	<b>167,583</b>
Current service cost	1,614	1,694
Interest cost	4,734	7,848
Contributions by plan participants	412	570
Actuarial (gains)/losses arising from changes in demographic assumptions	(440)	-
Actuarial (gains)/losses arising from changes in financial assumptions	(23,617)	28,933
Actuarial (gains)/losses arising from liability experience	1,462	507
Benefits paid	(6,265)	(16,464)
Taxes, premiums and expenses paid	(301)	(327)
(-) Transfers out	(30,766)	-
(-) Contribution by owner	(113,028)	-
	<b>24,150</b>	<b>190,344</b>

Fair value of scheme assets Asset Category	Quoted prices in active markets for identical assets - Significant observable inputs - Unobservable inputs - Level			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	100.0%	45.3%	54.7%	0.0%
Equity instruments	100.0%	7.0%	85.0%	8.0%
Debt instruments	100.0%	0.0%	100.0%	0.0%
Derivatives	100.0%	0.1%	99.9%	0.0%
<b>Total</b>	<b>100.0%</b>	<b>34.1%</b>	<b>63.7%</b>	<b>2.2%</b>

Expected employer contributions (30 June 2018) **346**

	2017 \$'000	2016 \$'000
Current service cost		
1 Total current service cost at beginning of year	(1,666)	(1,848)
2 Interest for the year	(59)	(89)
3 Expected contributions tax and expenses	(301)	(327)
4 Expected employee contributions	412	570
7 Current service cost	<b>(1,614)</b>	<b>(1,694)</b>
Interest expense		
1 Defined benefit obligation at beginning of year	190,344	167,583
2 Expected distributions	(113,973)	(8,169)
a. Weighted timing	(56,987)	(4,085)
3 Average defined benefit obligation (1-2a)	133,357	163,498
4 Discount rate	3.55%	4.80%
5 Interest expense (3 x 4)	<b>(4,734)</b>	<b>(7,848)</b>
Interest income		
1 Fair value of plan assets at beginning of year	32,056	34,996
2 Expected employer contributions	3,509	5,805
a. Weighted for timing	1,754	2,903
3 Expected employee contributions	412	570
a. Weighted for timing	206	285
4 Expected distributions during year	36,657	8,169
a. Weighted for timing	18,329	4,085
5 Expected expenses, tax and insurance premiums	301	327
a. Weighted for timing	151	164
6 Average expected fair value of assets (1+2a+3a-4a-5a)	15,537	33,935
7 Discount rate	3.55%	4.80%
8 Interest income (6x7)	<b>552</b>	<b>1,629</b>
Net interest		
1 Interest expense	(4,734)	(7,848)
2 Interest income	552	1,629
3 Net interest (1-2)	<b>(4,183)</b>	<b>(6,219)</b>
Actuarial (Gains)losses (recognised in Other Comprehensive Income)		
1 Actuarial (gain)/loss on Defined Benefit Obligation - experience	1,462	507
2 Actuarial (gain)/loss on Defined Benefit Obligation - change in demographic assumptions	(440)	-
3 Actuarial (gain)/loss on Defined Benefit Obligation - change in financial assumptions	(23,617)	28,933
4 Actuarial (gain)/loss (1+2+3)	<b>(22,594)</b>	<b>29,440</b>

E5 Key management personnel compensation and other disclosures

Compensation for Directors and General Management Team personnel of Forestry Tasmania amounted to the following:

	2017 \$'000	2016 \$'000
Short-term employee benefits	1,644	1,807
Post-employments benefits	131	177
Other long-term benefits	-	-
Termination benefits	95	-
	<b>1,870</b>	<b>1,984</b>

E5(a) Director remuneration

During the year, the Board of Directors of Forestry Tasmania was comprised of the following individuals: R de Fegely, T Ferrall, L Bull, M Hunt, S Baker and C Mucha. Directors fees are paid in accordance with the levels agreed by the Department of Premier and Cabinet and approved by the Minister. An additional fee is paid to Directors who chair Board sub-committees. Forestry Tasmania has 5 directors at 30 June 2017 (2016: 6 Directors).

Directors Remuneration 2016-17

Non-Executive Directors				Directors fees	Committee fees	Super-annuation <sup>1</sup>	Other	Total 2016
Name	Position	Start Term	End Term	\$'000	\$'000	\$'000	\$'000	\$'000
Mr R de Fegely	Chairman	01-Jun-2016		104	-	10	-	114
Dr C Mucha <sup>1</sup>	Director	29-Apr-2013		49	11	6	-	66
Mr T Ferrall <sup>2</sup>	Director	22-May-2015	28-Feb-2017	36	-	-	-	36
Ms S Baker	Director	15-Dec-2015		49	3	5	-	57
Prof M Hunt	Director	22-Dec-2015		49	1	5	-	55
Dr L Bull	Director	22-Dec-2015		49	1	5	-	55
<b>Total</b>				<b>336</b>	<b>16</b>	<b>31</b>	<b>-</b>	<b>383</b>

<sup>1</sup> Dr C Mucha received payment in 2017 as Chair of two committees in 2016.

<sup>2</sup> Mr T Ferrall's director fees are paid directly to Treasury and no superannuation is applied to the payment

Directors Remuneration 2015-16

Non-Executive Directors				Directors fees	Committee fees	Super-annuation <sup>1</sup>	Other	Total 2015
Name	Position	Start Term	End Term	\$'000	\$'000	\$'000	\$'000	\$'000
Mr R de Fegely	Chairman	01-Jun-2016		8	-	1	-	9
Dr C Mucha	Director	29-Apr-2013		49	5	5	-	59
Mr T Ferrall	Director	22-May-2015		48	-	-	-	48
Ms S Baker	Director	15-Dec-2015		27	-	3	-	30
Prof M Hunt	Director	22-Dec-2015		26	-	2	-	28
Dr L Bull	Director	22-Dec-2015		26	-	2	-	28
Mr D Norton	Chairman	28-Jan-2016	31-May-2016	39	-	4	-	43
Mr R Annells	Chairman	24-Sep-2012	27-Jan-2016	91	-	9	-	100
Mr G Coffey	Director	01-Jul-2007	27-Aug-2015	8	1	1	-	10
Mr R Smith	Director	09-Jul-2012	25-Nov-2015	21	2	2	-	25
Mr R Woolley	Director	29-Apr-2013	31-Jan-2016	29	1	3	-	33
<b>Total</b>				<b>372</b>	<b>9</b>	<b>32</b>	<b>-</b>	<b>413</b>

Directors remuneration total for 2014-15 was \$418,000

<sup>1</sup> Superannuation means the contribution to the superannuation fund of the individual.

#### E5(b) Director remuneration principles

Non-executive directors are appointed by the Governor-in-Council on the joint recommendation of the Treasurer and Portfolio Minister. Each instrument of appointment is for a maximum period of three years and prescribes the relevant remuneration provisions. Directors can be re-appointed.

The maximum level of fees paid to non-executive directors is administered by the Department of Premier and Cabinet as are additional fees paid in respect of superannuation, which is paid at the appropriate rate as prescribed by the superannuation guarantee legislation.

No other leave, termination or retirement benefits are accrued or paid to Directors. Directors are entitled to reimbursement of expenses incurred while attending to Board business. Non-executive directors' remuneration is reviewed periodically with increases subject to approval by the Treasurer and Portfolio Minister.

Forestry Tasmania has not made any loans with any member of the Board of Directors or their related parties.

#### E5(c) General Management Team remuneration

Other key management personnel are determined to be the members of the General Management Team of Forestry Tasmania (at 30 June 2017: 5 members) (at 30 June 2016: 6 members). The Remuneration Committee of the Board is responsible for determining and reviewing compensation arrangements for members of the General Management Team (GMT).

##### General Management Team Remuneration 2016-17 (comprises 26 pays for the period)

	Salary <sup>1</sup>	Short-term incentive payments <sup>2</sup>	Termination payments <sup>3</sup>	Super- annuation <sup>4</sup>	Vehicles <sup>5</sup>	Other benefits <sup>6</sup>	Other non- monetary benefits <sup>7</sup>	Total 2016
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Mr S Whiteley</b> - CEO	330	-	-	39	-	-	24	<b>393</b>
<b>Mr J Garrett</b> - EGM Commercial (term completed 17/3/17)	161	-	13	15	-	-	(3)	<b>186</b>
<b>Mr D Bartlett</b> - GM Business Development and Strategy (commenced 20/3/17)	50	-	-	5	-	-	4	<b>59</b>
<b>Mr C Brookwell</b> - GM Corporate Services	260	-	-	25	-	-	(5)	<b>280</b>
<b>Mrs S Weeding</b> - GM Forest Management	177	-	-	17	10	-	8	<b>212</b>
<b>Mr Greg Hickey</b> - GM Forest Products (commenced in role 24/12/16)	89	-	-	9	-	-	6	<b>103</b>
<b>Mr J Shevlin</b> - EGM Communications (term completed 31/1/17)	122	-	1	11	-	-	(3)	<b>131</b>
<b>Mr N Foss</b> - GM Operations <sup>1</sup> (resigned 23/12/16)	86	-	81	9	7	-	(60)	<b>123</b>
<b>Total</b>	<b>1,275</b>	<b>-</b>	<b>95</b>	<b>130</b>	<b>17</b>	<b>-</b>	<b>(30)</b>	<b>1,487</b>

<sup>1</sup> Termination payments for outstanding leave balances

##### General Management Team Remuneration 2015-16 (comprises 27 pays for the period)

	Salary <sup>1</sup>	Short-term incentive payments <sup>2</sup>	Termination payments <sup>3</sup>	Super- annuation <sup>4</sup>	Vehicles <sup>5</sup>	Other benefits <sup>6</sup>	Other non- monetary benefits <sup>7</sup>	Total 2015
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Mr S Whiteley</b> - CEO	332	-	-	39	-	-	3	<b>374</b>
<b>Mr J Shevlin</b> - EGM Communications	205	-	-	19	-	-	(6)	<b>218</b>
<b>Mr J Garrett</b> - EGM Commercial	228	-	-	22	5	-	(3)	<b>252</b>
<b>Mr C Brookwell</b> - EGM Corporate Services	260	-	-	25	-	-	2	<b>287</b>
<b>Mrs S Weeding</b> - GM Forest Management	180	-	-	17	18	-	(2)	<b>213</b>
<b>Mr N Foss</b> - GM Operations	180	-	-	17	18	-	12	<b>227</b>
<b>Total</b>	<b>1,385</b>	<b>-</b>	<b>-</b>	<b>139</b>	<b>41</b>	<b>-</b>	<b>6</b>	<b>1,571</b>

General Management Team Remuneration total for 2014-15 was \$1,682,000



<sup>1</sup> Gross Salary includes all forms of consideration paid and payable for services rendered, compensated absences during the period and salary sacrifice amounts.

<sup>2</sup> Short term incentive payments are non-recurrent payments which depend on achieving specified performance goals within specified timeframes.

<sup>3</sup> Termination benefits include all forms of benefit paid or accrued as a consequence of termination.

<sup>4</sup> Superannuation means the contribution to the superannuation fund of the individual. Superannuation benefits for members of a defined benefit scheme were calculated using a notional cost based on 11.9%.

<sup>5</sup> Includes total cost of providing a vehicle for private use, including registration, insurance, fuel and other consumables, maintenance cost and parking (including notional value of parking provided at premises that are owned or leased and fringe benefits tax). Where a contribution has been made by the employee for private use this amount has been deducted from the actual private use cost.

<sup>6</sup> Other benefits includes all other forms of employment allowances (but excludes reimbursements for expenses such as travel, accommodation or meals), payments in lieu of leave, and any other compensation paid and payable.

<sup>7</sup> Other non-monetary benefits include annual and long service leave movements.

#### E5(d) General Management Team remuneration principles

Remuneration levels for key management personnel of Forestry Tasmania are set to attract and retain appropriately qualified and experienced senior executives. The Remuneration and Board Nomination Committee obtains independent advice on the appropriateness of remuneration packages given trends in comparative entities both locally and interstate and the objectives of Forestry Tasmania's remuneration policy.

The remuneration structures take into account the capability and experience of key management personnel, the key management personnel's ability to control the relevant segment performance and achievement of Forestry Tasmania's strategic initiatives.

The employment and conditions of senior executives are contained in individual employment contracts and related documents. These documents prescribe total remuneration, superannuation, annual and long service leave and vehicle and salary sacrifice provisions. The CEO is appointed by the Premier and Portfolio Minister following selection and recommendation by the Board. Independent professional advice is obtained prior to entering into, or extending an employment agreement and when determining the CEO's remuneration package. The Board consults with the Treasurer and Portfolio Minister prior to finalising the CEO's remuneration package. The CEO is also eligible for a short term incentive payment subject to meeting agreed key performance indicators.

The performance of each senior executive, including the CEO, is reviewed annually, which includes a review of the remuneration package. The terms of employment of each senior executive, including the CEO, contain a termination clause that requires the senior executive or Forestry Tasmania to provide a minimum notice of between 3 and 6 months prior to termination of the contract or make redundancy payments if relevant. CEO contracts for GBEs include a set term consistent with the requirements of the Government Business Enterprises Act 1995. Service contracts have durations not exceeding five years, but can be extended based on the Organisation's requirements.

#### E5(e) Board Approved Overseas Travel

There were no overseas trips by Directors or senior management (members of the General Management Team) during the year. There were a total of four overseas trips undertaken by an employee of the business. The purpose of those trips was to meet with customers in China and Japan. The total cost of all overseas travel taken by the Export Manager of the business during the year was \$32,545 (2016: \$35,703).

## Section F: Risks and Fair Values

### F1 Financial instruments disclosure

#### Accounting policy

Forestry Tasmania has exposure to the following risks from its use of financial instruments:

- \* Credit risk
- \* Liquidity risk
- \* Market risk

This note presents information about the Organisation's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and the management of capital.

The Board has overall responsibility for the establishment and oversight of the risk management framework. The Finance, Audit and Risk Management Committee is responsible for developing and monitoring risk management policies and reports regularly to the Board on these activities.

The risk management and investment policies are established to identify and analyse the risks faced by Forestry Tasmania, to set appropriate risk limits and controls and to monitor risks and adherence to limits. The Finance, Audit and Risk Management Committee oversees how management monitors compliance with the Organisation's risk management and investment policies and is assisted in this task by internal audit.

#### Credit Risk

Credit risk is the risk of financial loss to the Organisation if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Organisation's receivables from customers, investment securities and cash holdings with financial institutions.

#### Liquidity Risk

Liquidity risk is the risk that the Organisation will not be able to meet its financial obligations as they fall due. The Organisation's approach to managing liquidity is to manage the business with the objective that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Organisation's reputation.

#### Market Risk

Market risk is the risk that changes in the market prices, such as foreign exchange rates, interest rates and equity prices will affect the Organisation's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

#### Capital Management

The Board's long term objective is to achieve a BBB credit rating. In 2006-07 a capital structure review was completed with the results indicating that Forestry Tasmania's ability to achieve and maintain a BBB credit rating is impacted by the value of the unfunded superannuation liability, which is treated as debt for capital rating purposes.

Forestry Tasmania's current credit rating is BB-.

The Board monitors the level of dividends payable to the shareholder and the Organisation's return on assets. The return on assets is impacted by market conditions, the value of non-operating accounting impacts to the net profit before tax and costs attributable to non-commercial forest zones and community service obligations. Net debt and interest coverage ratios exclude the movement in and the balance of the unfunded superannuation liability.

### F1(a) Capital risk management

Forestry Tasmania manages its capital to ensure that the Organisation will be able to continue as a going concern while maximising the return to the shareholder. The capital structure of Forestry Tasmania consists of debt, which includes borrowings disclosed in note D7, the unfunded superannuation liability disclosed in note E4, cash and cash equivalents disclosed in note B4(a).

In 2006-07 the Corporation undertook a capital structure review completed by an independent party. The corporation's objective is to achieve a BBB credit rating as agreed with the shareholder.

## F1(b) Categories of financial instruments

Non-derivative financial instruments comprise investments in equity securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables. The Organisation does not hold any financial instruments in the categories of held-to-maturity investments.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. A financial instrument is recognised if the Organisation becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Organisation's contractual rights to the cash flows from the financial assets expire or if the Organisation transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Financial liabilities are derecognised if the Organisation's obligations specified in the contract expire or are discharged or cancelled.

The Organisation holds derivative financial instruments to hedge its foreign currency exposures. Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. When a derivative financial instrument is not held for trading, and is not designated in a qualifying hedge relationship, all changes in fair value are recognised immediately in profit or loss.

	Note	2017 \$'000	2016 \$'000
<b>Financial Assets</b>			
Fair value through profit or loss - held for trading	D4	5	5
Loans and receivables	D1	14,215	13,733
Cash and cash equivalents	B4(a)	3,710	4,754
<b>Financial Liabilities</b>			
Financial liabilities measured at amortised cost	D5, D7	(39,320)	(28,312)

## F1(c) Credit Risk

### Exposure to credit risk

The carrying amount of the Organisation's financial assets represents the maximum credit exposure. The Organisation's maximum exposure to credit risk at the reporting date was:

	Note	2017 \$'000	2016 \$'000
Cash	B4	3,710	4,872
Trade and other receivables	D1	14,215	10,939
Other financial assets	D4	5	5
<b>Total financial assets</b>		<b>17,930</b>	<b>15,816</b>

### Trade receivables

#### Accounting policy

Forestry Tasmania's principal credit risk arises from non payment of trade and other receivables. Forestry Tasmania's credit policy expects that each customer's payment will be made by the due date and any disputed transactions will be brought to Forestry Tasmania's attention as soon as possible and dealt with in a prompt and commercial manner. All customers' credit details are reviewed and a credit rating is determined for each customer. The rating determines the applicable terms of payment including the nature of the collateral necessary. Detailed debtor reports are reviewed by the Board of Directors on a monthly basis.

The majority of Forestry Tasmania's customers have been transacting with the Organisation for more than five years and losses have occurred infrequently. Customers that are regarded as higher risk are monitored regularly and delivery of product may be withheld for periods of time if debts are not paid as agreed within the terms of the contractual arrangements or Forestry Tasmania's credit policy.

Export sales are also made to several customers in China and Japan. Forestry Tasmania is not materially exposed to any individual overseas country or overseas customer. Credit risk is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised rating agency.

Foreign exchange contracts are subject to credit risk in relation to relevant counterparties, which are principally large banks. The maximum credit risk exposure on foreign currency contracts is the full amount of the foreign currency Forestry Tasmania pays when settlement occurs, should the counterparty fail to pay the amount which it is committed to pay Forestry Tasmania. Documentary Letters of Credit are initiated for all export sales contracts and are confirmed by Forestry Tasmania's bankers which minimises the credit risk to the Organisation, except for transactions through Japanese trading houses.

Forestry Tasmania has three major customers for the domestic sale of forest products, which together represented 2017: 57% (2016: 68%) of total forest product sales.

The Organisation's debtors ageing analysis at reporting date are:

	2017 \$'000	2016 \$'000
Current	6,662	6,611
30 days	2,728	2,832
60 days	1,530	123
90 days plus	1,676	1,953
<b>Total</b>	<b>12,596</b>	<b>11,519</b>

#### Impairment provisioning recognised

Forestry Tasmania has recognised impairment provisions relating to loans and receivables.

	2017 \$'000	2016 \$'000
Balance at 30 June 2016	(2,172)	(2,085)
Recovery of prior year impairments	8	13
Impairment loss recognised	(147)	(100)
Balance at 30 June 2017	<b>(2,311)</b>	<b>(2,172)</b>

#### F1(d) Liquidity Risk

##### *Accounting policy*

Forestry Tasmania manages liquidity risk by maintaining adequate reserves, banking facilities and continuously monitoring forecast and actual cash flows against the operational activities planned to be undertaken. The following details the Organisation's remaining contractual maturity for its non derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the organisation can be required to pay.

	Weighted average interest rate	Less than 1 month	1-12 months	1-2 years	2-5 years	More than 5 years
<b>2017</b>						
Trade and other payables	0.00%	-	9,520	-	-	-
Interest bearing liabilities - variable	2.20%	-	29,800	-	-	-
<b>2016</b>						
Trade and other payables	0.00%	-	12,934	-	-	-
Interest bearing liabilities - variable	2.50%	-	14,400	-	-	-

#### Interest bearing liabilities

##### *Accounting policy*

The borrowings portfolio is reviewed on a regular basis to ensure that current interest bearing liabilities are reviewed for the purposes of any potential change to a fixed interest liability and any fixed interest liabilities that need to be renegotiated. Advice on future interest rate movements is independently sourced to assist the Board with their decisions in relating to interest bearing liabilities.



## F1(e) Market Risk

### Accounting policy

The fair values of financial assets and liabilities, together with the carrying amounts shown in the Statement of Financial Position are outlined below. Except as detailed in the table, the directors consider that the carrying amount of financial assets and financial liabilities recorded at amortised costs in the financial statements approximates their fair values.

	2017 \$'000		2016 \$'000	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets designated at fair value through profit or loss	5	5	5	5
Loans and receivables	14,215	14,215	13,733	13,733
Cash and cash equivalents	3,710	3,710	4,754	4,754
Trade and other payables	(9,520)	(9,520)	(13,912)	(13,912)
Interest bearing liabilities - variable	(29,800)	(29,800)	(14,400)	(14,400)
<b>Total</b>	<b>(21,390)</b>	<b>(21,390)</b>	<b>(9,820)</b>	<b>(9,820)</b>

### Exposure to currency risk

Forestry Tasmania's policy is to use foreign currency risk management instruments in compliance with Forestry Tasmania's Foreign Exchange Policy. As at 30 June 2017, there were A \$3.964 million of foreign currency forward exchange contracts in place with an effective hedge rate of \$0.7559 (2016: A \$0.086 million, hedge rate \$0.7386).

Forestry Tasmania accounts for forward exchange contracts as financial assets or liabilities at fair value through the Statement of Comprehensive Income.

The US dollar bank account is exposed to the movement in the exchange rate. The organisation transfers funds to the Australian dollar account when available, but when appropriate retains a balance in the US dollar account to pay export expenses and funds to meet forward exchange contract commitments. The balance in the account as at 30 June 2017 was NIL (2016: US \$NIL).

### Interest bearing liabilities - fixed

Borrowings undertaken by the Organisation are at a variable interest rate.

## F2 Fair value measurement

A number of the Organisation's accounting policies and disclosures require the measurement of fair value, for both financial and non-financial assets and liabilities.

The Organisation has an established control framework with respect to the measurement of fair values. The Board's Finance Audit and Risk Management Committee has oversight of all fair value measurements, including Level 3 fair values.

There is regular review of significant unobservable inputs and valuation adjustments. If third party information, such as Valuer General Indices are used to measure fair values, that information is assessed for support to the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Significant valuation issues are reported to the Organisation's Finance, Audit and Risk Management Committee.

When measuring the fair values of an asset or a liability, the Organisation uses market observable data as far as possible. Fair values are categorised into different level in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities

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

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

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Organisation recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

*Fair value measurement*

The following table summarises the sensitivity in relation to the significant unobservable inputs used in recurring level 3 fair value measurement:

Description	Fair value at 30 June 2017 \$'000	Unobservable inputs	Inputs	Relationship of unobservable inputs to fair value
Forest estate incorporating biological asset and obligations for non- commercial zones	161,200	Price	5% increase	value increases \$52m
		Discount rate	1% increase	value decreases \$12m
		Discount rate	1% decrease	value increases \$15m
		Cost	5% increase	value decreases \$35m

## Section G: Other Disclosures

### G1 Expenditure commitments

#### Accounting policy

Leases under which the Organisation assumes substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases.

Payments made under operating leases are recognised in profit and loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property.

#### Operating expenditure commitments

#### G1(a) Operating leases

##### Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	2017 \$'000	2016 \$'000
Not longer than one year	1,466	3,869
Longer than one year but not longer than five years	2,817	12,161
Later than five years	4,578	5,820
	<b>8,860</b>	<b>21,850</b>

#### Accounting policy

Forestry Tasmania leases property and equipment under non-cancellable operating leases expiring from one to ten years. Leases generally provide Forestry Tasmania with a right of renewal at which time all terms are renegotiated. Lease payments comprise a base amount plus an incremental contingent rental. Contingent rentals are based on either movements in the Consumer Price Index or operating criteria.

Finance leases are capitalised. A lease asset and a lease liability equal to the lower of fair value and the present value of the minimum lease payments, are recorded at the inception of the lease. Subsequent measurement may be required to review the value of the assets ie review assets for impairment. Contingent rentals are written off as an expense in the accounting period in which they are incurred. Capitalised lease assets are amortised on a straight-line basis over the term of the relevant lease or, where Forestry Tasmania will obtain ownership of the asset, the life of the asset. Lease liabilities are reduced by payments of principal. The interest component of the lease payments is charged to the profit and loss.

The Parent Entity does not have any finance lease liabilities.

#### G1(b) Capital expenditure commitments

##### Plantation establishment

	2017 \$'000	2016 \$'000
Not longer than one year	-	1,085
Between one and five years	-	15,306
	-	16,391
Road construction		
Not longer than one year	-	1,480
Between one and five years	-	1,480
	-	2,960

### G2 Contingent liabilities

Indemnities have been provided to directors and senior management of Forestry Tasmania in respect of liabilities to third parties arising from their positions, except where the liability arises out of conduct involving a lack of good faith. No monetary limit applies to these agreements and there are no known obligations outstanding at 30 June 2017.

G3 Controlled entities

	2017 \$'000	2016 \$'000
Newood		
Income Statement		
Revenue	8,214	1,566
Expenses	(627)	(4,531)
Net profit/(loss)	7,587	(2,965)
Financial position		
Assets	1,879	1,920
Liabilities	(2,234)	(9,862)
Net Assets/(Liabilities)	(355)	(7,942)

The significant revenue item (liability forgone) is reflected in the parent figures for Forestry Tasmania (refer note D1 - non-current intercompany loan). Given the immaterial nature of Newood for the 2016-17 financial year, it is appropriate that only parent values are included in the annual financial statements.

Related party information

	Sales to related parties		Purchases from related parties		Amounts owed by related parties		Amounts owed to related parties	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
<i>Parent</i>								
Newood Holdings Pty Ltd	171	103	121	277	2,132	9,751	-	978

Transactions with related parties are made at arm's length at normal market prices and on normal commercial terms. Outstanding balances at year end are unsecured and interest free. Settlement with related parties not wholly owned occurs in cash.

	2017 \$'000	2016 \$'000
G4 Auditors' remuneration		
Amounts paid and payable to the Tasmanian Audit Office for auditing the financial statements of Forestry Tasmania.	102	100
Amounts paid and payable to other service providers for internal and other regulatory audit services	68	172

G5 Events subsequent to balance date

On 23 August 2017, Sustainable Timber Tasmania executed the transaction documents for the sale of the plantation estate of ~29,000 hectares. The transaction includes the sale of the timber on the relevant land and a Forestry Right for 99 years.

G6 Geographical Information

All non-current assets are located within Australia.

	2017 \$'000	2016 \$'000
<b>Revenue</b>		
Australia	84,243	94,105
Asia	62,824	40,409
<b>Total revenue</b>	147,067	134,514



G7 Other accounting policies

Accounting policy

G7(a) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

G7(b) Impairment of assets

i) Non-financial assets

The carrying amounts of the Organisation's non-financial assets, other than biological assets, investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (group of units) on a pro rata basis.

ii) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

Transactions

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the date of the transactions. Amounts receivable and payable in foreign currencies at balance date are translated at the rates of exchange ruling on that date.

Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account within finance income or expense as exchange gains or losses in the profit and loss in the financial year in which they occur.

Foreign currency gains and losses are reported on a net basis.

G7(c) Reserves

Property revaluation reserve - Forestry Tasmania's land under buildings and building assets are valued at fair value with any changes in the values of the asset taken to the reserve.

# certification of financial statements

It is the opinion of the directors of Forestry Tasmania:

- a) the financial statements and notes of Forestry Tasmania are in accordance with the *Government Business Enterprises Act 1995*, including:
  - (i) giving a true and fair view of the results and cash flows for the financial year ended 30 June 2017 and the financial position as at 30 June 2017, of Forestry Tasmania; and
  - (ii) complying with Australian Accounting Standards and Interpretations and with the Treasurer's Instructions.
- b) there are reasonable grounds to believe that Forestry Tasmania will be able to pay its debts as and when they fall due.

This declaration has been made after receiving the following declaration from the Chief Executive Officer and the Executive General Manager Corporate Services of Forestry Tasmania:

- (i) the financial records of Forestry Tasmania for the financial year ended 30 June 2017 have been properly maintained in accordance with Section 51 of the *Government Business Enterprises Act 1995*;
- (ii) the financial statements and notes for the financial year ended 30 June 2017 have been prepared in accordance with Section 52 of the *Government Business Enterprises Act 1995*; and
- (iii) the financial statements and notes for the financial year ended 30 June 2017 give a true and fair view.

Signed in accordance with a resolution of the directors.



.....  
Suzanne Baker  
Director  
August 2017



.....  
Dr Christine Mucha  
Director  
August 2017

# independent audit report



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H017/600  
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24 August 2017

The Board of Directors  
Sustainable Timber Tasmania  
Level 1  
99 Bathurst Street  
**HOBART TAS 7000**

FORESTRY TASMANIA

08 SEP 2017

HOBART

Dear **Board Members**

## Auditor's Independence Declaration

In relation to my audit of the financial report of Forestry Tasmania for the financial year ended 30 June 2017, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (a) the auditor independence requirements of Australian Auditing Standards in relation to the audit
- (b) any applicable code of professional conduct in relation to the audit.

As agreed with the Finance, Audit and Risk Management Committee, a copy of this declaration must be included in the Annual Report.

Yours sincerely

A handwritten signature in black ink, appearing to read "Ric De Santi".

Ric De Santi  
**Deputy Auditor-General**  
**Delegate of the Auditor-General**

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## **Independent Auditor's Report**

### **To the Members of Parliament**

#### **Forestry Tasmania**

#### **Report on the Audit of the Financial Report**

### **Opinion**

I have audited the financial report of Forestry Tasmania (Forestry) which comprises the statement of financial position as at 30 June 2017, the statements of comprehensive income, changes in equity and cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies and the certification statement by the directors.

In my opinion, the accompanying financial report:

- (a) presents fairly, in all material respects, Forestry's financial position as at 30 June 2017 and of its financial performance and its cash flows for the year then ended
- (b) is in accordance with the *Government Business Enterprises Act 1995* and Australian Accounting Standards.

### **Emphasis of Matter**

I draw attention to Note A2 of the financial report, which describes Forestry's application of Treasurer's Instruction GBE-08-52-08P in respect an exemption from application of the requirements of Australian Accounting Standard AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*. My opinion is not modified in respect of this matter.

### **Basis for Opinion**

I conducted the audit in accordance with Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of my report. I am independent of Forestry in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the financial report in Australia. I have also fulfilled my other ethical responsibilities in accordance with the Code.

The *Audit Act 2008* further promotes the independence of the Auditor-General. The Auditor-General is the auditor of all Tasmanian public sector entities and can only be removed by Parliament. The Auditor-

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General may conduct an audit in any way considered appropriate and is not subject to direction by any person about the way in which audit powers are to be exercised. The Auditor-General has for the purposes of conducting an audit, access to all documents and property and can report to Parliament matters which in the Auditor-General's opinion are significant.

I confirm that the independence declaration provided to the directors of Forestry on 24 August 2017 would be in the same terms if provided to the directors at the time of this auditor's report.

### Key Audit Matters

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial report of the current period. These matters were addressed in the context of my audit of the financial report as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters. In addition to the matter described in the Emphasis of matter section, I have determined the matters described below to be the key audit matters to be communicated in my report.

Why this matter is considered to be one of the most matters in the audit	Audit procedures to address the matter included
--	---

#### Biological assets

Refer to note C 1 and C 3

##### (a) Valuation – Standing Timber

Forestry relied upon external advice for the valuation of the standing timber, \$148.07m.

This highly complex calculation involved an income capitalisation approach and was subject to numerous assumptions.

Changes in market conditions, discount rate and key assumptions are inherently subjective and can significantly impact the value of biological assets.

The valuation is a key audit matter due to the complexity and level of judgement required in the calculations.

##### (b) Roads and road structures

Forestry valued road assets, \$7.32m, uses a 'value in use' approach, based on the present value of the future cash flows expected to be derived from using the road assets.

The present value calculation applied a number of variables (i.e. road toll and maintenance costs) in the valuation of the biological assets cash generating unit.

- Engaging an appropriately skilled independent expert to review the Forest Estate assets valuation methodology.
- Following the auditor's expert's review, I evaluated the validity of valuation method, the basis of the underlying assumptions and its compliance with the accounting framework, specifically AASB 141 *Agriculture*.
- Validating the accuracy of data, including prices, volumes and costs provided by Forestry to their expert and verifying the accounting treatment for changes in the value of biological and other assets and future obligations.
- Assessing the accuracy of the calculation of the depreciation expense relating to road and road structure assets.
- Analysing the impairment calculation, as a result of the 'value in use' approach in the valuation of the road network.

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It was identified that impairments identified in prior years were not allocated to individual assets in the road network, in accordance with AASB 136 *Impairment of Assets*. This has the potential to influence the calculation of the depreciation of the road network going forward.

This item is considered a key audit matter due to the complexity and level of judgement required in the calculations.

(c) Re-establishment provision

Under the provisions of the *Forest Practices Act 1985* and the *Forest Practices Code*, Forestry is obligated to undertake the regeneration of harvested areas.

The provision calculation was highly complex and included judgments related to the harvested area and the expected per hectare cost of regeneration.

- Evaluating the impact on the depreciation calculation by not allocating the impairment charges to individual road assets.

- Assessing the reasonableness of management's methodology and calculation of the Native Forest Regeneration provision.
  - Agreeing the re-establishment provision and corresponding regeneration forest asset was correctly recognised and disclosed.
- 

### **Defined Benefit Superannuation**

*Refer to notes E 1, E2 and E3*

The Company had employees who were members of a defined benefit superannuation scheme. The Company's obligation under this scheme (less fair value of plan assets) was recognised in the statement of financial position and was valued at \$20.41m at 30 June 2017.

The value of the superannuation liability is significant and its estimation involves complex judgements about future events.

During the year, transfers of defined benefits superannuation liabilities were also made to the Government. These transfers were reflected as equity contributions within the financial statements.

- Assessing the competence of the State Actuary that performed the valuation.
  - Evaluating information provided to the actuary, ensuring that employees transferred to the Department of Treasury and Finance were excluded.
  - Engaging an independent actuarial expert to assist with evaluating the reasonableness of the assumptions used by the State Actuary in determining the liability.
  - Assessing the adequacy of relevant disclosures in the financial report.
- 

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## Going Concern

*Refer to note A 4*

---

The Directors of Forestry concluded that it was appropriate for Forestry to continue to adopt the going concern basis.

A review commenced in 2014 to examine Forestry's operating model, its commercial arrangements and constraints and how these are affecting its financial performance. The review also identified options for the short-term to limit the financial losses and consider the current and future role of Government in public production native forests.

The review set out clear directions for the future including:

- a requirement that Forestry's commercial operations become financially self-sustaining
- activities being focused on growing trees, managing land and selling wood to domestic customers
- responsibility for export sales and value added products being transitioned to the private sector.

Other significant areas related to the review included:

- preparing for the sale of some hardwood plantations and other assets, including considering the most appropriate sale process and parcels, and understanding the potential impacts on the future sustainable sawlog yield
- review of commercial opportunities including asset sales and options for transitioning out of exports
- an on-going focus on achieving internal operating efficiencies
- considering options for a new operating model for Forestry.

Significant judgement was required in order for me to conclude that no material uncertainty existed relating to events or conditions that may cast significant doubt on Forestry's ability to continue as a going concern.

- Evaluating the Board's assessment that the use of the going concern assumption in the preparation and presentation of the financial statements was appropriate.
- Obtaining evidence to support the Board's conclusion.
- Assessing disclosures in the financial report and other information.

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### **Responsibilities of the Directors for the Financial Report**

The directors of Forestry are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards, and the *Government Business Enterprises Act 1995* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing Forestry's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate Forestry or to cease operations, or have no realistic alternative but to do so.

### **Auditor's Responsibilities for the Audit of the Financial Report**

My objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Forestry's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Forestry's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. My conclusion is based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause Forestry to cease to continue as a going concern.

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- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide the directors with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

From the matters communicated with the directors, I determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



Ric De Santi  
**Deputy Auditor-General**  
**Delegate of the Auditor-General**

**Tasmanian Audit Office**

27 September 2017  
Hobart

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